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# Company Information

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|                                |   |  |
|--------------------------------|---|--|
| <b>Board of Directors</b>      | Francis Andrew Rozario<br>Mahmudul Huq Bhuiyan<br>Phua Kok Kim<br>Syed Aamir Zahidi<br>Tan Soo Nan<br>Thomas Patrick Sodano<br>Willie Wai Kong Chan<br>Khawaja Iqbal Hassan | Chairman<br>Director<br>Director<br>Director<br>Director<br>Director<br>Director & President/CEO |
| <b>Board Audit Committee</b>   | Tan Soo Nan<br>Mahmudul Huq Bhuiyan<br>Syed Aamir Zahidi  | Chairman<br>Member<br>Member   |
| <b>Company Secretary</b>       | Imran Ahmad Mirza   |  |
| <b>Chief Financial Officer</b> | Yameen Kerai  |  |
| <b>Registered Office</b>       | Muhammadi House<br>I.I. Chundrigar Road<br>Karachi-74000.<br>UAN: (021) 111-333-111<br>Email: info@nibpk.com<br>URL: www.nibpk.com  |  |
| <b>Share Registrar Office</b>  | THK Associates (Pvt.) Limited<br>Ground Floor, State Life Building No. 3<br>Dr. Ziauddin Ahmed Road<br>Karachi-75530.<br>UAN: (021) 111-000-322                             |  |
| <b>Auditors</b>                | M/s. M. Yousuf Adil Saleem & Co.<br>Chartered Accountants   |  |
| <b>Legal Advisor</b>           | M/s. Rizvi, Isa, Afridi & Angell<br>Advocates & Corporate Counsellors   |  |
| <b>Credit Rating</b>           | Long Term: A+<br>Short Term: A1<br>Outlook: Positive<br>Rating Agency: PACRA  |  |

# Notice of Annual General Meeting

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Notice is hereby given that the Fifth Annual General Meeting of the NIB Bank Limited will be held at Moosa G. Desai Auditorium, Institute of Chartered Accountants of Pakistan (ICAP), Chartered Accountants Avenue, Clifton, Karachi at 03:00 p.m. on Friday, the 28<sup>th</sup> March 2008 to transact the following business:

## Ordinary Business

1. To confirm the Minutes of the 4<sup>th</sup> Annual General Meeting held on 30<sup>th</sup> March 2007.
2. To confirm the Minutes of the Extra Ordinary General Meeting held on 26<sup>th</sup> November 2007.
3. To receive and adopt the Directors' Report and Audited Accounts for the year ended 31<sup>st</sup> December 2007.
4. To appoint Auditors for the current year (January – December 2008) and fix their remuneration. (The present auditors, Messrs M. Yousuf Adil Saleem & Co., Chartered Accountants have offered themselves for re-appointment).

## Special Business

To consider and if thought fit, pass the following resolutions as and by way of special resolutions, namely:

5. **RESOLVED** that the remuneration accrued to the non-executive directors and chairman of the bank during the year 2007 amounting to Rs. 2.117 million in terms of SBP, BPD Circular No. 45 of 2004, be and is hereby approved.
6. **RESOLVED** that investments and divestments in following associated undertakings made during the year ended 31<sup>st</sup> December 2007 be and are hereby approved:

| <u>Particulars</u>  | <u>Investment (Rs.)</u> | <u>Divestment (Rs.)</u> |
|---|-------------------------|-------------------------|
| NAFA Islamic Multi Asset Fund                                 | 75,000,000              | -                       |
| NAFA Islamic Income Fund                                      | 75,000,000              | -                       |
| NAFA Multi Asset Fund   | -                       | 12,723,878              |
| NAFA Stock Fund   | -                       | 17,194,565              |
| NAFA Cash Fund  | -                       | 25,781,577              |
| Pakistan Industrial Credit and Investment Corporation Limited | 1,354,167,730           | -                       |
| PICIC Commercial Bank Limited                                 | 477,858,175             | -                       |

7. **RESOLVED** that NIB Bank Limited be and is hereby authorised to invest from time to time in mutual funds managed by its subsidiaries or its associates and to sell or dispose of or encash or otherwise realise such investment or investments and the Directors of the Bank be and are hereby authorised to determine the time and the times and the amounts of such investment and of the sale disposal encashment or realisation of such investments that the amounts invested in such mutual funds at any time not exceed Rs. 500 million.

**FURTHER RESOLVED** that for the purpose of giving effect to the above resolution, the Directors and the Chief Executive and the Secretary of the Bank be and each of them is hereby authorised, such that any one of them may take all such steps and do all such acts deeds and things and enter into and execute all such arrangements agreements undertakings declarations indemnities warranties and affidavits as may be necessary or required or as they or any of them may think fit for or in connection with the investment aforesaid and each of them shall further be empowered to authorise any other person or persons to do any or all of the foregoing for and on behalf and in the name of the Bank.

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8. Any other business with the permission of the Chair.

A statement as required under Section 160(1)(b) of the Companies Ordinance, 1984 in respect of above resolutions is attached.

By Order of the Board

Karachi:  
Dated: 7<sup>th</sup> March 2008

**Imran Ahmad Mirza**  
Company Secretary

## Notes:

1. Share Transfer Books of the Bank will remain closed from 21<sup>st</sup> March to 28<sup>th</sup> March 2008 (both days inclusive).
2. A shareholder entitled to attend and vote at this meeting may appoint another shareholder as his / her proxy to attend and vote. Proxies, in order to be effective, must be received at the Registered Office of the Bank situated at Muhammadi House, I.I. Chundrigar Road, Karachi (Pakistan) not later than 48 (forty eight) hours before the time of meeting, and must be duly stamped, signed and witnessed.
3. Shareholders are requested to notify any change in their addresses immediately to the Bank or Share Registrar, M/s. THK Associates (Pvt.) Limited, Ground Floor, State Life Building No. 3, Dr. Ziauddin Ahmed Road, Karachi (Pakistan).
4. CDC Account Holders will further have to follow the under mentioned guidelines as laid down in Circular 1 dated 26<sup>th</sup> January 2000 issued by the Securities and Exchange Commission of Pakistan:

For attending the meeting:

In case of individuals, the account holder or sub-account holder or investor account holder shall authenticate identity by showing his / her original computerized national identity card (CNIC) or original passport at the time of attending the meeting.

In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

For appointing proxies:

In case of individuals, the account holder or sub-account holder or investor account holder shall submit the proxy form as per the above requirement.

The proxy form shall be witnessed by two persons whose names, addresses and CNIC Numbers shall be mentioned on the form.

Attested copy of CNIC or the Passport, of the account holder or sub-account holder or investor account holder shall be furnished with the proxy form.

The proxy shall produce his original CNIC or original Passport at the time of the meeting.

In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Bank.

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## STATEMENT UNDER SECTION 160(1)(b) OF THE COMPANIES ORDINANCE, 1984

### Remuneration to Non-executive Directors and Chairman:

As per State Bank of Pakistan's BPD Circular Letter No. 45 dated 22<sup>nd</sup> November 2004, total amount of remuneration to be paid to the Non-executive Directors and Chairman during a calendar year should be approved on a pre or post facto basis in the Annual General Meeting.

### Investment and Divestment in associated undertakings:

Following information is provided pursuant to SECP Notification SRO 865(1)/2000 dated December 6, 2000 and Section 208 of the Companies Ordinance, 1984 for investments made during the year in associated undertakings, as approved and recommended for the shareholders approval by the Board in its 24<sup>th</sup> meeting held on 26<sup>th</sup> February 2008:

|   | Resolution No. 6   | Resolution No. 7                                     |
|---|--|--|
| 1. Name of Associated Undertakings.   | i. NAFA Islamic Multi Asset Fund.<br>ii. NAFA Islamic Income Fund.<br>iii. Pakistan Industrial Credit and Investment Corporation Limited (PICIC).<br>iv. PICIC Commercial Bank Limited (PCBL).   | Fund(s) managed by NIB's subsidiaries or associates. |
| 2. Nature, amount and extent of investment.   | i. Seed money of Rs. 75,000,000.<br>ii. Seed money of Rs. 75,000,000.<br>iii. Purchase of 11,710,800 shares of PICIC for Rs. 1,354,167,730.<br>iv. Purchase of 11,521,000 shares of PCBL for Rs. 477,858,175.  | Investment upto Rs. 500 Million.                     |
| 3. Average Market Price of the shares purchased / intended to be purchased during preceding 6 months in case of listed companies. | i. Not applicable.<br>ii. Not applicable.<br>iii. The Average Closing Price of PICIC during the preceding six months was Rs. 73.30.<br>iv. The Average Closing Price of PCBL during the preceding six months was Rs. 38.89.  | Not applicable.                                      |
| 4. Break-up value of units/shares purchased / intended to be purchased on the basis of last published financial statements.       | i. Not applicable.<br>ii. Not applicable.<br>iii. The break-up value of PICIC's shares on the basis of its half yearly financial statements as of June 30, 2007 was Rs.16.59.<br>iv. The break-up value of PCBL's shares on the basis of its half yearly financial statements as of June 30, 2007 was Rs. 17.52. | Not applicable.                                      |
| 5. Price at which units/shares purchased / will be purchased.   | i. Rs. 10 per unit.<br>ii. Rs. 10 per unit.<br>iii. Average price of Rs. 72.373 paid for acquiring 11,710,800 shares of PICIC.<br>iv. Average price of Rs. 41.477 paid for acquiring 11,521,000 shares of PCBL.  | Rs. 10 per unit for new issues.                      |

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| 6.  | Earning per share of Associated Undertakings in the last three years.                       | <ul style="list-style-type: none"> <li>i. Not applicable.</li> <li>ii. Not applicable.</li> <li>iii. PICIC's EPS for:<br/>Year ended 31/12/06 : Rs.1.93<br/>Year ended 31/12/05 : Rs.5.36<br/>Year ended 31/12/04 : Rs.4.64</li> <li>iv. PCBL's EPS for:<br/>Year ended 31/12/06 : Rs.3.54<br/>Year ended 31/12/05 : Rs.5.50<br/>Year ended 31/12/04 : Rs.3.50</li> </ul>  | Not applicable.  |
| 7.  | Source of funds from where shares purchased / will be purchased.                            | All the investments in aforementioned associated undertakings were made from own sources.  | From own sources.  |
| 8.  | Period for which investment made.   | <ul style="list-style-type: none"> <li>i. Long term.</li> <li>ii. Long term.</li> <li>iii. Up-till the date of amalgamation of PICIC with and into NIB.</li> <li>iv. Up-till the date of amalgamation of PCBL with and into NIB.</li> </ul>  | For a period of two years from each initial investment.                                  |
| 9.  | Purpose of investment.  | <ul style="list-style-type: none"> <li>i. Investment was made as 'seed money' from NIB as part of the joint venture.</li> <li>ii. Investment was made as 'seed money' from NIB as part of the joint venture.</li> <li>iii. Investment was made to consolidate stake in PICIC within the limits of shareholding set by the State Bank of Pakistan and the Board of NIB.</li> <li>iv. Investment was made to consolidate stake in PCBL before the legal merger within the limits of shareholding set by the State Bank of Pakistan.</li> </ul> | Seed capital or pre IPO.   |
| 10. | Benefits likely to accrue to the company and the shareholders from the proposed investment. | <ul style="list-style-type: none"> <li>i. The benefits are likely to flow in the form of superior returns offered by NAFA managed funds.</li> <li>ii. The benefits are likely to flow in the form of superior returns offered by NAFA managed funds.</li> <li>iii. To consolidate stake in PICIC.</li> <li>iv. To consolidate stake in PCBL.</li> </ul>  | The benefits are likely to flow in the form of superior returns offered by mutual funds. |
| 11. | Interest of Directors and their relatives in the Associated Undertakings.                   | No director and his relative has any interest in any of the aforementioned associated undertakings.  | No director and his relative has any interest in these mutual funds.                     |

## ECONOMIC AND POLITICAL UPDATE

Pakistan's economy showed considerable resilience during July-Dec 2007 amid increased uncertainties in the domestic and external economic environment. After growing at an average rate of 7.5% per annum over the past 4 years, the pace of GDP growth has slowed in the last seven months. However, it is widely believed that GDP growth will still cross the 6% mark in the July 2007-June 2008 period as a whole.

Economic challenges have heightened with the resurgence of inflationary pressures, growing energy shortages, and widening of fiscal and external current account deficits. It appears that July 2007 – June 2008 targets of 6.5% inflation, 4.0% fiscal deficit and 4.8% current account deficit are not likely to be achieved. High international oil and commodity prices are the main reason behind widening of the twin deficits. Moreover, increased domestic political uncertainties have also impacted external investment inflows.

The State Bank of Pakistan has responded by further monetary tightening while calling for more prudence in fiscal policies. Reduction in political uncertainties is expected after the successful completion of the recent elections, most likely helping in attracting foreign capital inflows, provided the new government manages to reassure investors by continuing the economic reforms program.

## BANKING SECTOR

Pakistan's banking sector remained unscathed from the effects of the subprime mortgage crisis which resulted in heavy losses for major international banks and sent jitters across the global financial markets. Calendar year 2007 proved another period of strong balance sheet growth for the domestic commercial banking sector with nearly 19% increase in the total deposit base. However, higher interest rates dampened credit demand of the private sector as total advances of commercial banks grew by 10%. Slower advances growth was also in part related to growing consolidation in the banking sector and banks exercising more prudence in lending. Increase in credit costs through the withdrawal of the benefit of forced sale value (FSV) of collateral in provisioning against non-performing loans (NPLs) effective December 31, 2007 dented the banking sector's profitability in 2007. In the longer term the State Bank of Pakistan expects this change to strengthen the banking sector and lead to accelerated recoveries.

## NIB MERGER

2007 was a year in which your Bank took a quantum leap towards its ambition of becoming a leading bank in the country. On December 31, 2007, following approval from the State Bank of Pakistan, your bank successfully merged with Pakistan Industrial Credit & Investment Corporation Ltd (PICIC) and PICIC Commercial Bank Ltd (PCBL). This merger resulted in creating the seventh largest bank in the country in terms of distribution network (240 branches). With Rs. 176.7 bn in total assets, Rs. 82.2 bn in advances and Rs. 116.7 bn in deposits as of December 31, 2007, your Bank has grown its asset base more than twenty times in the first four years of its existence.

Through an enlarged branch network, your Bank now has the size and scale to effectively launch its unique business models over selected and often under-banked market segments. Just under half a million customers of the merged Bank will also provide considerable opportunities to cross-sell products. The stable and lower cost deposit base inherited from PCBL will allow your Bank the room to grow advances without having to raise deposits at a high marginal cost. Your Bank will also benefit from acquiring a large branch network at a relatively low operating cost base.

The merger has also resulted in making PICIC Asset Management Company, with assets under management of almost Rs. 20 bn, a wholly-owned subsidiary of your Bank. It is the intention of your bank to merge PICIC Asset Management Company with National Fullerton Asset Management Company (NAFA), subject to shareholders and regulatory approvals. This proposed merger will create the largest asset management company in Pakistan.

Your Bank, pending regulatory approval, will also acquire 100% of Global Securities Pakistan Limited, which is one of Pakistan's leading corporate finance and stock broking firms. Post acquisition, the investment banking and advisory business of Global, which is responsible for more than 50% of all privatizations in Pakistan, will be divested and merged into the Corporate and Investment Banking Group of NIB, creating a new area of growth for your Bank.

After the merger, PICIC Insurance Limited, a listed general insurance company is also now 30% owned by your Bank. A number of initiatives are in place to use your Bank's current and future customer base to enhance the reach of this 3 year-old company operating in the rapidly expanding insurance sector of Pakistan.



# Directors Report to the Shareholders

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As the parent of a diversified financial services group, NIB will be able to serve its customers more effectively and become a dominant player in the financial services market in Pakistan.

During the second half of 2007 your Bank's priority was to integrate the operations and employees of the former PCBL and PICIC into NIB. We are pleased to inform you that as of January 1, 2008 all staff from the former PICIC and PCBL were successfully placed within the merged bank and work on other aspects of operational integration such as IT systems and infrastructure, procedures, policies and processes has made excellent progress. Management is confident that this process will be completed successfully well before the end of the year with your Bank well-poised to leverage effectively from its size and reach.

## OPERATING RESULTS

### Merged Results

To finance the acquisition of PICIC your bank successfully conducted one of the largest rights offerings in the history of Pakistan's capital markets, totaling Rs. 18.6 bn. In addition to this your bank also issued 641,930,317 shares to the shareholders of PICIC and PCBL in exchange for their shares in each of those companies as a part of the merger. As a result, in January the paid-up capital of your bank increased to Rs. 28.4 bn, which is the second highest paid-up capital among all banks in Pakistan.

The merged income statement represents activity primarily related to NIB Bank and only includes the relevant portion of the income generated at PICIC and PCBL. Due to the substantial growth in its lending activities and improved spreads, NIB Bank doubled its net mark up earned to Rs. 2.00 bn in 2007 from Rs. 1.00 bn in 2006. Non mark up income also recorded a growth of Rs. 105 mn or 21% over 2006. It is important to note that, unlike many other banks, your bank did not enter into any trading or long positions in the equity markets, and its non mark up income was generated solely from its core operating activities. Before provisions therefore your bank recorded a 73% growth in total revenue from Rs. 1.5 bn in 2006 to Rs. 2.6 bn in 2007, demonstrating the robustness of its business models.

In line with your bank's vision of becoming a leading bank in Pakistan, the investment in branches, people and technology was pursued vigorously in 2007 as well. As a result, total expenses grew to Rs. 2.0 bn for the year; however the Bank's cost to income ratio improved from 81% to 77%, in line with targets.

In order to maximize its post merger capital structure, your Bank financed the acquisition of PICIC through the combination of a rights issue and commercial debt. Since the rights issue was subscribed over a few weeks, your bank borrowed to bridge finance the funding gap, ranging from Rs. 7.1 bn to Rs. 3.8 bn for the period from June-end to December 2007. This funding cost has been deducted from the published revenues of NIB and has thus lowered the reported earnings of the Bank by an amount of Rs. 235 mn.

In addition to the above, in its circular of October 12, 2007 the SBP removed reliance on FSV of collateral for provisioning purposes, effective December 31, 2007. This requirement increased the provisioning expense of all banks, including NIB. However, it is important to note that this incremental provisioning will not take away the ability of your Bank to recover its debts in the future by disposing of collateral, restructuring non performing advances or accelerating collections. As a matter of policy your bank generally only placed reliance on tangible collateral in the form of land and buildings when calculating FSV, therefore, it is our view that recoveries will materialise. Increased lending volumes in your Bank's consumer portfolio also contributed to the increase in total provisions; however, the ratio of provisioning to average advances on this portfolio is within targeted limits and generally accepted norms.

As a result of the expense of funding for the acquisition and the removal of FSV, your bank was required to absorb a combined cost of over Rs 1.0 bn for the year 2007. Based on this, the Bank recorded a post tax loss of Rs. 351 mn, however, as stated above, the two main reasons for this loss were both exceptional in nature and do not reflect any inherent weakness in your Bank's profit generating capability. Without the removal of the benefit of FSV and without the acquisition drag, your Bank would have recorded a profit before tax of Rs. 361 mn and a profit after tax of Rs. 217 mn. This would have been in line with our strategy of re-investing profit in earlier years to generate much higher revenue growth in the future.

### Consolidated Results

On a consolidated basis, your Bank accrued earnings from its subsidiaries and associates and from its investments in the funds managed by these affiliates. Consequently, compared to merged results, your Bank reported a lower pre and post tax loss of Rs. 246 mn and Rs. 111 mn respectively.



# Directors Report to the Shareholders

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Your bank recorded a 280% increase in the size of its balance sheet as a result of the merger with PICIC and PCBL and the indigenous growth of NIB Bank through 2007. Total assets increased from Rs. 46 bn to Rs. 177 bn between 2006 and 2007, of which loans and advances increased 165% from Rs. 31 bn to Rs. 82 bn while the industry's loans grew by 10%. Investments increased by 488% to Rs. 39 bn, the bulk of investments being fixed income instruments of the Government of Pakistan. Total deposits also grew aggressively by 281% from Rs. 31 bn to Rs. 117 bn again as a result of the merger and the inherent growth of NIB Bank's deposits, whereas the industry grew by 19%.

## CREDIT RATING

Credit rating agency, PACRA, is currently in the process of evaluating the impact of the merger of the PICIC and PCBL with and into NIB Bank Limited. Till the completion of the review, the ratings assigned to NIB of long term A+ and short term A1 remain on Rating Watch, with positive implications.

## CORPORATE GOVERNANCE

During the year under review, your Bank is compliant with the provisions of the Code of Corporate Governance. Being aware of our responsibilities under the Code of Corporate Governance, the Board of Directors state that:

- The Financial statements prepared by the Management of the Bank, present fairly its state of affairs, the result of its operations, cash flow and changes in equity.
- Proper books of accounts of the Bank have been maintained.
- Appropriate accounting policies, except hereinafter mentioned, have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the company's ability to continue as a going concern.
- There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations of Stock Exchanges and the Company is following these meticulously.
- As of 31<sup>st</sup> December 2007, the value of investments of the Provident Fund (un-audited) was Rs. 122.4 mn.
- No trading during the year in the shares of the Bank was carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children; except that Khawaja Iqbal Hassan, Director and President / CEO acquired additional 10,350,000 shares from the right issue offered to him as a shareholder of the bank.
- Since these are the fifth financial results of the Bank, key operating and financial information for the last six years is not available.
- During the period, the Board of Directors met five times. The attendance by each director was as follows:

| <u>Name of Directors</u>   | <u>Total Meetings</u> | <u>Total Meetings Attended</u> | <u>Percentage</u> |
|----------------------------|-----------------------|--------------------------------|-------------------|
| Mr. Francis Andrew Rozario | 5                     | 5                              | 100               |
| Syed Aamir Zahidi          | 5                     | 5                              | 100               |
| Mr. Mahmudul Huq Bhuiyan   | 5                     | 2                              | 40                |
| Mr. Thomas Patrick Sodano  | 5                     | 4                              | 80                |
| Mr. Tan Soo Nan            | 5                     | 2                              | 40                |
| Mr. Willie Wai Kong Chan   | 5                     | 3                              | 60                |
| Mr. Phua Kok Kim           | 5                     | 3                              | 60                |
| Khawaja Iqbal Hassan       | 5                     | 5                              | 100               |

Leave of absence was granted in case the directors were not able to attend the Board Meeting.

# Directors Report to the Shareholders

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## TRANSFER PRICING

The Bank has complied with the best practices on Transfer Pricing as contained in the Listing Regulations of Stock Exchanges. However, Securities & Exchange Commission of Pakistan has deferred the implementation/applicability of the regulation till 30<sup>th</sup> June 2008.

## INTERNAL CONTROL AND RISK MANAGEMENT FRAMEWORK

The Board is pleased to endorse the statements made by the management relating to internal control and risk assessment framework to meet the requirement of State Bank of Pakistan (SBP) BSD Circular No. 7 of 2004, BSD Circular letter No. 2 of 2005 and Code of Corporate Governance issued by the Securities & Exchange Commission of Pakistan (SECP). The management's statements are included in the annual report.

## PATTERN OF SHAREHOLDING

The pattern of shareholding as at 31<sup>st</sup> December 2007 is included in the annual report.

## ACKNOWLEDGEMENT

The continued growth momentum of your Bank has been made possible by the support of its customers and staff, our two most cherished assets. The staff needs to be complimented for their outstanding performance throughout the PICIC acquisition and the integration process. We are also very appreciative of the support of the State Bank of Pakistan and the SECP with respect to the PICIC acquisition and the merger. Their efforts helped your Bank to achieve legal merger by the scheduled target date, despite law and order problems in the last week of 2007.

## SUMMARY

The Board of Directors and the management of NIB remain committed to building a unique bank for the people of Pakistan. To this end the major shareholder of NIB, Temasek Holdings of Singapore has invested quite substantially to help NIB acquire PICIC and its subsidiaries. We remain confident that the business strategy the Board and management have determined for NIB will set it apart as a premier financial institution in Pakistan. It is our aspiration to become a partner in prosperity for all our stakeholders be they customers, staff, vendors or shareholders. We believe passionately that NIB will add significant value to the business segments that we have chosen to serve in Pakistan. We believe that the people of this great country will join us wholeheartedly on this journey.

On behalf of the Board

**Francis A. Rozario**  
Chairman

**Khawaja Iqbal Hassan**  
President & CEO

# Statement of Compliance with Code of Corporate Governance for the year ended December 31, 2007

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This statement is being presented to comply with Code of Corporate Governance contained in Listing Regulations of stock exchanges where the Bank's shares are listed for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

The Bank has applied the principles contained in the Code in the following manners:

1. The Bank encourages representation of independent non-executive directors on its Board including those representing minority interests. At present all the directors are non executive except for the Chief Executive Officer.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Bank.
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution or Non Banking Finance Company. None of the directors of the Bank are members of any Stock Exchange.
4. No casual vacancy occurred in the Board during the year.
5. The Bank has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Bank.
6. The Board has developed a vision/mission statement and overall corporate strategy. Significant policies of the Bank have been prepared and approved by the Board. A complete record of particulars of significant policies along with the dates on which these were approved is being maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board at the appropriate time.
8. The meetings of the Board were presided over by the Chairman. The Board held five meetings during the year. Written notices of Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated. The CFO and Company Secretary attended all the meetings of the Board of Directors during the year.
9. The directors of the Bank have given a declaration that they are aware of their duties, powers and responsibilities. The in-coming directors on the Board, if required, will attend talks, workshops and/or seminars on subject of Corporate Governance in order to apprise themselves of their duties and responsibilities.
10. The Board has approved the appointment of the Chief Financial Officer, Company Secretary and Head of Internal Audit and the terms and conditions of their employment, determined by the CEO, are duly authorized by the Board of Directors.
11. The Directors' report has been prepared in compliance with the requirements of the code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by the 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 the corporate and financial reporting requirements of the code.
15. The Audit Committee comprises of three members, all of whom are non-executive directors.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Bank as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Bank has an effective Internal Audit department. An Internal Audit Manual has been developed by the Board. The Internal Audit department has conducted audit of branches and various departments of the Bank during the year.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. 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.
20. The Board of Directors has also constituted two additional sub-committees namely Risk Management Committee and Human Resource Committee. The terms of reference of these Committees have been formulated and advised for compliance. The Risk Management Committee comprises of three members and is required to meet at least four times a year, and during the year it had held five meetings. Whereas, the Human Resource Committee is comprised of four members and as per its terms of reference it has met twice during the year.
21. We confirm that all the material principles contained in the code have been complied with.

On behalf of the Board

**Francis A. Rozario**  
Chairman

**Khawaja Iqbal Hassan**  
President & CEO

# Statement on Internal Controls for the year ended December 31, 2007

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## Internal Control System

Management acknowledges its responsibility for establishing and maintaining a system of internal control directly related to and designed to provide reasonable assurance to achieve the following objectives:

- Efficiency and effectiveness of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

The bank is continuously adding to its internal control systems by enhancing quality of processes, staff and IT infrastructure and would keep on improving and strengthening it as it grows its business volumes and activities.

During the year, the management has broadly evaluated the internal control system in the light of internal control guidelines issued by the State Bank of Pakistan, and is pleased to make the following disclosures on the components of internal control system.

## Control Environment

1. The Bank has written and implemented policies and procedures for most of the areas of the Bank's business, which have been approved by the Board of Directors.
2. The Bank has adopted a mission/vision statement and corporate strategy, duly approved by the Board.
3. Clear organizational structure exists which supports clear lines of communication.
4. The management has defined roles and responsibilities of key management personnel.
5. The Audit Committee, which comprises of non-executive directors, has written terms of reference and reports to the Board. It reviews the approach adopted by the bank's internal audit department and the scope of, and the relationship with, the external auditors. It also receives reports from the internal audit department and the external auditors on the system of internal control and any material control weakness that have been identified, and discusses the actions to be taken in areas of concern with the executive management.
6. An effective internal audit system exists which is responsible for evaluation of internal control system on continuous basis and reports directly to the Board Audit Committee.
7. The Bank has adopted a statement of ethics and business practices that is signed by all employees. Further, this statement is annually signed by all Directors.
8. Management has set up an effective compliance function to ensure ongoing monitoring of the Bank's adherence with all laws and regulations.
9. The Bank has also developed a 'Regulatory Matrix' that allows mapping each applicable regulations with a specific control. The underlying controls are periodically tested by means of a continuous process of self assessment.

## Risk Assessment

10. The Bank is largely compliant with the risk management guidelines issued by the SBP and has given a separate statement on the same.

## Control Activities

11. The Bank has successfully consolidated multiple IT environments into one Core Banking application thereby strengthening IT controls. The Bank has also developed a Business Continuity Plan and has also successfully tested operation of its Disaster Recovery site.
12. The Bank has strict Know Your Customer/Anti Money Laundering policies and has developed stringent anti-fraud programs and controls. The Bank has recently introduced e-KYC form to further strengthen its KYC/AML regime.

## Information and Communication

13. The Bank has brought about significant improvements in its Management Information System and has developed Key Performance Indicators for its businesses enabling them to monitor budget versus actual performance.

## Monitoring

14. Internal Audit periodically carries out audits for branches and Head Office Divisions to monitor compliance with the Bank's standards.

# Statement on Internal Controls for the year ended December 31, 2007

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15. Management gives due consideration to the recommendations made by the internal, external auditors and regulators especially for improvements in the internal control system and take timely action to implement such recommendations.

Based on the results of an evaluation of the internal control system and key features of the control framework enumerated above, management is of the view that the internal control system during the year was acceptable in design and has been effectively implemented throughout the year.

It is pertinent to mention that development of an internal control system is an ongoing process through which management reviews and strengthens the internal control system, which is designed to manage rather than eliminate risks. As such, it can only provide reasonable but not absolute assurance against material misstatement or loss.

## **Risk Management Framework**

The acceptance and management of financial risk is inherent to banking business activities. It involves the identification, measurement, monitoring and controlling of Risk.

In accordance with the Risk Management guidelines issued by the SBP, an Integrated Risk Management Group has been created in the Bank to formulate risk management Policies and Procedures in line with Bank's defined strategies and to monitor the following areas:

- a) Credit Risk Management
- b) Market Risk Management
- c) Operational Risk Management

## **Credit Risk Management (CRM)**

CRM is viewed as an ongoing activity where credit risks are regularly identified and assessed. It determines the quality of credit portfolio and assists in minimizing risks. To manage credit risks appropriately, credit committees at different locations have been established.

In order to achieve earnings targets with a high degree of reliability and to avoid losses through a strong credit process, the Risk Management & Credit Policy and Procedures Manual has been developed and duly implemented. This Manual is under constant review and regular updates are made therein through the issuance of various "Credit Bulletins", thereby, not only incorporating therein best practices but also ensuring the establishment of a robust credit control environment.

To ensure that the Credit Policies are implemented in their true letter and spirit, Regional Credit Administration Departments (RCADs) have been set up in Karachi, Lahore and Islamabad, which operate independently under the supervision of Country CAD Head. To manage problem credits, Special Assets Management (SAM) division has been established under CRM.

## **Market Risk Management (MRM)**

Market Risk Management is a control system, which allows management to closely supervise and monitor risks caused by movements in market rates or prices such as interest rates, FX rates, equity prices, credit spreads and/or commodity prices, resulting in a potential loss to earnings and capital.

With the establishment of the Treasury Mid Office, under the supervision of Risk Management Group, controls established by the management over the market risk operations have been further strengthened. Furthermore, it also places emphasis on the management efforts to put in place the best industry practices, regarding Market Risk Management.

## **Operational Risk Management (ORM)**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank has written and implemented its Operational Risk Policy duly approved by the Board. The Bank has also implemented tools for identification, monitoring, and management of key operational risks and has also implemented a template for collecting Operational loss data on a periodic basis.

**Khawaja Iqbal Hassan**  
**President & CEO**

Karachi.  
Date: February 26, 2008

## Auditors' Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

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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 NIB Bank Limited to comply with the Prudential Regulation No.G-1, Responsibilities of the Board of Directors vide BSD Circular No.15 dated June 13, 2002, Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Banks 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 the internal control covers all controls and the effectiveness of such internal controls.

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

M. Yousuf Adil Saleem & Co.  
Chartered Accountants

Karachi  
Date February 26, 2008

We have audited the annexed unconsolidated balance sheet of **NIB Bank Limited (the bank)** as at December 31, 2007 and the related unconsolidated profit and loss account, unconsolidated cash flow statement and statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for nine 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. The financial statements of Pakistan Industrial Credit and Investment Corporation and PICIC Commercial Bank Limited, acquired during the year, for the year ended December 31, 2007 were audited by other firms of chartered accountants, whose reports have been furnished to us and our opinion in so far as its relates to the amounts included for Pakistan Industrial Credit and Investment Corporation and PICIC Commercial Bank Limited is based solely on the reports of other auditors.

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 the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than 60% of the total loans and advances of the bank, we report that:

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



# Auditors' Report to the Members

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- (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 the approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the bank's affairs as at December 31, 2007 and its true balance of loss, cash flows and changes in equity for the year then ended; and
- (d) in our opinion, zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

M. Yousuf Adil Saleem & Co.  
Chartered Accountants  
Karachi.  
Date: February 26, 2008

# Balance Sheet as at December 31, 2007

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|   | Notes | 2007<br>(Rupees '000') | 2006              |
|---|-------|------------------------|-------------------|
| <b>ASSETS</b>                                       |       |                        |                   |
| Cash and balances with treasury banks               | 8     | 10,318,722             | 2,928,404         |
| Balances with other banks                           | 9     | 1,401,796              | 1,362,497         |
| Lendings to financial institutions                  | 10    | 4,753,113              | 2,600,000         |
| Investments   | 11    | 40,498,840             | 6,558,733         |
| Advances  | 12    | 82,160,074             | 31,052,169        |
| Operating fixed assets                              | 13    | 30,800,135             | 622,216           |
| Deferred tax assets                                 | 14    | 3,366,766              | 127,158           |
| Other assets  | 15    | 3,353,958              | 1,172,363         |
|   |       | <u>176,653,404</u>     | <u>46,423,540</u> |
| <b>LIABILITIES</b>                                  |       |                        |                   |
| Bills payable                                       | 16    | 2,110,211              | 215,769           |
| Borrowings  | 17    | 16,669,412             | 9,164,121         |
| Deposits and other accounts                         | 18    | 116,671,219            | 30,566,540        |
| Sub-ordinated loans                                 |       | -                      | -                 |
| Liabilities against assets subject to finance lease | 19    | 7,176                  | -                 |
| Deferred tax liabilities                            |       | -                      | -                 |
| Other liabilities                                   | 20    | 4,603,352              | 2,150,538         |
|   |       | <u>140,061,370</u>     | <u>42,096,968</u> |
| <b>NET ASSETS</b>                                   |       | <u>36,592,034</u>      | <u>4,326,572</u>  |
| <b>REPRESENTED BY :</b>                             |       |                        |                   |
| Share capital                                       | 21    | 22,017,968             | 3,361,522         |
| Reserves  |       | 719,810                | 719,810           |
| Accumulated (loss) / profit                         |       | (143,392)              | 293,073           |
|   |       | <u>22,594,386</u>      | <u>4,374,405</u>  |
| Shares to be issued                                 | 21    | 14,026,177             | -                 |
|   |       | <u>36,620,563</u>      | <u>4,374,405</u>  |
| Deficit on revaluation of securities - net          | 22    | (28,529)               | (47,833)          |
|   |       | <u>36,592,034</u>      | <u>4,326,572</u>  |
| <b>CONTINGENCIES AND COMMITMENTS</b>                | 23    |                        |                   |

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

**Khawaja Iqbal Hassan**  
President / Chief Executive

**Francis A. Rozario**  
Chairman / Director

**Syed Aamir Zahidi**  
Director

**Thomas Patrick Sodano**  
Director

# Profit and Loss Account for the year ended December 31, 2007

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|  | Notes | 2007<br>(Rupees '000') | 2006               |
|--|-------|------------------------|--------------------|
| Mark-up / return / interest earned   | 24    | 6,999,888              | 3,473,364          |
| Mark-up / return / interest expensed   | 25    | <u>4,995,955</u>       | <u>2,452,192</u>   |
| Net mark-up / interest income  |       | 2,003,933              | 1,021,172          |
| Provision against non-performing loans and advances                          | 12.5  | <u>1,494,801</u>       | <u>269,583</u>     |
| Provision for diminution in the value of investments                         |       | -                      | -                  |
| Bad debts written off directly   |       | -                      | -                  |
|  |       | <u>(1,494,801)</u>     | <u>(269,583)</u>   |
| Net mark-up / interest income after provisions                               |       | 509,132                | 751,589            |
| <b>NON MARK-UP / INTEREST INCOME</b>   |       |                        |                    |
| Fee, commission and brokerage income   |       | <u>249,020</u>         | <u>179,994</u>     |
| Dividend income  |       | <u>13,723</u>          | <u>14,528</u>      |
| Income from dealing in foreign currencies                                    |       | <u>225,235</u>         | <u>208,627</u>     |
| Gain on sale of securities   | 26    | <u>24,021</u>          | <u>222</u>         |
| Unrealized gain on revaluation of investments classified as held for trading |       | -                      | -                  |
| Other income   | 27    | <u>86,772</u>          | <u>90,635</u>      |
| Total Non-markup / interest income   |       | <u>598,771</u>         | <u>494,006</u>     |
|  |       | 1,107,903              | 1,245,595          |
| <b>NON MARK-UP / INTEREST EXPENSES</b>                                       |       |                        |                    |
| Administrative expenses  | 28    | <u>2,002,159</u>       | <u>1,221,423</u>   |
| Other provisions / (reversals) / write offs                                  |       | <u>2,669</u>           | <u>(328)</u>       |
| Other charges  | 29    | <u>2,133</u>           | <u>2,587</u>       |
| Total Non-markup / interest expense  |       | <u>(2,006,961)</u>     | <u>(1,223,682)</u> |
|  |       | (899,058)              | 21,913             |
| Share of post acquisition profit of amalgamating entities                    | 7.12  | <u>327,851</u>         | -                  |
| Extra ordinary / unusual items   |       | -                      | -                  |
| <b>(Loss) / profit before taxation</b>                                       |       | <u>(571,207)</u>       | <u>21,913</u>      |
| Taxation - Current   | 30    | <u>(37,925)</u>        | <u>(33,422)</u>    |
| - Prior years'   |       | -                      | -                  |
| - Deferred   | 30    | <u>258,575</u>         | <u>129,367</u>     |
|  |       | <u>220,650</u>         | <u>95,945</u>      |
| <b>(Loss) / profit after taxation</b>  |       | <u>(350,557)</u>       | <u>117,858</u>     |
| Unappropriated profit brought forward  |       | <u>293,073</u>         | <u>197,626</u>     |
| <b>(Accumulated loss) / profit available for appropriation</b>               |       | <u>(57,484)</u>        | <u>315,484</u>     |
| Basic / diluted (loss) / earnings per share                                  | 31    | <u>(0.32)</u>          | <u>0.21</u>        |

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

**Khawaja Iqbal Hassan**  
President / Chief Executive

**Francis A. Rozario**  
Chairman / Director

**Syed Aamir Zahidi**  
Director

**Thomas Patrick Sodano**  
Director

# Cash Flow Statement for the year ended December 31, 2007

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|  | Note | 2007<br>(Rupees '000') | 2006               |
|--|------|------------------------|--------------------|
| <b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>        |      |                        |                    |
| (Loss)/profit before taxation                        |      | (571,207)              | 21,913             |
| Adjustments for non-cash items                       |      |                        |                    |
| Depreciation   |      | 170,093                | 104,856            |
| Amortization   |      | 16,346                 | 11,176             |
| Dividend income                                      |      | (13,723)               | (14,528)           |
| Gain on sale of investments                          |      | (24,021)               | (222)              |
| Gain on sale of operating fixed asset                |      | (6,009)                | (10,114)           |
| Provision against non-performing loans and advances  |      | 1,494,801              | 269,583            |
| Share of (profit) / loss from associates             |      | -                      | -                  |
| Share of (profit) / loss from amalgamating entities  |      | (327,851)              | -                  |
| Other provisions / (reversals)                       |      | 2,669                  | (328)              |
|  |      | <u>1,312,305</u>       | <u>360,423</u>     |
|  |      | 741,098                | 382,336            |
| (Increase) / decrease in operating assets            |      |                        |                    |
| Lendings to financial institutions                   |      | (13,791,437)           | (330,000)          |
| Advances   |      | (15,286,309)           | (11,698,823)       |
| Others assets  |      | (449,892)              | (530,838)          |
| Increase / (decrease) in operating liabilities       |      |                        |                    |
| Bills Payable  |      | 400,118                | (58,556)           |
| Borrowings   |      | 21,498,115             | 4,617,025          |
| Deposits and other accounts                          |      | 15,027,190             | 9,442,984          |
| Other liabilities                                    |      | (82,916)               | 292,142            |
|  |      | <u>8,055,967</u>       | <u>2,116,270</u>   |
| Income tax paid                                      |      | (66,422)               | (67,925)           |
| Net cash from operating activities                   |      | <u>7,989,545</u>       | <u>2,048,345</u>   |
| <b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>        |      |                        |                    |
| Net investments                                      |      | (2,452,938)            | (1,463,645)        |
| Acquisition of PICIC Group                           |      | (15,852,178)           | -                  |
| Dividend received                                    |      | 13,723                 | 14,528             |
| Investment in operating fixed assets                 |      | (862,649)              | (390,332)          |
| Sale proceeds of operating fixed assets disposed-off |      | 23,576                 | 30,746             |
| Net cash used in investing activities                |      | <u>(19,130,466)</u>    | <u>(1,808,703)</u> |

# Cash Flow Statement for the year ended December 31, 2007

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|  | Note | 2007<br>(Rupees '000')   | 2006                    |
|--|------|--------------------------|-------------------------|
| <b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>      |      |                          |                         |
| Issue of share capital                             |      | 18,656,446               | -                       |
| Issuance cost against right shares                 |      | (85,908)                 |                         |
| Issue of sub-ordinated debt                        |      | -                        | -                       |
| Cash from financing activities                     |      | <u>18,570,538</u>        | <u>-</u>                |
| Net increase in cash and cash equivalents          |      | 7,429,617                | 239,642                 |
| Cash and cash equivalents at beginning of the year |      | 4,290,901                | 4,051,259               |
| Cash and cash equivalents at end of the year       | 32   | <u><u>11,720,518</u></u> | <u><u>4,290,901</u></u> |

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

**Khawaja Iqbal Hassan**  
President / Chief Executive

**Francis A. Rozario**  
Chairman / Director

**Syed Aamir Zahidi**  
Director

**Thomas Patrick Sodano**  
Director

# Statement of Changes in Equity for the year ended December 31, 2007

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|   | Reserves          |                |                   |                 |                                | Total             |
|---|-------------------|----------------|-------------------|-----------------|--------------------------------|-------------------|
|   | Share capital     | Capital        |                   | Revenue         |                                |                   |
|   |                   | Share premium  | Statutory reserve | General reserve | Unappropriated profit / (loss) |                   |
| <----- Rupees '000'----->                             |                   |                |                   |                 |                                |                   |
| <b>Balance as at December 31, 2005</b>                | 3,361,522         | 639,744        | 49,407            | 5,472           | 197,626                        | 4,253,771         |
| Adjustment for taking investment in associate at cost | -                 | -              | -                 | -               | (5,303)                        | (5,303)           |
| <b>Balance as at December 31, 2005 - restated</b>     | <b>3,361,522</b>  | <b>639,744</b> | <b>49,407</b>     | <b>5,472</b>    | <b>192,323</b>                 | <b>4,248,468</b>  |
| Profit after taxation                                 | -                 | -              | -                 | -               | 125,937                        | 125,937           |
| Transferred to statutory reserve                      | -                 | -              | 25,187            | -               | (25,187)                       | -                 |
| <b>Balance as at December 31, 2006</b>                | <b>3,361,522</b>  | <b>639,744</b> | <b>74,594</b>     | <b>5,472</b>    | <b>293,073</b>                 | <b>4,374,405</b>  |
| Loss after taxation                                   | -                 | -              | -                 | -               | (350,557)                      | (350,557)         |
| Issue of right shares                                 | 18,656,446        | -              | -                 | -               | -                              | 18,656,446        |
| Right share issue cost - (net of tax)                 | -                 | -              | -                 | -               | (85,908)                       | (85,908)          |
| <b>Balance as at December 31, 2007</b>                | <b>22,017,968</b> | <b>639,744</b> | <b>74,594</b>     | <b>5,472</b>    | <b>(143,392)</b>               | <b>22,594,386</b> |

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

**Khawaja Iqbal Hassan**  
President / Chief Executive

**Francis A. Rozario**  
Chairman / Director

**Syed Aamir Zahidi**  
Director

**Thomas Patrick Sodano**  
Director

# Notes to the Financial Statements for the year ended December 31, 2007

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## 1. STATUS AND NATURE OF BUSINESS

NIB Bank Limited "the Bank" is incorporated in Pakistan and its registered office is situated at Muhammadi House, I.I.Chundrigar Road, Karachi in the province of Sindh. The Bank is listed on all the stock exchanges in Pakistan and has 240 branches (2006: 41 branches). The Bank is a scheduled commercial bank and is principally engaged in the business of banking as defined in the Banking Companies Ordinance, 1962.

During the year, the State Bank of Pakistan (SBP) sanctioned a scheme of amalgamation (the scheme) under section 48 of the Banking Companies Ordinance 1962, on December 31, 2007 by virtue of which Pakistan Industrial Credit and Investment Corporation Limited "PICIC - DFI" and PICIC Commercial Bank Limited "PCBL" were amalgamated with and into NIB Bank Limited on December 31, 2007 (at close of business). This scheme of amalgamation had earlier been approved by shareholders of the Bank in their extra ordinary general meeting held on November 26, 2007.

NIB Bank Limited is a subsidiary of Bugis Investments (Mauritius) Pte. Limited which is a wholly owned subsidiary of Fullerton Financial Holdings Pte. Limited which in turn is a wholly owned subsidiary of Temasek Holdings, an investment arm of the Government of Singapore.

These financial statements represents separate standalone financial statements of the Bank. The consolidated financial statements of the Bank, its subsidiaries and associates are presented separately.

## 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 purchase 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

**3.1** These financial statements are prepared in accordance with the directives issued by the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan, the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984 and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards as are notified under the provision of the Companies Ordinance, 1984. Wherever the requirements of the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984, or directives issued by the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the requirements of the said directives take precedence.

**3.2** SBP as per BSD Circular Letter 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. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.



# Notes to the Financial Statements for the year ended December 31, 2007

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### 3.3 Interpretations to published approved accounting standards that are not yet effective

The following revised standards and interpretations with respect to approved Accounting Standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretations.

| Standards and Interpretations |  | Effective date (accounting periods beginning on or after) |
|-------------------------------|--|---|
| IAS 1                         | Presentation of Financial Statements   | Januray 01, 2009  |
| IAS 23                        | Borrowings Costs   | Januray 01, 2009  |
| IAS 27                        | Consolidated and Separate Financial Statements   | Januray 01, 2009  |
| IFRS 3                        | Bussiness Combinations   | Januray 01, 2009  |
| IFRIC 11                      | Group and Treasury Share Transactions  | March 01, 2007  |
| IFRIC 12                      | Service Concession Arrangements  | Januray 01, 2008  |
| IFRIC 13                      | Customer Loyalty Programs  | July 01, 2008   |
| IFRIC 14                      | The Limit on Defined Benefit Assets, Minimum Funding Requirements and their Interactions | Januray 01, 2008  |
| IAS 41                        | Agriculture  | May 22, 2007  |

The Bank expects that the adoptions of the above standards and interpretations will have no material impact on the Bank's financial statements in the period of initial application.

In addition to the above, the following new standards have been issued by the IASB but have not yet been adopted by the Institute of Chartered Accountants of Pakistan or notified by the SECP and hence presently do not form part of the local financial reporting framework:-

|        |                                    |
|--------|------------------------------------|
| IFRS 4 | Insurance Contracts                |
| IFRS 7 | Financial Instruments: Disclosures |
| IFRS 8 | Operating Segments                 |

### 4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for the measurement of certain investments and commitments in respect of forward exchange contracts that are taken at revalued amounts and staff retirement benefit (Gratuity) stated at present value.

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 5.1 Business combinations

##### Initial acquisition

The first phase of acquisition of the entities is accounted for by applying "the purchase method". Under this method the cost of acquisition is measured as fair value of the assets given and the liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identified assets acquired, liabilities and contingent liabilities assumed are fair valued at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of identifiable net assets acquired is recorded as goodwill.

##### Acquisition of entities under common control

Further acquisition of control in subsidiaries on second and third phases is determined as "business combinations under common control". The fair value of net assets acquired at first phase of the acquisition is treated as carrying value and after taking effect of operations between the periods after first phase of acquisition till cut off date for subsequent acquisitions, the carrying value of net assets were determined. The excess of cost of acquisition over the carrying value of identifiable net assets acquired is included in the goodwill.

## 5.2 Revenue recognition

Mark-up / return on performing loans / advances and investments is recognized on time proportionate basis. Where debt securities are purchased at premium or discount, those premiums / discounts are amortized using effective interest rate through the profit and loss account over the remaining period of maturity so as to produce a constant rate of return. Interest or mark-up recoverable on non-performing advances is recognized on a receipt basis in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan as amended from time to time.

The financing method is used in accounting for income on finance leases and hire purchase transactions. Under this method, the unearned income, i.e. the excess of aggregate lease rentals and the estimated residual value over the net investment (cost of leased assets) is deferred and then amortized to income over the term of the lease on a pattern reflecting a constant periodic rate of return on the net investment in lease. Unrealized lease income is suspended, where necessary, in accordance with the requirements of the Prudential regulations issued by SBP.

Rental income from assets given on operating lease is recognized on time proportionate basis over the lease period.

Gains / losses on termination of lease contracts, documentation charges and other lease income are recognized as income when they are realized.

Fee, commission and brokerage is recognized at the time of performance of service.

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

## 5.3 Grants and assistance

In terms of Kreditanstalt fur Wiederaufbau (KfW) loan relented by the Government of Pakistan (GoP), the bank is required to bear interest at 11 percent per annum and pay to GoP interest at 10 percent per annum and transfer the remaining 1 percent per annum margin to a counter part fund to be used by the bank for financing feasibility surveys, market surveys and similar investigations destined for the preparation of projects.

Future benefits comprising of funds available for utilisation is presented in the balance sheet as deferred income. Benefits availed to the extent of matching expenses charged to the income have been recognised in the profit and loss account as miscellaneous income.

## 5.4 Investments

Investments of the bank, other than investments in associates and subsidiaries are classified as securities held-to-maturity, held-for-trading and available-for-sale.

### Held-to-maturity

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

### Held-for-trading

These securities are either acquired for generating a profit from short-term fluctuations in prices or securities included in portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

# Notes to the Financial Statements for the year ended December 31, 2007

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## **Available-for-sale**

These are securities which do not fall under held for trading or held to maturity securities.

## **Initial measurement**

Investments in securities are recognized on trade-date basis and initially measured at fair value.

## **Subsequent measurement**

### **Held-to-maturity**

These are measured at amortized cost using effective interest rate method, less any impairment loss recognized to reflect irrecoverable amount.

### **Held-for-trading**

These are measured at subsequent reporting dates at fair value. Gains and losses on remeasurement are included in the net profit and loss for the year.

## **Available for sale**

Quoted securities classified as available for sale investments are measured at subsequent reporting dates at fair value and surplus / deficit arising thereon is kept in a separate account shown in the balance sheet below equity. The surplus / deficit arising on these securities is taken to the profit and loss account when actually realized upon disposal.

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

## **Investment in subsidiaries and associates**

Investments in subsidiaries and associates are valued at cost.

Provision for diminution in the value of investments is made for permanent impairment, if any, in their value.

Gain or loss on sale of investments is included in profit and loss for the year.

## **5.5 Lendings to / borrowings from financial institutions**

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. Securities purchased under agreement to resale (reverse repo) are not recognized in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. In case of continuous funding system transactions are shown under advances. The difference between sale and repurchase / purchase and resale price is treated as markup / return expensed or earned as the case may be.

## **5.6 Advances**

Advances including continuous funding system and net investment in finance lease are stated net of provisions.

# Notes to the Financial Statements for the year ended December 31, 2007

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Provisions comprises of :

## **Specific provision**

The bank maintains specific provisions for doubtful debts at a level that can reasonably be anticipated keeping in view, the requirements of the Prudential Regulations issued by SBP.

## **General provision**

The bank maintains general provision at the rate of 5% against unsecured consumer portfolio and at the rate of 1.5% against secured consumer portfolio in accordance with the Prudential Regulations issued by SBP.

## **Net investment in finance lease**

Lease including hire purchase where the bank transfers substantially all the risks and rewards incidental to the ownership of an asset and are classified as finance lease. Net investment in finance lease is recognized at an amount equal to the aggregate of minimum lease payments including any guaranteed residual value and excluding unearned finance income, if any.

## **5.7 Operating fixed assets / depreciation and amortization**

### **Property and equipment**

Property and equipment except leasehold land are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Leasehold land is stated at cost.

Depreciation is charged to income applying the straight line method over the estimated useful lives while taking into account any residual value, at the rates given in note 13.2 to the financial statements. In respect of additions and deletions to asset during the year, depreciation is charged from the month of acquisition while depreciation on disposals during the year is charged upto the month of disposals.

Normal repairs and maintenance are charged to profit and loss account for the year as and when incurred. Major repairs and improvements are capitalized and assets so replaced are retired.

Gains and losses on disposal of property and equipment if any, are taken to profit and loss account for the year.

Assets held under finance lease are stated at cost less accumulated depreciation. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods. Depreciation on assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the bank.

Finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of return on the outstanding liability.

### **Assets held under operating lease**

Operating lease assets are stated at cost less accumulated depreciation and impairment, if any.

Repairs and maintenance are charged to profit and loss account as and when incurred.

# Notes to the Financial Statements for the year ended December 31, 2007

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## **Capital work in progress**

These are stated at cost.

## **Intangible assets**

### **Goodwill**

Goodwill represents the excess of cost of an acquisition over the fair value / carrying value of the share of net identifiable assets acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment.

### **Computer Software**

Computer Softwares are stated at cost less accumulated amortization and accumulated impairment loss, if any. Amortization is carried out on the straight line method at the rates given in note 13.3 to the financial statements.

### **Acquired intangibles in business combination**

Acquired intangibles in business combination that have finite lives are amortized over their economic useful life based on the manner that benefits of the relevant assets are consumed.

## **5.8 Impairment**

At each balance sheet date, the bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount of goodwill is estimated at each reporting date. Recoverable amount is the greater of net selling price and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, where an impairment loss reverses subsequently, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for that asset in prior years. A reversal of an impairment loss is recognized as income immediately.

## **5.9 Staff retirement benefits**

### **Defined contribution Plan**

The bank operates a defined contributory provident fund for all its permanent employees. Equal monthly contributions are made both by the bank and the employees to the fund at the rate of 10% of basic salary.

### **Defined benefit Plan**

The bank operates an unfunded gratuity scheme covering all eligible employees who have attained the minimum qualifying period of five years. Eligible employees are those employees who have joined service of the bank on or before March 31, 2006. Provision is made in accordance with the actuarial recommendations. Actuarial valuation is carried out periodically using "Projected Unit Credit Method".

# Notes to the Financial Statements for the year ended December 31, 2007

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Actuarial gain / loss is recognized using 10% corridor approach. Corridor is defined as greater of 10% of present value of defined benefit obligation and plan assets.

Consequent to the amalgamation of PICIC-DFI and PCBL with and into NIB Bank, the retirement benefit funds instituted by these merged entities for employees would be terminated and wound up in accordance with the Trust Deeds of the funds. The employees of these entities have been transferred to the merged entity as fresh employees effective December 31, 2007.

## 5.10 Taxation

### Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration the tax credits and rebates available and any adjustments to tax payable in respect of previous years.

### Deferred

Deferred tax is recognized using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. However, deferred tax is not recognised on the initial recognition of goodwill. The bank records deferred tax assets / liabilities using the tax rates, enacted or substantially enacted at the balance sheet date expected to be applicable at the time of its reversal.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The bank recognizes deferred tax asset / liability on deficit / surplus on revaluation of securities in accordance with the requirements of the International Accounting Standard (IAS) 12 "Income Taxes". The related deferred tax asset / liability is adjusted against the related deficit / surplus.

The bank recognizes deferred tax asset for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised in accordance with the requirements of the International Accounting Standard (IAS) 12 "Income Taxes".

## 5.11 Provisions

Provisions are recognized 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 quarterly and are adjusted to reflect the current best estimate.

## 5.12 Off setting

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

# Notes to the Financial Statements for the year ended December 31, 2007

## 5.13 Dividend

Dividend is recognized as a liability in the period in which it is declared.

## 5.14 Distributions of bonus units and other appropriations to reserves

The Bank recognizes all appropriations, other than statutory appropriations, to reserves including those in respect of bonus shares made after the balance sheet date, in the period in which such appropriations are approved.

## 5.15 Foreign currencies

Transactions in foreign currencies are translated to rupees at the foreign exchange rates prevailing at the transaction date. Assets and liabilities in foreign currencies are translated into Rupees at the rates of exchange approximating those prevailing at the balance sheet date. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

Commitments for outstanding forward exchange contracts are disclosed in these financial statements at committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Rupee terms at the rates of exchange approximating those prevailing at the balance sheet date.

Assets against which the constituents have exercised their option to transfer exchange risk to the bank and liabilities for which the Bank has exercised its option to transfer exchange risk to the Government, are translated at the rates of exchange guaranteed by the bank and the Government, respectively.

Assets, liabilities, commitments and contingent liabilities in respect of Bangladesh are translated at parity rates approximating to those prevailing prior to August 15, 1971.

Exchange gains and losses are included in income currently except net unrealized exchange gain on long-term monetary items, which as a matter of prudence, is carried forward as unrealized gain in view of uncertainty associated with its realization.

## 5.16 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks.

## 5.17 Financial instruments

All financial assets and liabilities are recognized at the time when the bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the bank loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any loss on derecognition of the financial assets and financial liabilities is taken to income directly. Financial assets carried on the balance sheet include cash and bank balances, lendings to financial institutions, investments, advances, certain receivables and financial liabilities include borrowings, deposits, bills payable and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.



# Notes to the Financial Statements for the year ended December 31, 2007

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## 5.18 Derivative financial instruments

Derivative financial instruments are recognized at their fair value on the date on which a derivative contract is entered into. These instruments are marked to market and changes in fair values are taken to the profit and loss account. Fair values are obtained from quoted market prices in active markets.

## 5.19 Segment reporting

A segment is a distinguishable component of the Bank that is engaged 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. The Bank's primary format of reporting is based on business segments.

### 5.19.1 Business Segments

#### Corporate banking

Corporate banking includes underwriting and IPO related activities.

#### Trading and sales

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

#### Retail and consumer banking

It represents retail lending and deposits, banking services, private lending and deposits, banking services offered to its retail customers and small and medium enterprises.

#### Commercial banking

It represents projects finance, export finance, trade finance, leasing, lending, guarantees and bills of exchange relating to its corporate customers.

### 5.19.2 Geographical segments

The Bank operates in Pakistan only.

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

In the process of applying the bank's accounting policies, which are described in note 5, management has made the following judgments and estimated uncertainty that have the significant effect on the amounts recognized in the financial statements:

# Notes to the Financial Statements for the year ended December 31, 2007

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## 6.1 Held-to-maturity securities

As described in note 5.4, held-to-maturity securities are investments where the management has positive intent and ability to hold to maturity. The classification of these securities involves management judgment whether the financial assets are held to maturity investments.

## 6.2 Provision against non-performing advances

Apart from the provision determined on the basis of time based criteria given in Prudential Regulations of SBP, management also applies subjective criteria of classification and accordingly the classification of an advance is downgraded on the basis of evaluation of credit worthiness of borrower, its cash flows, operations in account and adequacy of security in order to ensure accurate measurement of the provision.

## 6.3 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plan and the sources of estimation are disclosed in note 34.2 to the financial statements.

## 6.4 Useful life of property and equipment

Estimates of useful life of the property and equipment are based on management's best estimate.

## 6.5 Fair value determination on acquisition

The fair value determined on acquisition is disclosed in note 7 to the financial statements

## 6.6 Deferred taxation

As described in note 5.10, deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Assessment of future taxable profits involves management judgment.

## 7. BUSINESS COMBINATION

- 7.1 Pursuant to a scheme of amalgamation duly approved by State Bank of Pakistan, the entire undertakings of Pakistan Industrial Credit and Investment Corporation Limited and PICIC Commercial Bank Limited were merged with and into NIB Bank Limited effective December 31, 2007 as at close of business. PCBL was a subsidiary of PICIC by virtue of 60% holding in its share capital.

The above mentioned entities were acquired by the bank in phases as follows:

### 7.2 Pakistan Industrial Credit and Investment Corporation Limited A Development Financial Institution

|           | Mode of acquisition | Date of acquisition | Proportion of shares acquired |
|-----------|---------------------|---------------------|-------------------------------|
| 1st Phase | Cash consideration  | 30-Jun-07           | 63.36%                        |
| 2nd Phase | Cash consideration  | 30-Sep-07           | 4.51%                         |
| 3rd Phase | Issuance of shares  | 31-Dec-07           | 32.13%                        |

### PICIC Commercial Bank Limited A Scheduled Commercial Bank

|           |                    |           |        |
|-----------|--------------------|-----------|--------|
| 1st Phase | *Indirect          | 30-Jun-07 | 38.02% |
| 2nd Phase | Cash consideration | 30-Sep-07 | 4.96%  |
|           | *Indirect          | 30-Sep-07 | 2.70%  |
| 3rd Phase | Issuance of shares | 31-Dec-07 | 32.51% |
|           | *Indirect          | 31-Dec-07 | 21.81% |

\* Shareholding by the bank in PCBL was acquired indirectly by virtue of acquisition of shares in PICIC.

# Notes to the Financial Statements for the year ended December 31, 2007

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7.3 As a result of the amalgamation, the PICIC will no more remain a Development Finance Institution.

7.4 Details of net assets acquired and goodwill are as follows:

|  | 1st Phase  | 2nd Phase | 3rd Phase  | Total      |
|--|------------|-----------|------------|------------|
| < ----- Rupees '000' ----- >             |            |           |            |            |
| <b>Purchase consideration:</b>           |            |           |            |            |
| Cash paid                                | 20,521,393 | 1,911,898 | -          | 22,433,291 |
| Shares to be issued                      | 7.7        | -         | 14,026,177 | 14,026,177 |
| Direct costs relating to the acquisition | 144,802    | -         | -          | 144,802    |
| Total purchase consideration             | 20,666,195 | 1,911,898 | 14,026,177 | 36,604,270 |
| Less: Fair value of net assets acquired  |            |           |            |            |
| PICIC                                    | 3,703,413  | -         | -          | 3,703,413  |
| PCBL                                     | 1,265,773  | -         | -          | 1,265,773  |
|  | 4,969,186  | -         | -          | 4,969,186  |
| Carrying value of net assets acquired    |            |           |            |            |
| PICIC                                    | -          | 153,937   | 2,583,288  | 2,737,225  |
| PCBL                                     | -          | 238,452   | 1,883,884  | 2,122,336  |
|  | -          | 392,389   | 4,467,172  | 4,859,561  |
| Total net assets acquired                | 4,969,186  | 392,389   | 4,467,172  | 9,828,747  |
| Goodwill                                 | 15,697,009 | 1,519,509 | 9,559,005  | 26,775,523 |

7.5 The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets liabilities and contingent liabilities and the cost of the combination.

In connection with the above, the management is in the process of carrying out a detailed exercise for the identification and valuation of intangible assets required to be separately recognized under the initial accounting for the acquisition under International Financial Reporting Standards ("IFRS") 3, Business Combinations, and the exercise is expected to be completed shortly. IFRS 3 envisages such a situation and allows and acquirer to account for the acquisition using provisionally values if the initial accounting for the acquisition can be determined only provisionally by the year end. However, adjustments to these provisional values consequent to completion of the initial accounting of the acquisition is required, under IFRS 3, to be incorporated in the financial statements with effect from the acquisition date, within a period of twelve months from the acquisition date.

The management expects to finalize the determination of valuation of such intangible assets before one year from the acquisition date, in compliance with the time frame envisaged in IFRS 3.

7.6 The goodwill is attributable to the significant synergies expected to arise from the development of PICIC DFI & PCBL within the NIB Group and to those others intangibles, such as the branch network, which are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

7.7 In the acquisition of PICIC and PCBL 424,409,837 and 217,520,480 ordinary shares were issued respectively at a fair value of Rs. 21.85/- per share. In both acquisitions the fair value was proposed by external consultants and subsequently revised by the State Bank of Pakistan.

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7.8 The Assets and liabilities arising from the acquisition on June 30, 2007 are as follows:

|   | PICIC - DFI       |                              | PCBL              |                              | Total<br>Fair Value |
|---|-------------------|------------------------------|-------------------|------------------------------|---------------------|
|   | Fair Value        | Acquiree's<br>carrying value | Fair Value        | Acquiree's<br>carrying value |                     |
| < ----- Rupees '000' ----- >                        |                   |                              |                   |                              |                     |
| Cash and balances with treasury banks               | 212,049           | 212,049                      | 6,932,504         | 6,932,504                    | 7,144,553           |
| Balances with other banks                           | 1,000,350         | 1,000,350                    | 3,245,910         | 3,245,910                    | 4,246,260           |
| Lendings to financial institutions                  | 575,048           | 575,048                      | 5,077,039         | 5,077,039                    | 5,652,087           |
| Investments   | 12,979,250        | 13,241,134                   | 27,583,282        | 28,019,863                   | 40,562,532          |
| Advances  | 12,500,963        | 16,033,028                   | 31,451,468        | 33,334,675                   | 43,952,431          |
| Operating fixed assets                              | 1,508,135         | 315,778                      | 1,352,175         | 917,678                      | 2,860,310           |
| Deferred tax assets                                 | 1,750,776         | 1,009,344                    | 1,114,567         | 478,071                      | 2,865,343           |
| Other assets  | 705,809           | 705,809                      | 1,390,753         | 1,390,753                    | 2,096,562           |
| <b>Total assets</b>                                 | <b>31,232,380</b> | <b>33,092,540</b>            | <b>78,147,698</b> | <b>79,396,493</b>            | <b>109,380,078</b>  |
| Bills Payable                                       | -                 | -                            | 837,434           | 837,434                      | 837,434             |
| Borrowings from financial institutions              | 6,189,335         | 6,189,335                    | 3,889,475         | 3,889,475                    | 10,078,810          |
| Deposits and other accounts                         | 17,545,730        | 17,545,730                   | 68,730,058        | 68,730,058                   | 86,275,788          |
| Liabilities against assets subject to finance lease | -                 | -                            | 9,526             | 9,526                        | 9,526               |
| Other liabilities                                   | 1,652,283         | 1,652,283                    | 1,351,625         | 1,351,625                    | 3,003,908           |
| <b>Total Liabilities</b>                            | <b>25,387,348</b> | <b>25,387,348</b>            | <b>74,818,118</b> | <b>74,818,118</b>            | <b>100,205,466</b>  |
| <b>Net Assets</b>                                   |                   |                              |                   |                              | <b>9,174,612</b>    |

7.9 The carrying values of the net assets as on September 30, 2007 of PICIC - DFI and PCBL were Rs. 5,766.35 million and Rs. 3,485.13 million respectively

## 7.10 Amalgamation

The assets and liabilities balances of PICIC - DFI and PCBL as at December 31, 2007 were as follows:

|   | PICIC - DFI       | PCBL              | TOTAL              |
|---|-------------------|-------------------|--------------------|
| < ----- Rupees '000' ----- >                        |                   |                   |                    |
| <b>Assets</b>                                       |                   |                   |                    |
| Cash and balances with treasury banks               | 156,717           | 6,147,494         | 6,304,211          |
| Balances with other banks                           | 534,704           | 326,125           | 860,829            |
| Lendings to financial institutions                  | 1,294,225         | 17,500,000        | 18,794,225         |
| Investments   | 11,906,395        | 19,539,931        | 31,446,326         |
| Advances  | 10,592,959        | 26,723,065        | 37,316,024         |
| Operating fixed assets                              | 1,468,581         | 1,275,171         | 2,743,752          |
| Deferred tax assets                                 | 1,843,405         | 1,135,442         | 2,978,847          |
| Other assets  | 705,057           | 1,234,410         | 1,939,467          |
|   | <b>28,502,043</b> | <b>73,881,638</b> | <b>102,383,681</b> |
| <b>Liabilities</b>                                  |                   |                   |                    |
| Bills Payable                                       | -                 | 1,494,323         | 1,494,323          |
| Borrowings from financial institutions              | 9,569,646         | 6,870,079         | 16,439,725         |
| Deposits and other accounts                         | 10,792,948        | 60,723,665        | 71,516,613         |
| Liabilities against assets subject to finance lease | -                 | 7,176             | 7,176              |
| Other liabilities                                   | 1,493,617         | 1,275,629         | 2,769,246          |
| <b>Total Liabilities</b>                            | <b>21,856,211</b> | <b>70,370,872</b> | <b>92,227,083</b>  |
| <b>Net Assets</b>                                   | <b>6,645,832</b>  | <b>3,510,766</b>  | <b>10,156,598</b>  |

7.11 Had these business combinations been affected at January 01, 2007, the operating loss of the bank would have been Rs.315 million and loss before tax be Rs.5,154 million.

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## 7.12 Share of post acquisition profit from amalgamating entities - Net of tax. for the period from July 01, 2007 to December 31, 2007

|   | PICIC                        | PCBL                  | Total                 |
|---|------------------------------|-----------------------|-----------------------|
|   | < ----- Rupees '000' ----- > |                       |                       |
| Mark-up / return / interest earned                      | 559,219                      | 1,372,116             | 1,931,335             |
| Mark-up / return / interest expensed                    | 636,157                      | 955,698               | 1,591,855             |
| Net mark-up / interest (loss) / income                  | <u>(76,938)</u>              | <u>416,418</u>        | <u>339,480</u>        |
| Provision / diminution / write offs                     | 72,307                       | 126,166               | 198,473               |
| Net mark-up / interest (loss) / income after provisions | <u>(149,245)</u>             | <u>290,252</u>        | <u>141,007</u>        |
| Non mark-up / interest income                           | <u>417,819</u>               | <u>164,364</u>        | <u>582,183</u>        |
|   | 268,574                      | 454,616               | 723,190               |
| Non mark-up / interest expenses                         | <u>194,359</u>               | <u>328,072</u>        | <u>522,431</u>        |
| Profit before taxation                                  | 74,215                       | 126,544               | 200,759               |
| Taxation  | <u>(130,977)</u>             | <u>3,885</u>          | <u>(127,092)</u>      |
| Profit after taxation                                   | <u><u>205,192</u></u>        | <u><u>122,659</u></u> | <u><u>327,851</u></u> |

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|  | Note | 2007<br>(Rupees '000') | 2006             |
|--|------|------------------------|------------------|
| <b>8. CASH AND BALANCES WITH TREASURY BANKS</b>                  |      |                        |                  |
| In hand  |      |                        |                  |
| Local currency   | 8.1  | 1,739,577              | 419,041          |
| Foreign currencies   |      | 376,153                | 176,910          |
| With State Bank of Pakistan in                                   |      |                        |                  |
| Local currency current account                                   | 8.2  | 7,073,138              | 1,853,586        |
| Local currency deposit account                                   |      | 124,000                | -                |
| Foreign currency current accounts                                | 8.3  | 399,545                | 124,085          |
| Foreign currency deposit account                                 | 8.4  | 370,581                | 354,496          |
| With National Bank of Pakistan in local currency current account |      | 235,728                | 286              |
|  |      | <u>10,318,722</u>      | <u>2,928,404</u> |

8.1 These includes National Prize Bonds of Rs.10,369 million (2006 : Rs. 0.924 million).

8.2 The current account is maintained under the requirements of Section 22 of the Banking Companies Ordinance, 1962.

8.3 This includes special cash reserve at nil return required to be maintained with SBP on deposits held under the new foreign currency scheme.

8.4 This represents special cash reserve at 5% required to be maintained with SBP on deposits held under the new foreign currency account scheme at the rate of return ranging from 3.71% to 4.72% (2006 : 4.32% to 4.39%) per annum on monthly basis.

|                                     | Note | 2007<br>(Rupees '000') | 2006             |
|-------------------------------------|------|------------------------|------------------|
| <b>9. BALANCES WITH OTHER BANKS</b> |      |                        |                  |
| In Pakistan                         |      |                        |                  |
| On current accounts                 |      | 140,819                | 1,652            |
| On deposit accounts                 | 9.1  | 534,649                | 1,100,000        |
| Outside Pakistan                    |      |                        |                  |
| On current accounts                 | 9.2  | 729,217                | 264,809          |
| On deposit account                  |      | 1,075                  | -                |
|                                     |      | <u>1,405,760</u>       | <u>1,366,461</u> |
| Provision against doubtful balances |      | (3,964)                | (3,964)          |
|                                     |      | <u>1,401,796</u>       | <u>1,362,497</u> |

9.1 These includes Rs 500 million (2006 : 1,100 million) short term placements carrying interest rate ranging from 10% to 10.50 % per annum (2006: 11.50% to 12.55% per annum) maturing within three months.

9.2 It includes amount held in automated investment plans. This balance is current by nature and on increase in the balance over specified amount, interest is received from the correspondent banks at various rates.

# Notes to the Financial Statements for the year ended December 31, 2007

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|   | Note        | 2007<br>(Rupees '000') | 2006             |
|---|-------------|------------------------|------------------|
| <b>10. LENDINGS TO FINANCIAL INSTITUTIONS</b> |             |                        |                  |
| Call money lendings                           | 10.2        | 2,875,000              | 1,850,000        |
| Repurchase agreement lendings (Reverse Repo)  | 10.3 & 10.4 | 1,878,113              | 750,000          |
|   |             | <u>4,753,113</u>       | <u>2,600,000</u> |
| <b>10.1 Particulars of lendings</b>           |             |                        |                  |
| In local currency                             |             | 4,753,113              | 2,600,000        |
| In foreign currencies                         |             | -                      | -                |
|   |             | <u>4,753,113</u>       | <u>2,600,000</u> |

**10.2** These represent Call money lendings to financial institutions carrying mark-up rates ranging from 9.55% to 10.70% (2006:11.25% to 12.70%) per annum and having maturity upto three months.

**10.3** These represent repurchase agreement lendings to financial institutions carrying mark-up rates ranging from 8.35% to 9.95% (2006: 9% to 9.4%) per annum and having maturity upto two months.

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

|                           | 2007                     |                             |                  | 2006           |                             |                |
|---------------------------|--------------------------|-----------------------------|------------------|----------------|-----------------------------|----------------|
|                           | Held by bank             | Further given as collateral | Total            | Held by bank   | Further given as collateral | Total          |
|                           | ----- Rupees '000' ----- |                             |                  |                |                             |                |
| Treasury Bills            | 33,103                   | 395,010                     | 428,113          | -              | -                           | -              |
| Pakistan Investment Bonds | 1,450,000                | -                           | 1,450,000        | 750,000        | -                           | 750,000        |
|                           | <u>1,483,103</u>         | <u>395,010</u>              | <u>1,878,113</u> | <u>750,000</u> | <u>-</u>                    | <u>750,000</u> |



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## 11. INVESTMENTS

### 11.1 (a) Investments by types:

|   | Note          | 2007              |                     |                   | 2006             |                     |                  |
|---|---------------|-------------------|---------------------|-------------------|------------------|---------------------|------------------|
|   |               | Held By Bank      | Given as Collateral | Total             | Held By Bank     | Given as Collateral | Total            |
| <----- Rupees '000' ----->                                    |               |                   |                     |                   |                  |                     |                  |
| <b>Held for trading securities</b>                            | 11.2          | 62,943            | -                   | 62,943            | -                | -                   | -                |
| <b>Available for sale securities</b>                          |               |                   |                     |                   |                  |                     |                  |
| Market Treasury Bills   | 11.3          | 11,131,480        | 7,833,475           | 18,964,955        | 4,343,209        | 922,613             | 5,265,822        |
| Pakistan Investment Bonds                                     | 11.3          | 6,745,482         | 1,526,128           | 8,271,610         | -                | -                   | -                |
| Defence Saving Certificates                                   | 11.4          | 5,771             | -                   | 5,771             | -                | -                   | -                |
| Cumulative Preference shares                                  | 11.5          | 100,000           | -                   | 100,000           | 25,000           | -                   | 25,000           |
| Investments in mutual funds                                   | 11.10         | 375,003           | -                   | 375,003           | -                | -                   | -                |
| Ordinary shares / certificates in listed companies/ modarabas |               | 3,544,831         | -                   | 3,544,831         | 207,383          | -                   | 207,383          |
| Ordinary shares of unlisted companies                         |               | 64,280            | -                   | 64,280            | -                | -                   | -                |
| Term Finance Certificates                                     |               | 1,551,288         | -                   | 1,551,288         | -                | -                   | -                |
|   |               | 23,518,135        | 9,359,603           | 32,877,738        | 4,575,592        | 922,613             | 5,498,205        |
| <b>Held to maturity securities</b>                            |               |                   |                     |                   |                  |                     |                  |
| Pakistan Investment Bonds                                     | 11.3          | 433,825           | -                   | 433,825           | 439,591          | -                   | 439,591          |
| Term Finance Certificates                                     |               | 363,484           | -                   | 363,484           | 436,513          | -                   | 436,513          |
|   |               | 797,309           | -                   | 797,309           | 876,104          | -                   | 876,104          |
| <b>Associates</b>   | 11.11         | 3,170,397         | -                   | 3,170,397         | 267,500          | -                   | 267,500          |
| <b>Subsidiaries</b>   | 11.12         | 3,747,299         | -                   | 3,747,299         | -                | -                   | -                |
| <b>Investments at cost</b>                                    |               | 31,296,083        | 9,359,603           | 40,655,686        | 5,719,196        | 922,613             | 6,641,809        |
| Provision for diminution in value of investments              | 11.13 & 11.14 | (123,006)         | -                   | (123,006)         | (35,488)         | -                   | (35,488)         |
| Investments - net of provisions                               |               | 31,173,077        | 9,359,603           | 40,532,680        | 5,683,708        | 922,613             | 6,606,321        |
| Deficit on revaluation of held for trading securities         | 11.15         | (3,268)           | -                   | (3,268)           | -                | -                   | -                |
| Deficit on revaluation of available for sale securities       | 22            | (29,018)          | (1,554)             | (30,572)          | (47,703)         | 115                 | (47,588)         |
| <b>Total Investments at market value</b>                      |               | <u>31,140,791</u> | <u>9,358,049</u>    | <u>40,498,840</u> | <u>5,636,005</u> | <u>922,728</u>      | <u>6,558,733</u> |

### 11.1 (b) Investments by segments:

|  | Note          | 2007<br>(Rupees '000') | 2006             |
|--|---------------|------------------------|------------------|
| <b>Federal Government Securities</b>                             |               |                        |                  |
| - Market Treasury Bills  | 11.3          | 18,964,955             | 5,265,822        |
| - Pakistan Investment Bonds                                      | 11.3          | 8,705,435              | 439,591          |
| - Defence Saving Certificate                                     | 11.4          | 5,771                  | -                |
| <b>Cumulative Preference Shares</b>                              | 11.5          | 100,000                | 25,000           |
| <b>Fully Paid-up Ordinary Shares &amp; Modaraba certificates</b> |               |                        |                  |
| - Listed   | 11.6          | 3,607,774              | 207,383          |
| - Unlisted   | 11.7          | 64,280                 | -                |
| <b>Term Finance Certificates</b>                                 |               |                        |                  |
| - Listed   | 11.8          | 600,581                | 71,210           |
| - Unlisted   | 11.9          | 1,314,191              | 365,303          |
| <b>Investments in Mutual Funds (listed)</b>                      | 11.10         | 375,003                | -                |
| <b>Investment in Associates</b>                                  | 11.11         | 3,170,397              | 267,500          |
| <b>Investment in Subsidiaries</b>                                | 11.12         | 3,747,299              | -                |
| <b>Total investments at cost</b>                                 |               | 40,655,686             | 6,641,809        |
| Provision for diminution in value of investments                 | 11.13 & 11.14 | (123,006)              | (35,488)         |
| <b>Investments (net of provisions)</b>                           |               | 40,532,680             | 6,606,321        |
| Deficit on revaluation of securities - available for sale        | 22            | (30,572)               | (47,588)         |
| Deficit on revaluation of securities - held for trading          | 11.15         | (3,268)                | -                |
| <b>Total investments at market value</b>                         |               | <u>40,498,840</u>      | <u>6,558,733</u> |

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## 11.2 Held for trading securities

| 2007          | 2006 |                                   | 2007           | 2006     |
|---------------|------|-----------------------------------|----------------|----------|
| No. of Shares |      |                                   | (Rupees '000') |          |
| 64,000        | -    | Engro Chemicals Pakistan Limited  | 17,760         | -        |
| 50,000        | -    | National Bank of Pakistan Limited | 12,428         | -        |
| 100,000       | -    | Pakistan Petroleum Limited        | 25,822         | -        |
| 100,000       | -    | Sui Northern Gas Company Limited  | 6,933          | -        |
|               |      |                                   | <u>62,943</u>  | <u>-</u> |

**11.3** Market Treasury Bills and Pakistan Investment Bonds are held with SBP and are eligible for rediscounting. Market Treasury Bills embody effective yield ranging from 8.95% to 9.45% (2006: 8.8% to 9.01%) maturing within 1 to 12 months and Pakistan Investment Bonds carry markup ranging from 8% to 10% (2006: 8%) per annum on semi-annual basis maturing within 6 to 14 years. Certain government securities are required to be maintained with SBP to meet statutory liquidity requirement calculated on the basis of demand and time liabilities.

**11.4** During the year SBP issued lost DSCs to the bank with 2 years restriction on disposal. These certificates carry interest rate of 6.5% per annum.

## 11.5 Particulars of investment in Cumulative Preference Shares

| Investee                               | Note   | Number of Shares/Certificates held |           | Total nominal value |               |
|--|--------|------------------------------------|-----------|---------------------|---------------|
|  |        | 2007                               | 2006      | 2007                | 2006          |
|  |        |                                    |           | (Rupees '000')      |               |
| Pak Electron Limited (PEL)             | 11.5.1 | 2,500,000                          | 2,500,000 | 25,000              | 25,000        |
| Fazal Cloth Mills Limited              | 11.5.2 | 2,500,000                          | -         | 25,000              | -             |
| Jamshoro Joint Venture Company Limited | 11.5.3 | 5,000,000                          | -         | 50,000              | -             |
|  |        |                                    |           | <u>100,000</u>      | <u>25,000</u> |

**11.5.1** These preference shares carry fixed dividend of 9.5% on cumulative basis. For redemption, the payment of call option can be exercised by PEL up to 100% after 5 years of issue date on 1% premium of issue price. Conversion option of preference shares into ordinary shares can be exercised by the bank up to 100% after 5 years of issue date as per ratio specified in the agreement.

**11.5.2** These preference shares are redeemable upon the exercise of call option by the company.

**11.5.3** Redeemable after 5 years of issuance, subject to 60% of the long term loans from Financial institution has been repaid.

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## 11.6 Particulars of listed shares /Certificates

|  | Number of<br>shares/<br>certificates<br>held | Paid-up<br>value per<br>share/<br>certificate<br><br>Rupees | 2007<br>Total<br>Paid-up<br>value<br><br>(Rupees '000') |
|--|--|---|---|
| <b>Held for trading</b>                  |  |   |   |
| Engro Chemicals Pakistan Limited         | 64,000                                       | 10  | 640   |
| National Bank of Pakistan Limited        | 50,000                                       | 10  | 500   |
| Pakistan Petroleum Limited               | 100,000                                      | 10  | 1,000   |
| Sui Northern Gas Company Limited         | 100,000                                      | 10  | 1,000   |
| <b>Available for sale</b>                |  |   |   |
| Abbott Laboratories Pakistan Limited     | 906,152                                      | 10  | 9,062   |
| Adamjee Insurance Company Limited        | 300,000                                      | 10  | 3,000   |
| Allied Bank Limited                      | 429,000                                      | 10  | 4,290   |
| Attock Cement Limited                    | 164,200                                      | 10  | 1,642   |
| Attock Refinery Limited                  | 499,140                                      | 10  | 4,991   |
| Awan Textile Mills Limited               | 39,000                                       | 10  | 390   |
| B.R.R. International Modaraba            | 899,250                                      | 10  | 8,993   |
| Bank Al-Habib Limited                    | 355,168                                      | 10  | 3,552   |
| BankIslami Pakistan Limited              | 335,146                                      | 10  | 3,351   |
| Berger Paints (Pakistan) Limited         | 447,160                                      | 10  | 4,472   |
| Bosicor Pakistan Limited                 | 800,000                                      | 10  | 8,000   |
| Brother Textile Mills Limited            | 87   | 10  | 1   |
| Chakwal Cement (GDR)                     | 10,000                                       | 10  | 100   |
| Clariant Pakistan Limited                | 225,919                                      | 10  | 2,259   |
| Crescent Commercial Bank Limited         | 626,402                                      | 10  | 6,264   |
| Crescent Steel & Allied Products Limited | 412,942                                      | 10  | 4,129   |
| Dewan Farooq Motors Limited              | 1,018,225                                    | 10  | 10,182  |
| Engro Chemicals Pakistan Limited         | 575,000                                      | 10  | 5,750   |
| Fateh Industries Limited                 | 35   | 10  | 0   |
| Fauji Cement Company Limited             | 1,025,000                                    | 10  | 10,250  |
| Fauji Fertilizer Company Limited         | 2,911,564                                    | 10  | 29,116  |
| First Equity Modaraba                    | 1,480,000                                    | 10  | 14,800  |
| First Habib Bank Modaraba                | 146,507                                      | 10  | 1,465   |
| IGI Investment Bank Limited              | 922,184                                      | 10  | 9,222   |
| First National Bank Moadaraba            | 1,481,500                                    | 10  | 14,815  |
| First Tawakkal Modaraba                  | 446,774                                      | 10  | 4,468   |
| General Tyres and Rubber Limited         | 841,000                                      | 10  | 8,410   |
| Glamour Textile Mills Limited            | 200,000                                      | 10  | 2,000   |
| GlaxoSmithKline Pakistan Limited         | 666,545                                      | 10  | 6,665   |
| Habib Bank Limited                       | 100  | 10  | 1   |
| Habib Insurance Company Limited          | 1,130,504                                    | 5   | 5,653   |
| Habib Sugar Mills Limited                | 412,562                                      | 5   | 2,063   |
| Hira Textile Mills Limited               | 1,406,624                                    | 10  | 14,066  |
| Hub Power Company Limited                | 16,856,500                                   | 10  | 168,565   |
| Ibrahim Fibres Limited                   | 300  | 10  | 3   |

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|  | Number of<br>shares/<br>certificates<br>held | Paid-up<br>value per<br>share/<br>certificate<br><br>Rupees | 2007<br>Total<br>Paid-up<br>value<br><br>(Rupees '000') |
|--|--|---|---|
| ICI Pakistan Limited                               | 1,113,500                                    | 10  | 11,135  |
| Indus Motors                                       | 228,900                                      | 10  | 2,289   |
| K.S.B. Pumps Limited                               | 136,772                                      | 10  | 1,368   |
| Karam Ceramics Limited                             | 426,656                                      | 10  | 4,267   |
| Kohinoor Energy Limited                            | 100,000                                      | 10  | 1,000   |
| Maple Leaf Cement Limited                          | 281,250                                      | 10  | 2,813   |
| Millat Tractors Limited                            | 559,200                                      | 10  | 5,592   |
| Mohib Textile Mills Limited                        | 5  | 10  | 0   |
| MY Bank Limited                                    | 1,146,750                                    | 10  | 11,468  |
| Nagina Cotton Mills Limited                        | 229,600                                      | 10  | 2,296   |
| National Bank Limited                              | 25,000                                       | 10  | 250   |
| New Jubilee Life Insurance Co. Limited             | 175,000                                      | 10  | 1,750   |
| Nimir Industrial Chemical Limited                  | 5,077,259                                    | 10  | 50,773  |
| Oil and Gas Development Company Limited            | 441  | 10  | 4   |
| Orix Leasing Company Limited                       | 920,000                                      | 10  | 9,200   |
| Pakistan Oil Fields Limited                        | 110,000                                      | 10  | 1,100   |
| Pakistan Petroleum Limited                         | 440,000                                      | 10  | 4,400   |
| Pakistan PTA Limited                               | 1,557,000                                    | 10  | 15,570  |
| Pakistan Refinery Limited                          | 16,800                                       | 10  | 168   |
| Pakistan State Oil Company Limited                 | 20,000                                       | 10  | 200   |
| Pakistan Telecommunication Company Limited         | 3,940,000                                    | 10  | 39,400  |
| Pakistan Tobacco Company Limited                   | 159,700                                      | 10  | 1,597   |
| Pioneer Cement Limited                             | 430,450                                      | 10  | 4,305   |
| Premier Insurance Company Limited                  | 133,610                                      | 5   | 668   |
| Prosperity Weaving Mills Limited                   | 127,820                                      | 10  | 1,278   |
| Rupali Polyester Limited                           | 169,500                                      | 10  | 1,695   |
| Saudi Pak Leasing Company Limited                  | 336,835                                      | 10  | 3,368   |
| Security Investment Bank Limited                   | 10   | 10  | 0   |
| Shahtaj Sugar Mills Limited                        | 430,646                                      | 10  | 4,306   |
| Shakarganj Mills Limited                           | 455,617                                      | 10  | 4,556   |
| Sitara Chemicals Industries Limited                | 112,120                                      | 10  | 1,121   |
| Sitara Energy Limited                              | 990,500                                      | 10  | 9,905   |
| Standard Chartered Leasing Limited                 | 522,500                                      | 10  | 5,225   |
| Standard Chartered Modaraba                        | 496,923                                      | 10  | 4,969   |
| Sui Southern Gas Company Limited                   | 500,000                                      | 10  | 5,000   |
| Suraj Cotton Mills Limited                         | 1,552,000                                    | 10  | 15,520  |
| Tariq Glass Limited                                | 2,022,404                                    | 10  | 20,224  |
| Tawakkal Garments Limited                          | 150,000                                      | 10  | 1,500   |
| Telecard Limited                                   | 25,000                                       | 10  | 250   |
| Tripack Films Limited                              | 280,000                                      | 10  | 2,800   |
| Trust Securities and Brokerage Limited             | 120,000                                      | 10  | 1,200   |
| United Bank Limited                                | 300,000                                      | 10  | 3,000   |
| Yousuf Weaving Mills Limited                       | 100  | 10  | 1   |
| <b>Modaraba certificates</b>                       |  |   |   |
| First Fidelity Lease Modaraba                      | 1  | 10  | 10  |
| LTVCM (face value Rs.15/- to 65/- per Certificate) | 171,473                                      | 33  | 5,573,000   |
| Trust Modaraba                                     | 100  | 10  | 1,000   |

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|   | Note   | Percentage<br>of holding | Number of<br>Shares held | Break-up<br>value / cost of<br>investment<br><br>(Rupees '000') |
|---|--------|--------------------------|--------------------------|---|
| <b>11.7 Particulars of un listed Shares</b>   |        |                          |                          |   |
| Pakistan Export Finance Guarantee Agency Limited<br>Chief Executive; Mr. S.M. Zaeem           | 11.7.1 | 5.26%                    | 568,044                  | 5,680   |
| Central Depository Company of Pakistan Limited<br>Chief Executive; Mr. Muhammad Hanif Jakhura | 11.7.2 | 7.50%                    | 650,000                  | 5,000   |
| Crescent Capital Management (Private) Limited<br>Chief Executive; Mr. Tariq Aleem             | 11.7.3 | 4.88%                    | 100,000                  | 1,000   |
| Equity Participation Fund Limited<br>Chief Executive; Mr. S. Shabahat Hussain                 | 11.7.4 | 0.97%                    | 15,000                   | 1,500   |
| Pakistan Textile City (Private) Limited<br>Chief Executive; Mr. Zaheer A. Hussain             | 11.7.5 | 4.55%                    | 5,000,000                | 50,000  |
| National Investment Trust Limited<br>Chief Executive; Mr. Tariq Iqbal Khan                    | 11.7.6 | 8.33%                    | 52,800                   | 100   |
| Sunbiz (Private) Limited<br>Chief Executive; Mr. Nisar Ahmed                                  | 11.7.7 | 4.65%                    | 10,000                   | 1,000   |
|   |        |                          |                          | <b>64,280</b>   |

**11.7.1** Value of investment based on the net assets, stated in the audited financial statements of investee company as at Dec 31, 2007 amounts to Rs. 2.292 million.

**11.7.2** Value of investment based on the net assets, stated in the audited financial statements of investee company as at June 30, 2007 amounts to Rs. 83.181 million.

**11.7.3** Value of investment based on the net assets, stated in the audited financial statements of investee company as at June 30, 2005 amounts to Rs. 0.091 million.

**11.7.4** Value of investment based on the net assets, stated in the audited financial statements of investee company as at June 30, 2007 amounts to Rs. 11.206 million.

**11.7.5** Value of investment based on the net assets, stated in the audited financial statements of investee company as at June 30, 2007 amounts to Rs. 51.098 million.

**11.7.6** Value of investment based on the net assets, stated in the audited financial statements of investee company as at June 30, 2007 amounts to Rs. 267.446 million.

**11.7.7** Value of investment based on the net assets, stated in the audited financial statements of investee company as at June 30, 2006 amounts to Rs. Nil.

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## 11.8 Particulars of investment in Listed Term Finance Certificates

| Investee                          | Note | Number of certificates held | Paid up value per certificate Rupees | Total paid-up value (Rupees '000') |
|-----------------------------------|------|-----------------------------|--------------------------------------|------------------------------------|
| Askari Commercial Bank Limited    |      | 3,184                       | 4,996                                | 15,907                             |
| Azgard Nine Limited               |      | 250                         | 100,000                              | 12,500                             |
| Azgard Nine Limited               |      | 10,000                      | 4,996                                | 52,503                             |
| Bank al-Habib Limited             |      | 425                         | 99,880                               | 42,449                             |
| Engro Chemicals Pakistan Limited  |      | 10,000                      | 5,000                                | 50,200                             |
| Escort Investment Bank Limited    |      | 2,016                       | 4,999                                | 10,078                             |
| PACE Pakistan Limited             |      | 6,000                       | 5,000                                | 30,000                             |
| Pakistan Services Limited         |      | 2,988                       | 1,428                                | 4,266                              |
| Saudi Pak Leasing Company limited |      | 7,000                       | 5,000                                | 35,000                             |
| Soneri Bank Limited               |      | 5,000                       | 1,998                                | 9,990                              |
| Soneri Bank Limited               |      | 4,000                       | 4,995                                | 19,980                             |
| Telecard Limited                  |      | 74,888                      | 3,644                                | 258,654                            |
| Trust Leasing & Inv. Bank Limited |      | 10,947                      | 3,000                                | 34,056                             |
| United Bank Limited               |      | 5,000                       | -                                    | 24,998                             |
|                                   |      |                             |                                      | <u>600,581</u>                     |

## 11.9 Particulars of investment in unlisted Term Finance Certificates

|   |        |        |         |                  |
|---|--------|--------|---------|------------------|
| Avari Hotels Limited                            |        | 30,400 | 5,000   | 152,000          |
| Chanda Oil & Gas Securitization Company Limited |        | 15,619 | 3,600   | 56,229           |
| Choudhary Sugar Mills Limited                   |        | 10,000 | 1,469   | 14,693           |
| New Khan Transport Company (Private) Limited    |        | 20,000 | 3,007   | 60,135           |
| Pakistan Mobile Communication Limited           |        | 60,000 | 4,997   | 299,820          |
| Dewan Mushtaq Cement Limited                    | 11.9.1 | -      | -       | 198,464          |
| Dewan Hattar Cement Limited                     | 11.9.1 | -      | -       | 100,081          |
| Zaver Petroleum Corporation Limited             |        | 60,000 | 4,990   | 299,400          |
| Dewan farooq spinning Mills Limited             |        | 15,000 | 2,502   | 37,535           |
| Dominion Fertilizer (pvt) ltd                   |        | 100    | 958,340 | 95,834           |
|   |        |        |         | <u>1,314,191</u> |

**11.9.1** This includes unlisted Term Finance Certificates (TFCs) of Rs. 298.546 million (2006: Rs. 365.303 million) which have been issued by Dewan Mushtaq Cement Limited (Formerly Pakland Cement Limited) and Dewan Hattar Cement Limited (Formerly Saadi Cement Limited). The exposure of various financial institutions against the above customers was restructured under a scheme of arrangement sanctioned by the High Court of Sindh. The State Bank of Pakistan vide their letter No. BPD/PU-22/22.03/X/2005/1836 dated February 15, 2005 allowed that the above restructuring would constitute fresh facility by treating the existing outstanding amounts as paid-off.

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|  | Number of<br>certificates<br>held | Paid up<br>value per<br>certificate<br>Rupees | (Rupees '000') |
|--|-----------------------------------|---|----------------|
| <b>11.10 Mutual funds (listed)</b>         |                                   |   |                |
| 1st Habib Income Fund                      | 203,000                           | 99  | 20,000         |
| AKD Opportunity Fund                       | 538,859                           | 51  | 32,493         |
| Faisal Saving Growth Fund                  | 101,248                           | 99  | 10,638         |
| First Dawood Mutual Fund                   | 1,556,100                         | 9   | 12,060         |
| First Habib Income Fund                    | 152,250                           | 99  | 15,951         |
| HBL Income Fund                            | 513,239                           | 97  | 50,000         |
| HBL Multi Asset Fund                       | 250,000                           | 100   | 25,000         |
| IGI Income Fund Ltd                        | 100,109                           | 100   | 10,505         |
| MCB Dynamic Cash Fund                      | 258,449                           | 97  | 27,059         |
| Pakistan Strategic Allocation Fund         | 8,370,000                         | 10  | 76,167         |
| UTP Growth Fund                            | 227,410                           | 18  | 2,911          |
| UTP Large Cap Fund (ABAMCO Composite Fund) | 4,995,395                         | 10  | 40,462         |
| UTP Large Capital Fund                     | 6,389,697                         | 10  | 51,757         |
|  |                                   |   | <u>375,003</u> |

|   | Number of shares / units |            | Total cost       |                |
|---|--------------------------|------------|------------------|----------------|
|   | 2007                     | 2006       | 2007             | 2006           |
| <b>11.11 Associates</b>                     |                          |            |                  |                |
|   |                          |            | (Rupees '000')   |                |
| NAFA Cash Fund                              | 20,000,000               | 20,380,000 | 177,667          | 200,000        |
| NAFA Islamic Multi Asset Fund               | 7,500,000                | -          | 75,000           | -              |
| NAFA Islamic Stock Fund                     | 7,500,000                | -          | 75,000           | -              |
| NAFA Multi Asset Fund                       | 7,500,000                | -          | 65,462           | -              |
| NAFA Stock Fund                             | 7,500,000                | -          | 63,186           | -              |
| National Fullerton Asset Management Limited | 6,749,998                | 6,749,998  | 67,500           | 67,500         |
| PICIC Energy Fund                           | 11,130,160               | -          | 145,423          | -              |
| PICIC Growth Fund                           | 15,132,858               | -          | 1,102,336        | -              |
| PICIC Insurance Limited                     | 5,999,996                | -          | 300,900          | -              |
| PICIC Investment Fund                       | 41,544,649               | -          | 1,097,923        | -              |
|   |                          |            | <u>3,170,397</u> | <u>267,500</u> |

## 11.12 Subsidiaries

|  |             |   |                  |          |
|--|-------------|---|------------------|----------|
| PICIC Asset Management Company Limited           | 299,999,995 | - | 3,546,575        | -        |
| PICIC Exchange Company (Pvt.) Limited            | 20,000,000  | - | 200,000          | -        |
| Financial and Management Services (Pvt.) Limited | 88,850 *    | - | 724              | -        |
|  |             |   | <u>3,747,299</u> | <u>-</u> |

\* Shares of face value of Rs.100 each

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|--|----------------|----------------|-----------|---------|
|  | (Rupees '000') |                |           |         |
| <b>11.13 Particulars of provision for diminution in value of investments</b>         |                |                |           |         |
| Opening balance  | 35,488         | 35,488         |           |         |
| Charge for the year  | -              | -              |           |         |
| Reversals  | -              | -              |           |         |
| Amount written off   | -              | -              |           |         |
| Assumed on amalgamation  | 87,518         | -              |           |         |
| Closing balance  | <u>123,006</u> | <u>35,488</u>  |           |         |
| <b>11.14 Particular of provision in respect of type and segment</b>                  |                |                |           |         |
| Available for sale securities  | 122,282        | 35,488         |           |         |
| Held to maturity securities  | -              | -              |           |         |
| Associates   | -              | -              |           |         |
| Subsidiaries   | 724            | -              |           |         |
|  | <u>123,006</u> | <u>35,488</u>  |           |         |
| <b>11.15 Diminution on revaluation of investments classified as held for trading</b> |                |                |           |         |
| <b>Ordinary shares of listed companies</b>   |                |                |           |         |
| Engro Chemicals Pakistan Limited   | 752            | -              |           |         |
| National Bank of Pakistan Limited  | 821            | -              |           |         |
| Pakistan Petroleum Limited   | 1,317          | -              |           |         |
| Sui Northern Gas Company Limited   | 378            | -              |           |         |
|  | <u>3,268</u>   | <u>-</u>       |           |         |
|  | <b>2007</b>    | <b>2006</b>    |           |         |
|  | (Rupees '000') | (Rupees '000') |           |         |
|  | Rating         | Rating         |           |         |
| <b>11.16 Quality of available for sale securities at market value</b>                |                |                |           |         |
| <b>Federal Government Securities</b>   |                |                |           |         |
| Market Treasury Bills  | 18,961,771     | Unrated        | 5,265,822 | Unrated |
| Pakistan investment Bonds  | 8,265,039      | Unrated        | -         | -       |
| <b>Defence saving Certificates</b>   | 5,771          | Unrated        | -         | -       |
| <b>Cumulative Preference shares</b>  |                |                |           |         |
| Pak Electron Limited   | 25,000         | A & A1         | 25,000    | A & A1  |
| Fazal Cloth Mills Limited  | 25,000         | Not available  | -         | -       |
| Jamshoro Joint Venture Company Limited   | 50,000         | A+             | -         | -       |
| <b>Ordinary shares</b>   |                |                |           |         |
| Abbott Laboratories Pakistan Limited   | 191,968        | *              | -         | -       |
| Adamjee Insurance Company Limited  | 107,505        | AA             | -         | -       |
| Allied Bank Limited  | 55,834         | AA/A1+         | -         | -       |
| Attock Cement Limited  | 16,371         | *              | -         | -       |



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|   | 2007           |            | 2006           |           |
|---|----------------|------------|----------------|-----------|
|   | (Rupees '000') | Rating     | (Rupees '000') | Rating    |
| Attock Refinery Limited   | 125,434        | AA-/A1+    | -              | -         |
| B.R.R. Guardian Modaraba (formerly B.R.R. International modaraba) | 6,385          | A/A-2      | -              | -         |
| Bank Al-Habib Limited   | 27,419         | AA/A1+     | -              | -         |
| Bank Islami Pakistan Limited                                      | 5,429          | A-/A2      | -              | -         |
| Berger Paints (Pakistan) Limited                                  | 65,956         | *          | -              | -         |
| Bosicor Pakistan Limited  | 17,080         | *          | -              | -         |
| Clariant Pakistan Limited   | 49,691         | *          | -              | -         |
| Crescent Commercial Bank Limited                                  | 13,123         | A/A-1      | -              | -         |
| Crescent Steel & Allied Products Limited                          | 40,221         | A+/A-1     | -              | -         |
| Dewan Farooq Motors Limited                                       | 13,237         | A/A2       | -              | -         |
| Engro Chemicals Pakistan Limited                                  | 152,806        | AA/A1+     | -              | -         |
| Fauji Cement Company Limited                                      | 15,273         | Unrated    | -              | -         |
| Fauji Fertilizer Company Limited                                  | 345,748        | Unrated    | -              | -         |
| First Equity Modaraba   | 6,808          | *          | -              | -         |
| First Habib Bank Modaraba   | 1,260          | AA-/A-1+   | -              | -         |
| IGI Investment Bank Limited                                       | 13,602         | A/A1       | -              | -         |
| First National Bank Moadaraba                                     | 12,593         | A-/A-2     | -              | -         |
| General Tyres and Rubber Limited                                  | 22,455         | *          | -              | -         |
| GlaxoSmithKline Pakistan Limited                                  | 128,243        | *          | -              | -         |
| Habib Bank Limited  | 24             | A-1+ & AA+ | -              | -         |
| Habib Insurance Company Limited                                   | 89,140         | A+         | -              | -         |
| Habib Sugar Mills Limited   | 22,134         | *          | -              | -         |
| Hira Textile Mills Limited  | 11,183         | Unrated    | -              | -         |
| Hub Power Company Limited   | 514,124        | Unrated    | 105,813        | Unrated   |
| ICI Pakistan Limited  | 218,970        | Unrated    | -              | -         |
| Indus Motor Company Limited                                       | 73,065         | *          | -              | -         |
| K.S.B. Pumps Limited  | 27,163         | *          | -              | -         |
| Karam Ceramics Limited  | 8,320          | *          | -              | -         |
| Kohinoor Energy Limited   | 3,180          | Unrated    | -              | -         |
| Maple Leaf Cement Limited   | 5,400          | *          | -              | -         |
| Millat Tractors Limited   | 151,264        | *          | -              | -         |
| MY Bank Limited   | 27,465         | BBB/A-2    | -              | -         |
| Nagina Cotton Mills Limited                                       | 3,559          | *          | -              | -         |
| National Bank Limited   | 5,804          | AAA/A-1+   | -              | -         |
| New Jubilee Life Insurance Co. Limited                            | 12,346         | *          | -              | -         |
| Nimir Industrial Chemical Limited                                 | 22,340         | Unrated    | 17,515         | Unrated   |
| Oil and Gas Development Company Limited                           | 53             | AAA & A1+  | 51             | AAA & A1+ |
| Orix Leasing Company Limited                                      | 24,978         | AA+/A1+    | -              | -         |
| Pakistan Oil Fields Limited                                       | 36,784         | *          | -              | -         |
| Pakistan Petroleum Limited  | 107,822        | *          | -              | -         |
| Pakistan PTA Limited  | 7,863          | *          | -              | -         |
| Pakistan Refinery Limited   | 4,197          | Unrated    | -              | -         |

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|  | 2007           |           | 2006           |         |
|--|----------------|-----------|----------------|---------|
|  | (Rupees '000') | Rating    | (Rupees '000') | Rating  |
| Pakistan State Oil Company Limited               | 8,132          | AAA/A1+   | -              | -       |
| Pakistan Telecommunication Company Limited       | 165,677        | *         | -              | -       |
| Pakistan Tobacco Company Limited                 | 24,833         | *         | -              | -       |
| Pioneer Cement Limited                           | 13,602         | A-/A2     | -              | -       |
| Premier Insurance Company Limited                | 6,460          | A         | -              | -       |
| Prosperity Weaving Mills                         | 1,598          | *         | -              | -       |
| Rupali Polyester Limited                         | 6,865          | *         | -              | -       |
| Saudi Pak Leasing Company Limited                | 2,543          | A-/A-2    | -              | -       |
| Shahtaj Sugar Mills Limited                      | 22,587         | *         | -              | -       |
| Shakarganj Mills Limited                         | 17,564         | *         | -              | -       |
| Sitara Chemicals Industries Limited              | 37,672         | *         | -              | -       |
| Sitara Energy Limited                            | 23,475         | *         | -              | -       |
| Standard Chartered Leasing Limited               | 5,747          | A(P)      | -              | -       |
| Standard Chartered Modaraba                      | 6,236          | AA+/A1+   | -              | -       |
| Sui Southern Gas Company Limited                 | 13,075         | AA-/A1+   | -              | -       |
| Suraj Cotton Mills Limited                       | 74,341         | *         | -              | -       |
| Tariq Glass Limited                              | 61,481         | *         | -              | -       |
| Telecard Limited                                 | 271            | Unrated   | 229            | Unrated |
| Tripack Films Limited                            | 56,924         | A+/A1     | -              | -       |
| Trust Securities and Brokerage Limited           | 1,020          | *         | -              | -       |
| United Bank Limited                              | 51,870         | AA+/A-1+  | -              | -       |
| <b>Ordinary shares of unlisted companies</b>     |                |           | -              | -       |
| Central Depository Company of Pakistan Limited   | 5,000          | *         | -              | -       |
| Crescent Capital Management (Private) Limited    | 86             | *         | -              | -       |
| Equity Participation Fund Limited                | 1,500          | *         | -              | -       |
| National Investment Trust Limited                | 100            | AM2       | -              | -       |
| Pakistan Export Finance Guarantee Agency Limited | 2,292          | Unrated   | -              | -       |
| Pakistan Textile City (Private) Limited          | 50,000         | *         | -              | -       |
| <b>Certificates of Mutual Funds</b>              |                |           | -              | -       |
| 1st Habib Income Fund                            | 21,268         | Unrated   | -              | -       |
| AKD Opportunity Fund                             | 32,493         | Unrated   | -              | -       |
| Faisal Saving Growth Fund                        | 10,638         | *         | -              | -       |
| First Dawood Mutual Fund                         | 12,060         | FR 4-STAR | -              | -       |
| First Habib Income Fund                          | 15,951         | *         | -              | -       |
| HBL Income Fund                                  | 53,664         | Unrated   | -              | -       |
| HBL Multi Asset Fund                             | 25,034         | Unrated   | -              | -       |
| IGI Income Fund                                  | 10,505         | *         | -              | -       |
| MCB Dynamic Cash Fund                            | 27,059         | *         | -              | -       |
| Pakistan Strategic Allocation Fund               | 76,167         | FR 4-STAR | -              | -       |
| UTP Growth Fund                                  | 2,911          | *         | -              | -       |
| UTP Large Cap Fund (ABAMCO Composite Fund)       | 40,462         | 4-STAR    | -              | -       |
| UTP Large Capital Fund                           | 51,757         | FR 4-STAR | -              | -       |

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|   | 2007              |         | 2006             |        |
|---|-------------------|---------|------------------|--------|
|   | (Rupees '000')    | Rating  | (Rupees '000')   | Rating |
|   |                   |         | -                | -      |
| <b>Term Finance Certificates</b>                |                   |         |                  |        |
| Askari Commercial Bank Limited                  | 15,907            | AA-     | -                | -      |
| Avari Hotels Limited                            | 152,000           | A-      | -                | -      |
| Azgard Nine Limited                             | 52,503            | A+      | -                | -      |
| Chanda Oil & Gas Securitization Company Limited | 56,228            | A+      | -                | -      |
| Choudhary Sugar Mills Limited                   | 14,693            | Unrated | -                | -      |
| Crescent Leasing Corporation Limited            | -                 | -       | -                | -      |
| Crescent Standard Investment Bank Limited       | -                 | -       | -                | -      |
| Dewan Farooq Spinning Mills Limited             | 37,535            | *       | -                | -      |
| Dominion Fertilizer (Private) Limited           | 95,834            | *       | -                | -      |
| Engro Chemicals Pakistan Limited                | 50,200            | AA      | -                | -      |
| Escorts Investment Bank Limited                 | 10,078            | A+      | -                | -      |
| New Khan Transport Company (Private) Limited    | 60,135            | Unrated | -                | -      |
| PACE Pakistan Limited                           | 30,000            | Unrated | -                | -      |
| Pakistan Mobile Communication Limited           | 299,820           | AA-     | -                | -      |
| Pakistan Services Limited                       | 4,266             | A       | -                | -      |
| Reliance Exports (Private) Limited              | -                 | -       | -                | -      |
| Saudi Pak Leasing Company Limited               | 35,000            | A       | -                | -      |
| Soneri Bank Limited                             | 19,980            | A+      | -                | -      |
| Telecard Limited                                | 258,654           | BBB     | -                | -      |
| Trust Leasing and Investment Bank Limited       | 34,056            | AA      | -                | -      |
| United Bank Limited                             | 24,998            | AA      | -                | -      |
| World Call Telecom Limited                      | -                 | AA-     | -                | -      |
| Zaver Petroleum Corporation Limited             | 299,400           | Unrated | -                | -      |
|   | <u>32,736,407</u> |         | <u>5,414,430</u> |        |

\* Not Available

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| 12. ADVANCES  | Note | 2007<br>(Rupees '000') | 2006              |
|---|------|------------------------|-------------------|
| Loans, cash credits, running finance, etc.  |      |                        |                   |
| In Pakistan   | 12.1 | 83,454,286             | 25,150,496        |
| Outside Pakistan  |      | -                      | -                 |
| Net investment in finance lease   |      |                        |                   |
| In Pakistan   | 12.3 | 6,116,106              | 4,763,735         |
| Outside Pakistan  |      | -                      | -                 |
| Bills discounted and purchased (excluding treasury bills)   |      |                        |                   |
| Payable in Pakistan   |      | 1,309,849              | 689,977           |
| Payable outside Pakistan  |      | 1,689,436              | 1,270,643         |
| Financing in respect of margin finance  |      | 16,659                 | -                 |
| Advances - Gross  |      | <u>92,586,336</u>      | <u>31,874,851</u> |
| Provision against non-performing advances -   |      |                        |                   |
| Specific  |      | (9,812,351)            | (610,184)         |
| General   |      | (613,911)              | (212,498)         |
|   | 12.5 | <u>(10,426,262)</u>    | <u>(822,682)</u>  |
| Advances - Net of provision   |      | <u>82,160,074</u>      | <u>31,052,169</u> |
| <b>12.1</b>   |      |                        |                   |
| This includes a sum of Rs. 85.791 million (2006 : Rs. 84.833 million) representing unrealized exchange gain, which has not been recognised as income and deferred in the financial statements, in accordance with the policy of the Bank, as stated in note 5.15. |      |                        |                   |
| <b>12.2 Particulars of advances</b>   |      |                        |                   |
| <b>12.2.1</b>   |      |                        |                   |
| In local currency   |      | 89,443,520             | 29,397,914        |
| In foreign currencies   |      | 3,142,816              | 2,476,937         |
|   |      | <u>92,586,336</u>      | <u>31,874,851</u> |
| <b>12.2.2</b>   |      |                        |                   |
| Short term  |      | 59,775,392             | 25,240,438        |
| Long term   |      | 32,810,944             | 6,634,413         |
|   |      | <u>92,586,336</u>      | <u>31,874,851</u> |

## 12.3 Net Investment in Finance Lease

|   | 2007                    |   |                 |                  | 2006                    |   |                 |                  |
|---|-------------------------|---|-----------------|------------------|-------------------------|---|-----------------|------------------|
|   | Not later than one year | Later than one and less than five years | Over five years | Total            | Not later than one year | Later than one and less than five years | Over five years | Total            |
|   | Rupees '000'            |   |                 |                  |                         |   |                 |                  |
| Lease rentals receivable  | 2,517,981               | 2,561,900                               | -               | 5,079,881        | 2,491,908               | 1,728,801                               | -               | 4,220,709        |
| Residual value  | 907,338                 | 992,511                                 | -               | 1,899,849        | 581,973                 | 924,681                                 | -               | 1,506,654        |
| Minimum lease payments  | 3,425,319               | 3,554,411                               | -               | 6,979,730        | 3,073,881               | 2,653,482                               | -               | 5,727,363        |
| Financial charges for future periods (including income suspended) | (497,941)               | (365,683)                               | -               | (863,624)        | (513,789)               | (449,839)                               | -               | (963,628)        |
| Present value of minimum lease                                    | <u>2,927,378</u>        | <u>3,188,728</u>                        | <u>-</u>        | <u>6,116,106</u> | <u>2,560,092</u>        | <u>2,203,643</u>                        | <u>-</u>        | <u>4,763,735</u> |

Minimum Lease payments receivable includes a sum of Rs. 7.545 million (2006:Rs 10.537 million) due from an associated undertaking.

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12.4 Advances include Rs.13,252,316 million (2006: Rs. 1,023,868 million) which have been placed under non-performing status as detailed below:

| Category of Classification | 2007                |              |            |                    |              |           |                |              |           |
|----------------------------|---------------------|--------------|------------|--------------------|--------------|-----------|----------------|--------------|-----------|
|                            | Classified Advances |              |            | Provision Required |              |           | Provision Held |              |           |
|                            | NIB                 | Amalgamation | Total      | NIB                | Amalgamation | Total     | NIB            | Amalgamation | Total     |
|                            | Rupees '000'        |              |            |                    |              |           |                |              |           |
| Substandard                | 1,463,556           | 1,262,096    | 2,725,652  | 365,889            | 313,317      | 679,206   | 365,889        | 313,317      | 679,206   |
| Doubtful                   | 245,566             | 1,867,336    | 2,112,902  | 122,783            | 922,866      | 1,045,649 | 122,783        | 922,866      | 1,045,649 |
| Loss                       | 1,365,233           | 7,048,529    | 8,413,762  | 1,365,233          | 6,722,263    | 8,087,496 | 1,365,233      | 6,722,263    | 8,087,496 |
|                            | 3,074,355           | 10,177,961   | 13,252,316 | 1,853,905          | 7,958,446    | 9,812,351 | 1,853,905      | 7,958,446    | 9,812,351 |

  

| Category of Classification | 2006                |              |           |                    |              |         |                |              |         |
|----------------------------|---------------------|--------------|-----------|--------------------|--------------|---------|----------------|--------------|---------|
|                            | Classified Advances |              |           | Provision Required |              |         | Provision Held |              |         |
|                            | NIB                 | Amalgamation | Total     | NIB                | Amalgamation | Total   | NIB            | Amalgamation | Total   |
|                            | Rupees '000'        |              |           |                    |              |         |                |              |         |
| Substandard                | 200,346             | -            | 200,346   | 35,354             | -            | 35,354  | 35,354         | -            | 35,354  |
| Doubtful                   | 75,285              | -            | 75,285    | 23,220             | -            | 23,220  | 23,220         | -            | 23,220  |
| Loss                       | 748,237             | -            | 748,237   | 551,610            | -            | 551,610 | 551,610        | -            | 551,610 |
|                            | 1,023,868           | -            | 1,023,868 | 610,184            | -            | 610,184 | 610,184        | -            | 610,184 |

## 12.5 Particulars of provision against non-performing advances

| Note                | 2007         |          |            |          |         |          | 2006 |  |  |
|---------------------|--------------|----------|------------|----------|---------|----------|------|--|--|
|                     | Specific     | General  | Total      | Specific | General | Total    |      |  |  |
|                     | Rupees '000' |          |            |          |         |          |      |  |  |
| Opening balance     | 610,184      | 212,498  | 822,682    | 539,741  | 18,654  | 558,395  |      |  |  |
| Charge for the year | 1,572,351    | 36,513   | 1,608,864  | 150,151  | 194,512 | 344,663  |      |  |  |
| Reversals           | (78,551)     | (35,512) | (114,063)  | (74,412) | (668)   | (75,080) |      |  |  |
|                     | 1,493,800    | 1,001    | 1,494,801  | 75,739   | 193,844 | 269,583  |      |  |  |
| Amalgamation        | 7,958,446    | 400,412  | 8,358,858  | -        | -       | -        |      |  |  |
| Amounts written off | (250,079)    | -        | (250,079)  | (5,296)  | -       | (5,296)  |      |  |  |
|                     | 9,812,351    | 613,911  | 10,426,262 | 610,184  | 212,498 | 822,682  |      |  |  |
| Closing balance     |              |          |            |          |         |          |      |  |  |

12.5.1 During the year the State Bank of Pakistan has introduced certain amendments in the Prudential Regulations in respect of maintenance of provisioning requirements against non-performing loans and advances vide BSD Circular No. 7 dated October 12, 2007. The amendments made in the provisioning requirements and the resulting additional provision of Rs. 788.279 million is explained below:

Under the revised guidelines issued by SBP, banks cannot avail the benefit of discounted forced sales value of mortgaged assets held as collateral by the banks against their non-performing loans (excluding housing finance portfolio) for the purpose of determining the provisioning requirement to be maintained for non-performing customers with effect from December 31, 2007. Previously, the Prudential Regulations issued by SBP allowed banks to avail the benefit of discounted forced sales value of mortgaged assets, with certain conditions, held as collateral against non-performing loans of over Rs. 10 million while determining the provisioning requirement there against. Had the provision against non-performing loans and advances been determined in accordance with the requirement previously laid down by SBP, the specific provision against non-performing loans and advances would have been lower and consequently profit before taxation and advances (net of provisions) as at December 31, 2007 would have been higher by approximately Rs. 788.279 million.

## 12.5.2 Particulars of provision against non-performing advances - currency wise

|                       | 2007         |         |            | 2006     |         |         |
|-----------------------|--------------|---------|------------|----------|---------|---------|
|                       | Specific     | General | Total      | Specific | General | Total   |
|                       | Rupees '000' |         |            |          |         |         |
| In local currency     | 9,812,351    | 613,911 | 10,426,262 | 610,184  | 212,498 | 822,682 |
| In foreign currencies | -            | -       | -          | -        | -       | -       |
|                       | 9,812,351    | 613,911 | 10,426,262 | 610,184  | 212,498 | 822,682 |

# Notes to the Financial Statements for the year ended December 31, 2007

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|   | Note | 2007<br>(Rupees '000') | 2006         |
|---|------|------------------------|--------------|
| <b>12.6 Particulars of write off:</b>             |      |                        |              |
| <b>12.6.1</b> Against provisions                  | 12.5 | 250,079                | 5,296        |
| Directly charged to profit & loss account         |      | -                      | -            |
|   |      | <u>250,079</u>         | <u>5,296</u> |
| <b>12.6.2</b> Write offs of Rs. 500,000 and above |      | 13,274                 | 2,069        |
| Write offs of below Rs. 500,000                   |      | 236,805                | 3,227        |
|   |      | <u>250,079</u>         | <u>5,296</u> |

## 12.7 Details of loans write off of Rs.500,000/- and above

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written off loans or any other financial relief of five hundred thousand rupees and above allowed to person(s) during the year ended December 31,2007 is given in Annexure 1.

## 12.8 Particulars of loans and advances to Directors, associated companies etc.

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

|                               |                |                |
|-------------------------------|----------------|----------------|
| Balance at beginning of year  | 246,612        | 91,075         |
| Loans granted during the year | 263,469        | 169,226        |
| Repayments                    | 58,973         | 13,689         |
| Assumed on amalgamation       | 502,506        | -              |
| Balance at end of year        | <u>953,614</u> | <u>246,612</u> |

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

|                              |          |          |
|------------------------------|----------|----------|
| Balance at beginning of year | -        | -        |
| Loan granted during the year | -        | -        |
| Repayment                    | -        | -        |
| Assumed on amalgamation      | -        | -        |
| Balance at end of year       | <u>-</u> | <u>-</u> |

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

|                              |              |          |
|------------------------------|--------------|----------|
| Balance at beginning of year | -            | -        |
| Loan granted during the year | -            | -        |
| Repayment                    | -            | -        |
| Assumed on amalgamation      | 8,068        | -        |
| Balance at end of year       | <u>8,068</u> | <u>-</u> |



# Notes to the Financial Statements for the year ended December 31, 2007

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| Particulars                               | C O S T                |                        |                         | DEPRECIATION                    |                              | Net Book value at December 31, 2006 | Rate of Depreciation % per annum |                                  |
|---|------------------------|------------------------|-------------------------|---------------------------------|------------------------------|-------------------------------------|----------------------------------|----------------------------------|
|   | As at January 01, 2006 | Additions/ (Deletions) | As at December 31, 2006 | Accumulated at January 01, 2006 | For the year / (on deletion) |                                     |                                  | Accumulated at December 31, 2006 |
|   | Rupees '000'           |                        |                         |                                 |                              |                                     |                                  |                                  |
| Leasehold land                            | 7,407                  | -                      | 7,407                   | -                               | -                            | -                                   | 7,407                            | -                                |
| Buildings on leasehold land               | 23,642                 | 10,138                 | 33,780                  | 19,983                          | 682                          | 20,665                              | 13,115                           | 5%                               |
| Furniture and fixtures                    | 27,974                 | 16,325                 | 41,038                  | 9,255                           | 3,304                        | 9,298                               | 31,740                           | 10%                              |
|   |                        | (3,261)                |                         |                                 | (3,261)                      |                                     |                                  |                                  |
| Electrical, office and computer equipment | 132,514                | 120,937                | 251,910                 | 52,028                          | 44,041                       | 95,276                              | 156,634                          | 20% - 33%                        |
|   |                        | (1,541)                |                         |                                 | (793)                        |                                     |                                  |                                  |
| Vehicles                                  | 96,115                 | 67,741                 | 129,915                 | 26,043                          | 23,599                       | 33,593                              | 96,322                           | 20%                              |
|   |                        | (33,941)               |                         |                                 | (16,049)                     |                                     |                                  |                                  |
| Leasehold Improvements                    | 139,988                | 110,253                | 250,241                 | 19,165                          | 32,936                       | 52,101                              | 198,140                          | 20%                              |
|   | 427,640                | 325,394                | 714,291                 | 126,474                         | 104,562                      | 210,933                             | 503,358                          |                                  |
|   |                        | (38,743)               |                         |                                 | (20,103)                     |                                     |                                  |                                  |
| <b>Assets under operating lease</b>       |                        |                        |                         |                                 |                              |                                     |                                  |                                  |
| Non-Commercial Vehicles                   | 3,606                  | -                      | -                       | 1,320                           | 294                          | -                                   | -                                | 15%                              |
|   |                        | (3,606)                |                         |                                 | (1,614)                      |                                     |                                  |                                  |
|   | 431,246                | 325,394                | 714,291                 | 127,794                         | 104,856                      | 210,933                             | 503,358                          |                                  |
|   |                        | (42,349)               |                         |                                 | (21,717)                     |                                     |                                  |                                  |

#### 13.2.4 Detail of disposal of property and equipment during the year

| Description   | Cost          | Accumulated depreciation | Book value    | Sale proceeds | Mode of disposal       | Particulars of buyer  |
|---|---------------|--------------------------|---------------|---------------|------------------------|---|
|   | Rupees '000'  |                          |               |               |                        |   |
| Vehicles  | 1,420         | 308                      | 1,112         | 1,156         | Employee Service Rules | Mr. Ahmed Qureshi, 135-P, Phase I, DHA, Lahore.                                 |
|   | 1,238         | 371                      | 867           | 875           | Insurance Claim        | EFU General Insurance Company Limited, Karachi                                  |
|   | 1,543         | 179                      | 1,364         | 1,398         | Employee Service Rules | Mr. Naveed Shirwani H# 6, 1st St.,<br>Khayaban-e-Seher, Phase VI, DHA, Karachi. |
|   | 1,036         | 224                      | 812           | 1,036         | Insurance Claim        | EFU General Insurance Company Limited, Karachi                                  |
|   | 1,158         | 632                      | 526           | 781           | Negotiation            | Mr. Rehan Mithani, D-87/1 Clifton 7 Karachi.                                    |
|   | 1,715         | 657                      | 1,058         | 1,350         | Negotiation            | Greaves Pakistan (Pvt.) Limited, Karachi  |
| Sub Total   | 8,110         | 2,371                    | 5,739         | 6,596         |                        |   |
| Items having cost less than Rs.1 million or net book value not exceeding Rs. 0.25 million | 25,831        | 14,003                   | 11,828        | 16,980        |                        | Various   |
| <b>2007</b>   | <b>33,941</b> | <b>16,374</b>            | <b>17,567</b> | <b>23,576</b> |                        |   |
| <b>2006</b>   | <b>42,349</b> | <b>21,717</b>            | <b>20,632</b> | <b>30,746</b> |                        |   |





# Notes to the Financial Statements for the year ended December 31, 2007

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|   | Note | 2007<br>(Rupees '000') | 2006             |
|---|------|------------------------|------------------|
| <b>15. OTHER ASSETS</b>   |      |                        |                  |
| Income / mark-up accrued  |      |                        |                  |
| Local currency  | 15.1 | 2,834,219              | 588,511          |
| Foreign currencies  |      | 16,544                 | 15,409           |
| Advances, deposits, advance rent and other prepayments                | 15.2 | 694,168                | 298,843          |
| Advance taxation - net  |      | 24,675                 | 84,572           |
| Non - banking assets acquired in satisfaction of claims               | 15.3 | 28,472                 | -                |
| Unrealized gain on forward exchange contracts - net                   |      | 43,555                 | 23,622           |
| Dividend receivable   |      | 7,685                  | -                |
| Receivable against sale of investments                                |      | 744                    | -                |
| Receivable from Financial Management Services (Pvt.) Limited          |      | 10,329                 | -                |
| Receivable from Provident Fund  |      | 107,245                | -                |
| Receivable from Leave Encashment Fund                                 |      | 61,914                 | -                |
| Receivable from Gratuity Fund   | 34.4 | 76,634                 | -                |
| Stationery and stamps on hand   |      | 6,564                  | -                |
| Advance for purchase of units in mutual funds of associates           |      | -                      | 150,000          |
| Advance for purchase of term finance certificates                     |      | -                      | 30,000           |
| Assets in respect of Bangladesh                                       | 15.4 | 425,409                | -                |
| Sundry debtors  |      | 110,981                | -                |
| Insurance claim   |      | 27,907                 | -                |
| Others  |      | 20,842                 | 145              |
|   |      | <u>4,497,887</u>       | <u>1,191,102</u> |
| Liabilities in respect of Bangladesh                                  | 15.4 | (342,416)              | -                |
| Rupee Borrowings from Government of Pakistan in respect of Bangladesh |      | (82,993)               | -                |
| Provisions held against other assets                                  | 15.5 | (718,520)              | (18,739)         |
| Other assets - net of provisions                                      |      | <u>3,353,958</u>       | <u>1,172,363</u> |

**15.1** It includes Rs. 1.290 million in respect of associated undertakings .

**15.2 Advances, deposits, advance rent and other prepayments**

|              |                |                |
|--------------|----------------|----------------|
| Advances     | 380,302        | 13,103         |
| Deposits     | 13,654         | 12,321         |
| Advance rent | 209,994        | 164,644        |
| Prepayments  | 90,218         | 108,775        |
|              | <u>694,168</u> | <u>298,843</u> |

# Notes to the Financial Statements for the year ended December 31, 2007

**15.3** Represents cost of land, plant and machinery of textile units acquired by the Bank (formerly PICIC) and held for resale.

**15.4** All the assets and liabilities as of November 30, 1971 clearly identifiable as being in or in respect of the areas now under Bangladesh and referred to above were segregated as of that date and in such segregation, for purposes of conversion of foreign currency amounts, generally speaking, the parity rates ruling prior to August 15, 1971 were used, and all income accrued or due in 1971 but not received in that year and interest accrued but not due on borrowings was accrued or due in 1971 but not received in that year and interest accrued but not due on borrowings was eliminated. Subsequently, consequent to the assuming by Bangladesh of certain foreign currency loan obligations as of July 1, 1974, including amounts previously identified by the Bank (formerly PICIC) as its foreign currency liabilities in respect of Bangladesh, such amounts were eliminated from the books of the Bank (formerly PICIC) by reducing an equivalent sum from its related foreign assets in that area.

Arising from advices received from the lenders and as a result of diversion of shipments and of the meeting of certain contingent liabilities, there have been certain modifications to the foreign currency advances relating to Bangladesh. Further more, the difference between the actual amount of rupees required to remit maturities of foreign currency borrowings in respect of Bangladesh and the figures at which they appeared in the books and the interest paid to foreign lenders has been treated as increasing the rupee assets in that area.

The Government of Pakistan while initially agreeing to provide the rupee finance required for discharging current maturities of foreign currency borrowings and interest related to Bangladesh did not accept any responsibility for the Corporation's assets in that area. However, following an agreement reached between the Bank (formerly PICIC) and the Government of Pakistan during 1976, the Government has agreed that it would continue to provide the funds for servicing the Corporation's foreign currency liabilities relating to Bangladesh and has further agreed that an amount equivalent to the rupee assets in Bangladesh financed from (formerly PICIC) own funds not exceeding Rs. 82 million would be deemed to have been allocated out of the rupee loans by the Government and that such allocated amount together with the rupee finance being provided by the Government including any interest thereon would not be recovered from the (formerly PICIC) until such time as (formerly PICIC) recovers the related assets from Bangladesh and only to the extent of such recovery.

Accordingly, such allocated amounts together with the rupee finance being provided by the Government for discharging the current maturities of foreign currency borrowings (including the interest and charges thereon and any exchange difference between the final rupee payment and the amount at which the liability, commitment or contingent liability as appearing in the books relating to Bangladesh) have been treated as liabilities in respect of Bangladesh. Further, in view of the aforesaid agreement no interest is being accrued on the allocated amount of rupee loans or in respect of the rupee finance provided by the Government related to (formerly PICIC) assets in Bangladesh nor is it considered necessary to provide for any loss that may arise in respect of (formerly PICIC) assets in Bangladesh.

|   | Note   | 2007<br>(Rupees '000') | 2006          |
|---|--------|------------------------|---------------|
| <b>15.5 Particulars of provision against other assets</b> |        |                        |               |
| Opening balance   |        | 18,739                 | 19,067        |
| Charge for the year                                       |        | 1,838                  | -             |
| Reversals   |        | -                      | (328)         |
| Assumed on amalgamation                                   | 15.5.1 | 697,943                | -             |
| Closing balance   |        | <u>718,520</u>         | <u>18,739</u> |

**15.5.1** This includes a sum of Rs. 34.101 million (2006 Rs. 34.101 million) representing unrealised exchange gain, which has not been recognised as income and deferred in the financial statements, in accordance with the policy of the bank, as stated in note 5.15.

# Notes to the Financial Statements for the year ended December 31, 2007

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|  | Note        | 2007<br>(Rupees '000') | 2006             |
|--|-------------|------------------------|------------------|
| <b>16. BILLS PAYABLE</b>   |             |                        |                  |
| In Pakistan  |             | 2,098,881              | 206,669          |
| Outside Pakistan   |             | 11,330                 | 9,100            |
|  |             | <u>2,110,211</u>       | <u>215,769</u>   |
| <b>17. BORROWINGS</b>  |             |                        |                  |
| In Pakistan  |             | 16,551,487             | 9,157,328        |
| Outside Pakistan   |             | 117,925                | 6,793            |
|  |             | <u>16,669,412</u>      | <u>9,164,121</u> |
| <b>17.1 Particulars of borrowings with respect to currencies</b> |             |                        |                  |
| In local currency  |             | 16,551,487             | 9,096,418        |
| In foreign currencies  |             | 117,925                | 67,703           |
|  |             | <u>16,669,412</u>      | <u>9,164,121</u> |
| <b>17.2 Details of borrowings - secured unsecured</b>            |             |                        |                  |
| <b>Secured</b>   |             |                        |                  |
| Borrowings from SBP under  |             |                        |                  |
| Export refinance scheme  | 17.3        | 8,800,524              | 6,001,433        |
| Long term finance for export oriented projects                   | 17.4        | 1,154,583              | 145,731          |
| Repurchase agreement borrowings                                  | 17.5 & 17.7 | 4,554,094              | 917,555          |
| <b>Unsecured</b>   |             |                        |                  |
| Call borrowings  | 17.6        | 1,880,000              | 2,090,910        |
| Overdrawn nostro accounts  |             | 117,925                | 6,793            |
| Overdrawn bank accounts  |             | -                      | 1,699            |
| Foreign borrowings payable in local currency                     | 17.8        | 162,286                | -                |
|  |             | <u>16,669,412</u>      | <u>9,164,121</u> |

**17.3** Borrowings from SBP under export refinance are subject to mark-up at the rates ranging from 6.5% (2006: 6.5% to 7.5%) per annum maturing within six months.

**17.4** Borrowings from SBP under export oriented projects are subject to mark up ranging from 2% to 5% (2006: 4.9% to 5%) per annum maturing within seven years.

**17.5** These borrowings are subject to markup at the rate ranging from 9.3% to 9.95% (2006: 8.7 %) per annum maturing within three month. Government securities have been given as collateral against these borrowings.

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**17.6** These borrowings are subject to markup at the rate ranging from 9.55% to 10% (2006: 6% to 11.75%) per annum maturing within three month.

**17.7** This include Rs 100 million outstanding as at December 31, 2007 (in formerly PICIC Corporation) was borrowed from a Company in 2004 against pledge of PIBs. As the lender had failed to return the pledged PIBs upon the maturity of contract period this amount is appearing as a pending transaction with a corresponding amount appearing as investment in PIB. No interest is accrued as either expense on this borrowing or as income from PIB pending the filing of the dispute between the Bank and the Company.

**17.8** It includes unrealized exchange loss of Rs. 96.011 million which has been netted off against unrealized exchange gain (note 20) as it is payable when recovered from sub-borrowers, who have availed the related German credit.

|  | Note | 2007<br>(Rupees '000') | 2006              |
|--|------|------------------------|-------------------|
| <b>18. DEPOSITS AND OTHER ACCOUNTS</b> |      |                        |                   |
| Customers                              |      |                        |                   |
| Fixed deposits                         |      | 50,711,633             | 18,336,843        |
| Savings deposits                       |      | 37,048,642             | 6,298,832         |
| Current accounts - Remunerative        | 18.2 | 3,000,000              | -                 |
| Current accounts - Non remunerative    |      | 21,986,636             | 3,517,525         |
| Margin accounts                        |      | 304,503                | 373,886           |
| Financial institutions                 |      |                        |                   |
| Remunerative deposits                  |      | 3,389,538              | 1,947,156         |
| Non-remunerative deposits              |      | 230,267                | 92,298            |
|  |      | <u>116,671,219</u>     | <u>30,566,540</u> |

## 18.1 Particulars of deposits

|                       |                    |                   |
|-----------------------|--------------------|-------------------|
| In local currency     | 109,526,493        | 28,016,868        |
| In foreign currencies | <u>7,144,726</u>   | <u>2,549,672</u>  |
|                       | <u>116,671,219</u> | <u>30,566,540</u> |

**18.2** This represents pre IPO receipts deposited with the bank on account of subscription money towards issue of 8 year term finance certificates. The total issue consists of Rs.3,000 million under pre-IPO / private placement and the remaining Rs.1,000 million represents the initial public offer to the general public made on February 22, 2008 for subscription on March 4 and 5, 2008. The issue of these term finance certificates has been approved by the State Bank of Pakistan subsequently. These term finance certificates with payment of principal and profit is subordinate to all other indebtedness of the bank.

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## 19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

|   | 2007                      |                                      |                       |
|---|---------------------------|--------------------------------------|-----------------------|
|   | Minimum lease payments    | Financial charges for future periods | Principal outstanding |
|   | ------(Rupees '000')----- |                                      |                       |
| Not later than one year                           | 3,501                     | 576                                  | 2,925                 |
| Later than one year and not later than five years | 4,518                     | 267                                  | 4,251                 |
|   | <u>8,019</u>              | <u>843</u>                           | <u>7,176</u>          |

This represents obligation under finance lease agreement with First Habib Modaraba to acquire vehicles and computer equipments. Payments under the lease include finance charge at rates ranging from 12.97 to 13.65 percent per annum (2006:13.43 to 15.02 percent per annum). Overdue rentals in certain agreements are subject to additional charge at the rate of Rs. 500 per day (2006: Rs. 500 per day). The bank intends to exercise its option to purchase the above assets upon completion of the lease periods.

|   | Note | 2007<br>(Rupees '000') | 2006<br>(Rupees '000') |
|---|------|------------------------|------------------------|
| <b>20. OTHER LIABILITIES</b>            |      |                        |                        |
| Mark-up / return / interest payable in: |      |                        |                        |
| Local currency                          |      | 1,341,947              | 348,764                |
| Foreign currencies                      |      | 53,241                 | 13,523                 |
| Unearned Income on Inland Bills         |      | 3,883                  | 13,622                 |
| Accrued expenses                        |      | 421,553                | 138,395                |
| Insurance premium payable               |      | 69,751                 | -                      |
| Withholding tax payable                 |      | 15,093                 | 19,136                 |
| Advance from lessees                    |      | 11,567                 | 15,583                 |
| Unclaimed dividend                      |      | 45,714                 | 1,289                  |
| Central Excise Duty payable             |      | 35,681                 | -                      |
| Borrowing from Government of Pakistan   |      | 2,095                  | -                      |
| Branch adjustment account               |      | 86,158                 | 72,652                 |
| Unrealized exchange gain - net          |      | 15,522                 | -                      |
| Security and other deposits             |      | 174,996                | -                      |
| Payable to IBRD - Managed Fund          |      | 44,767                 | -                      |
| Payable against purchase of investments |      | 30,960                 | -                      |
| Payable to defined benefit plan         | 34.4 | 44,506                 | 32,859                 |
| Security deposits against lease         |      | 1,873,528              | 1,476,560              |
| Locker claims payable                   |      | 21,000                 | -                      |
| Others                                  |      | 311,390                | 18,155                 |
|   |      | <u>4,603,352</u>       | <u>2,150,538</u>       |

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## 21. SHARE CAPITAL

### 21.1 Authorized

| 2007                 | 2006               |                                | 2007              | 2006             |
|----------------------|--------------------|--------------------------------|-------------------|------------------|
| No. of Shares        |                    |                                | (Rupees '000')    |                  |
| <u>3,500,000,000</u> | <u>450,000,000</u> | Ordinary shares of Rs. 10 each | <u>35,000,000</u> | <u>4,500,000</u> |

### 21.2 Issued, subscribed and paid up

Fully paid up ordinary shares of Rs.10/ each

|                      |                    |  |                   |                  |
|----------------------|--------------------|--|-------------------|------------------|
| 2,078,902,659        | 213,258,077        | Fully paid in cash                       | 20,789,027        | 2,132,581        |
|                      |                    | Issued for consideration other than cash |                   |                  |
| <u>122,894,100</u>   | <u>122,894,100</u> | (under scheme of amalgamation)           | <u>1,228,941</u>  | <u>1,228,941</u> |
| <u>2,201,796,759</u> | <u>336,152,177</u> |  | <u>22,017,968</u> | <u>3,361,522</u> |

21.2.1 The holding Company Bugis Investment (Mauritius) Pte. Limited and associated undertaking IFIC Bangladesh hold 1,795,911,770 and 24,578,800 ordinary shares respectively.

### 21.2.2 Reconciliation of number of ordinary shares of Rs 10 each

|                                      | 2007                 | 2006               |
|--------------------------------------|----------------------|--------------------|
|                                      | No. of Shares        |                    |
| At the beginning of the year         | 336,152,177          | 336,152,177        |
| Add: Issued during the year for cash | 1,865,644,582        | -                  |
| At the end of the year               | <u>2,201,796,759</u> | <u>336,152,177</u> |

### 21.2.3 Shares to be issued

The amount of Rs.14,026,177 in respect of shares to be issued in pursuance of scheme of amalgamation represents 424,409,837 and 217,520,480 number of shares to be issued to shareholders of PICIC and PCBL at a fair vale of Rs.21.85 per share as proposed by the external consultants and subsequently revised by SBP.

## 22. DEFICIT ON REVALUATION OF SECURITIES - NET

|  | 2007            | 2006            |
|--|-----------------|-----------------|
|  | (Rupees '000')  |                 |
| Market Treasury Bills                    | (2,683)         | 700             |
| Pakistan Investment Bonds                | (3,155)         | -               |
| Mutual Fund                              | 4,968           | -               |
| Investment in listed shares              | (29,702)        | (48,288)        |
|  | <u>(30,572)</u> | <u>(47,588)</u> |
| Related deferred tax liability / (Asset) | 2,043           | (245)           |
|  | <u>(28,529)</u> | <u>(47,833)</u> |

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|   | Note | 2007<br>(Rupees '000') | 2006       |
|---|------|------------------------|------------|
| <b>23. CONTINGENCIES AND COMMITMENTS</b>  |      |                        |            |
| <b>23.1 Direct credit substitutes</b>   |      |                        |            |
| Contingent liability in respect of guarantees given favoring:   |      |                        |            |
| Government  |      | 170,012                | 186,084    |
| Banking companies   |      | 52,417                 | 442        |
| Others  |      | 104,632                | 131,753    |
|   |      | 327,061                | 318,279    |
| <b>23.2 Transactions-related contingent liabilities / commitments</b>   |      |                        |            |
| <b>Guarantees given in favor of :</b>   |      |                        |            |
| Government  |      | 1,907,352              | 428,593    |
| Banking Companies and other financial institutions  |      | 52,173                 | 29,952     |
| Others  | 23.3 | 2,721,173              | 446,886    |
|   |      | 4,680,698              | 905,431    |
| <b>23.3</b> Government of Pakistan (GoP) has claimed an amount of Rs. 207.730 million in respect of liabilities against German credit representing principal amount of loan and interest thereon till June 30, 2006. Of the total amount claimed, the Corporation has already accounted for Rs. 162.286 million which is shown as payable to GoP being the principal amount of the loan. GoP is also claiming Rs. 45.444 million as interest on German credit, whereas the Corporation is contending that any amount is payable only when recovered from the related sub-borrowers, who have availed the related German credit. Accordingly, no provision for the additional amount of Rs. 45.444 million claimed by GoP has been considered necessary in these financial statements. |      |                        |            |
| <b>23.4 Trade-related contingent liabilities</b>  |      |                        |            |
| Letters of credit   |      | 13,314,617             | 7,533,499  |
| Acceptances   |      | 3,076,058              | 3,224,538  |
|   |      | 16,390,675             | 10,758,037 |
| <b>23.5 Commitments in respect of forward lending</b>   |      |                        |            |
| Forward call lending  |      | -                      | -          |
| Forward repurchase agreement lending  |      | -                      | -          |
| Commitments to extend credit  |      | 1,090,095              | -          |
|   |      | 1,090,095              | -          |
| <b>23.6 Commitments in respect of forward exchange contracts</b>  |      |                        |            |
| Purchase  |      | 18,548,465             | 6,042,476  |
| Sale  |      | 14,766,871             | 5,387,175  |
|   |      | 33,315,336             | 11,429,651 |



# Notes to the Financial Statements for the year ended December 31, 2007

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|   | 2007             | 2006             |
|---|------------------|------------------|
|   | (Rupees '000')   |                  |
| <b>23.7 Commitments in respect of operating leases</b>                |                  |                  |
| Not later than one year   | 3,103            | 4,020            |
| Later than one year and not later than five years                     | -                | 3,103            |
| Later than five years   | -                | -                |
|   | 3,103            | 7,123            |
| <b>23.8 Commitments for the acquisition of operating fixed assets</b> | 57,145           | 13,468           |
| <b>24. MARK-UP / RETURN / INTEREST EARNED</b>                         |                  |                  |
| On loans and advances to:   |                  |                  |
| Customers   | 5,076,630        | 2,662,617        |
| On investments in:  |                  |                  |
| Available for sale securities   | 667,488          | 191,926          |
| Held to maturity securities   | 78,930           | 201,770          |
| On deposits with financial institutions                               | 524,673          | 296,293          |
| On securities purchased under resale agreements                       | 652,005          | 119,817          |
| Others  | 162              | 941              |
|   | <u>6,999,888</u> | <u>3,473,364</u> |
| <b>25. MARK-UP / RETURN / INTEREST EXPENSED</b>                       |                  |                  |
| Deposits and other accounts   | 2,786,403        | 1,732,813        |
| Securities sold under repurchase agreements                           | 727,369          | 158,180          |
| Other short term borrowings   | 1,339,426        | 437,331          |
| Long term borrowings  | 34,422           | 6,457            |
| Others  | 108,335          | 117,411          |
|   | <u>4,995,955</u> | <u>2,452,192</u> |
| <b>26. GAIN /(LOSS) ON SALE OF SECURITIES</b>                         |                  |                  |
| Market Treasury Bills   | 5,007            | 222              |
| Pakistan Investment Bonds   | 1,577            | -                |
| Listed Term Finance Certificates                                      | 1,808            | -                |
| Unit of mutual funds  | 15,629           | -                |
|   | <u>24,021</u>    | <u>222</u>       |

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|  | Note | 2007<br>(Rupees '000') | 2006             |
|--|------|------------------------|------------------|
| <b>27. OTHER INCOME</b>  |      |                        |                  |
| Gain on disposal of property and equipment   |      | 6,009                  | 10,114           |
| Service charges  |      | 50,868                 | 40,814           |
| Recovery against loans written off in prior years                                  |      | -                      | 12,500           |
| Rebate income  |      | 23,302                 | 25,914           |
| Others   |      | 6,593                  | 1,293            |
|  |      | <u>86,772</u>          | <u>90,635</u>    |
| <b>28. ADMINISTRATIVE EXPENSES</b>   |      |                        |                  |
| Salaries, allowances, etc.   |      | 1,084,500              | 605,675          |
| Charge to defined benefit plan   | 34.5 | 11,647                 | 9,377            |
| Contribution to defined contribution plan  |      | 33,305                 | 21,104           |
| Brokerage and commission   |      | 11,553                 | 21,732           |
| Rent, taxes, insurance, electricity, etc.  |      | 245,134                | 168,038          |
| Legal and professional   |      | 35,030                 | 34,663           |
| Communications   |      | 131,752                | 57,484           |
| Repairs and maintenance  |      | 34,407                 | 25,011           |
| Rentals for operating lease  |      | 5,183                  | 5,257            |
| Stationery and printing  |      | 45,211                 | 28,908           |
| Advertisement and publicity  |      | 13,180                 | 56,368           |
| Fees and subscription  |      | 32,168                 | 14,209           |
| Auditor's remuneration   | 28.1 | 5,000                  | 2,715            |
| Depreciation   | 13.2 | 170,093                | 104,856          |
| Amortization   | 13.3 | 16,346                 | 11,176           |
| Traveling, conveyance and vehicles running   |      | 75,047                 | 24,277           |
| Security services  |      | 29,719                 | 15,207           |
| Others   |      | 22,884                 | 15,366           |
|  |      | <u>2,002,159</u>       | <u>1,221,423</u> |
| <b>28.1 Auditors' remuneration</b>   |      |                        |                  |
| Audit fee  |      | 1,000                  | 650              |
| Review fee   |      | 350                    | 325              |
| Special certifications and sundry advisory services including fee for branch audit |      | 3,515                  | 1,415            |
| Tax services   |      | -                      | 275              |
| Out-of-pocket expenses   |      | 135                    | 50               |
|  |      | <u>5,000</u>           | <u>2,715</u>     |
| <b>29. OTHER CHARGES</b>   |      |                        |                  |
| Penalties imposed by the State Bank of Pakistan                                    |      | 2,133                  | 2,587            |

# Notes to the Financial Statements for the year ended December 31, 2007

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| <b>30. TAXATION</b> | <b>2007</b>           | <b>2006</b>   |
|---------------------|-----------------------|---------------|
|                     | <b>(Rupees '000')</b> |               |
| For the year        |                       |               |
| Current             | (37,925)              | (33,422)      |
| Prior               | -                     | -             |
| Deferred            | 258,575               | 129,367       |
|                     | <u>220,650</u>        | <u>95,945</u> |

### 30.1 Relationship between tax expense and accounting profit

The relationship between tax expense and accounting profit has not been presented in these financial statements as the total income of the bank attracts minimum tax under section 113 of the Income Tax Ordinance, 2001.

| <b>31. BASIC / DILUTED EARNINGS PER SHARE</b>                       | <b>2007</b>      | <b>2006</b>    |
|---|------------------|----------------|
| Profit after taxation ( Rs. in '000')                               | <u>(350,557)</u> | <u>117,858</u> |
| Weighted average number of shares outstanding during the year (000) | <u>1,107,013</u> | <u>572,059</u> |
| (Loss) / earnings per share - basic / diluted (Rupee)               | <u>(0.32)</u>    | <u>0.21</u>    |

| <b>32. CASH AND CASH EQUIVALENTS</b>       | <b>2007</b>           | <b>2006</b>      |
|--|-----------------------|------------------|
|  | <b>(Rupees '000')</b> |                  |
| Cash and balances with treasury banks      | 10,318,722            | 2,928,404        |
| Balances with other banks net of provision | 1,401,796             | 1,362,497        |
|  | <u>11,720,518</u>     | <u>4,290,901</u> |

| <b>33. STAFF STRENGTH</b>                        | <b>(Numbers)</b> |              |
|--|------------------|--------------|
| Permanent  | 3,358            | 912          |
| Temporary / on contractual basis                 | 321              | 4            |
| Daily wages                                      | 6                | -            |
| Others   | 8                | -            |
| Bank's own staff strength at the end of the year | <u>3,693</u>     | <u>916</u>   |
| Outsourced                                       | 1,887            | 716          |
| Total staff strength                             | <u>5,580</u>     | <u>1,632</u> |

### 34. DEFINED BENEFIT PLAN

**34.1** The benefits under the gratuity scheme are payable on retirement at the age of 60 years or earlier cessation of services in lump sum. The benefit is equal to one month's last drawn basic salary of each year of confirmed service, subject to a minimum of five years of service.

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## 34.2 Principal actuarial assumptions

The actuarial valuation is carried out periodically. The actuarial valuation was carried out for the year ended December 31, 2007 using "Projected Unit Credit Method". The main assumptions used for actuarial valuation are as follows: -

|                                       | 2007<br>(Per Annum) | 2006 | Sources of assumptions              |
|---------------------------------------|---------------------|------|-------------------------------------|
| Discount rate                         | 10%                 | 10%  | Yield on PIBs and high quality TFCs |
| Expected rate of increase in salaries | 9%                  | 9%   | Market trend                        |

|   | 2007<br>(Rupees '000') | 2006          |
|---|------------------------|---------------|
| <b>34.3 Reconciliation of payable to defined benefit plan</b> |                        |               |
| Present value of defined benefit obligations                  | 33,919                 | 22,109        |
| Fair value of any plan assets                                 | -                      | -             |
| Unrecognised prior service cost                               | 3,261                  | 4,892         |
| Net actuarial gains not recognized                            | 7,326                  | 5,858         |
|   | <u>44,506</u>          | <u>32,859</u> |
| Assumed on amalgamation                                       | (76,634)               | -             |
| Net liability in balance sheet                                | <u>(32,128)</u>        | <u>32,859</u> |
| <b>34.4 Movement in payable to defined benefit plan</b>       |                        |               |
| Opening balance   | 32,859                 | 23,482        |
| Charge for the year   | 11,647                 | 9,377         |
| Payment to the out going members                              | -                      | -             |
|   | <u>44,506</u>          | <u>32,859</u> |
| Assumed on acquisition  | (76,634)               | -             |
| Closing balance   | <u>32,128</u>          | <u>32,859</u> |
| <b>34.5 Charge for defined benefit plan</b>                   |                        |               |
| Current service cost  | 10,808                 | 9,357         |
| Interest cost   | 2,751                  | 1,651         |
| Expected return on plan assets                                | -                      | -             |
| Recognition of actuarial gains and losses                     | (281)                  | -             |
| Past service cost   | -                      | -             |
| Amortisation of prior service cost                            | (1,631)                | (1,631)       |
| Cost for the year   | <u>11,647</u>          | <u>9,377</u>  |

## 35. DEFINED CONTRIBUTION PLAN

The Bank has established a provident fund scheme administered by the Board of Trustees for all permanent employees. Equal monthly contributions are made both by the bank and employees to the fund @ 10% of basic salary.

# Notes to the Financial Statements for the year ended December 31, 2007

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## 36. COMPENSATION OF DIRECTORS AND EXECUTIVES

|  | President / Chief Executive |               | Directors    |              | Executives     |                |
|--|-----------------------------|---------------|--------------|--------------|----------------|----------------|
|  | 2007                        | 2006          | 2007         | 2006         | 2007           | 2006           |
|  | -----Rupees '000'-----      |               |              |              |                |                |
| Fees   | -                           | -             | 2,117        | 2,622        | -              | -              |
| Managerial remuneration                      | 24,677                      | 12,452        | -            | -            | 170,943        | 106,245        |
| Charge for defined benefit plan              | 832                         | 346           | -            | -            | 11,647         | 3,432          |
| Contribution to defined<br>Contribution plan | -                           | -             | -            | -            | -              | -              |
| Rent and house maintenance                   | 967                         | 1,214         | -            | -            | 15,008         | 8,993          |
| Utilities                                    | 3,387                       | 5,120         | -            | -            | 59,830         | 37,186         |
| Others                                       | 967                         | 484           | -            | -            | 17,094         | 10,625         |
|  | 967                         | 2,552         | -            | -            | 76,445         | 36,970         |
|  | <u>31,797</u>               | <u>22,168</u> | <u>2,117</u> | <u>2,622</u> | <u>350,967</u> | <u>203,451</u> |
| Number of persons                            | <u>1</u>                    | <u>1</u>      | <u>7</u>     | <u>8</u>     | <u>137</u>     | <u>92</u>      |

President and other executives are also provided with free use of the bank's maintained cars.

## 37. FAIR VALUE OF FINANCIAL INSTRUMENTS

### 37.1 On-balance sheet financial instruments

|   | 2007                      |                    | 2006              |                   |
|---|---------------------------|--------------------|-------------------|-------------------|
|   | Book value                | Fair value         | Book value        | Fair value        |
|   | <----- Rupees '000 -----> |                    |                   |                   |
| <b>Assets</b>                                       |                           |                    |                   |                   |
| Cash balances with treasury banks                   | 10,318,722                | 10,318,722         | 2,928,404         | 2,928,404         |
| Balances with other banks                           | 1,401,796                 | 1,401,796          | 1,362,497         | 1,362,497         |
| Lending to financial institutions                   | 4,753,113                 | 4,753,113          | 2,600,000         | 2,600,000         |
| Investments   | 40,498,840                | 40,498,840         | 6,558,733         | 6,558,733         |
| Advances  | 82,160,074                | 82,160,074         | 31,052,169        | 31,052,169        |
| Other assets  | 3,063,106                 | 3,063,106          | 811,940           | 811,940           |
|   | <u>142,195,651</u>        | <u>142,195,651</u> | <u>45,313,743</u> | <u>45,313,743</u> |
| <b>Liabilities</b>                                  |                           |                    |                   |                   |
| Bills payable                                       | 2,110,211                 | 2,110,211          | 215,769           | 215,769           |
| Borrowings  | 16,669,412                | 16,669,412         | 9,164,121         | 9,164,121         |
| Deposits and other accounts                         | 116,671,219               | 116,671,219        | 30,566,540        | 30,566,540        |
| Sub-ordinated loans                                 | -                         | -                  | -                 | -                 |
| Liabilities against assets subject to finance lease | 7,176                     | 7,176              | -                 | -                 |
| Other liabilities                                   | 1,440,902                 | 1,440,902          | 382,712           | 382,712           |
|   | <u>136,898,920</u>        | <u>136,898,920</u> | <u>40,329,142</u> | <u>40,329,142</u> |

### 37.2 Off-balance sheet financial instruments

|                                      |                   |                   |                  |                  |
|--------------------------------------|-------------------|-------------------|------------------|------------------|
| Forward purchase of foreign exchange | <u>18,548,465</u> | <u>18,548,465</u> | <u>6,042,476</u> | <u>6,042,476</u> |
| Forward sale of foreign exchange     | <u>14,766,871</u> | <u>14,766,871</u> | <u>5,387,175</u> | <u>5,387,175</u> |

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Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

All quoted investments have been stated at their market value. All unquoted investments have been stated at lower of cost or realizable value, being their estimated fair values.

Fair values of loans and advances cannot be determined with reasonable accuracy due to absence of current and active market. Loans and advances are repriced frequently on market rates and are reduced for an impairment against non-performing advances deter.

Fair values of all other assets and liabilities including long term deposits cannot be calculated with sufficient accuracy as active market does not exist for these instruments. In the opinion of the management, fair value of these assets and liabilities.

## 38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

|   | Corporate<br>Finance | Trading &<br>Sales | Retail<br>Banking | Commercial<br>Banking | Payment &<br>Settlement | Agency<br>Services | Assets<br>Management | Retail<br>Brokerage | Others   |
|---|----------------------|--------------------|-------------------|-----------------------|-------------------------|--------------------|----------------------|---------------------|----------|
| ----- Rupees '000' -----                            |                      |                    |                   |                       |                         |                    |                      |                     |          |
| <b>2007</b>   |                      |                    |                   |                       |                         |                    |                      |                     |          |
| Total income  | 668                  | 4,455,290          | 6,923,393         | 3,488,048             | 246,957                 | -                  | -                    | -                   | 26,384   |
| Total expenses                                      | (934)                | (3,363,335)        | (8,437,976)       | (3,527,416)           | (345,392)               | -                  | -                    | -                   | (36,901) |
| Net (loss) / income before tax                      | (266)                | 1,091,955          | (1,514,583)       | (39,369)              | (98,435)                | -                  | -                    | -                   | (10,517) |
| Segment Assets (Gross)                              | -                    | 68,216,794         | 138,372,533       | 87,659,557            | -                       | -                  | -                    | -                   | -        |
| Segment Non Performing Loans                        | -                    | -                  | 375,429           | 12,876,887            | -                       | -                  | -                    | -                   | -        |
| Segment Provision<br>(including general provisions) | -                    | -                  | (840,006)         | (9,586,256)           | -                       | -                  | -                    | -                   | -        |
| Segment Assets (Net)                                | -                    | 68,216,794         | 137,532,527       | 78,073,301            | -                       | -                  | -                    | -                   | -        |
| Segment Liabilities                                 | -                    | 59,421,895         | 119,801,047       | 68,007,645            | -                       | -                  | -                    | -                   | -        |
| Segment Return on net<br>assets (ROA) (%)           | -                    | 1.60%              | -1.10%            | -0.05%                | -                       | -                  | -                    | -                   | -        |
| Segment Cost of funds (%)                           | -                    | 9.71%              | 7.63%             | 9.71%                 | -                       | -                  | -                    | -                   | -        |

The respective segment assets and liabilities incorporate funding gaps and excess funding between segments, with appropriate transfer pricing.

|   |         |             |             |             |           |   |   |   |          |
|---|---------|-------------|-------------|-------------|-----------|---|---|---|----------|
| <b>2006</b>   |         |             |             |             |           |   |   |   |          |
| Total income  | 1,830   | 1,364,685   | 3,494,827   | 2,038,416   | 134,725   | - | - | - | 42,841   |
| Total expenses                                      | (1,798) | (1,361,561) | (3,480,144) | (2,037,467) | (132,355) | - | - | - | (42,089) |
| Net income before tax                               | 32      | 3,125       | 14,684      | 950         | 2,370     | - | - | - | 752      |
| Segment Assets (Gross)                              | -       | 13,838,321  | 32,044,215  | 25,172,211  | -         | - | - | - | -        |
| Segment Non Performing Loans                        | -       | -           | 211,383     | 812,485     | -         | - | - | - | -        |
| Segment Provision<br>(including general provisions) | -       | -           | 345,103     | 477,579     | -         | - | - | - | -        |
| Segment Assets (Net)                                | -       | 13,838,321  | 31,699,112  | 24,694,632  | -         | - | - | - | -        |
| Segment Liabilities                                 | -       | 12,984,782  | 29,743,931  | 23,171,574  | -         | - | - | - | -        |
| Segment Return on net<br>assets (ROA) (%)           | -       | 0.023%      | 0.046%      | 0.004%      | -         | - | - | - | -        |
| Segment Cost of funds (%)                           | -       | 9.8%        | 8.5%        | 9.8%        | -         | - | - | - | -        |

The respective segment assets and liabilities incorporate funding gaps and excess funding between segments, with appropriate transfer pricing.

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## 39. RELATED PARTY TRANSACTIONS

The bank has related party relationship with its holding company, associated undertaking, joint venture, employee benefit plans and its directors and executive officers (including their associates).

Transactions with related parties are executed on the same terms as those prevailing at the time for comparable transactions with unrelated parties.

The detail of transactions with related parties, apart from compensation to executives as disclosed in note 36, is given below: -

|  | Note | 2007<br>(Rupees '000') | 2006    |
|--|------|------------------------|---------|
| <b>Transactions</b>  |      |                        |         |
| Profit paid to provident fund  |      | 2,037                  | 1,441   |
| Profit paid on deposits of associated undertakings                             |      | 6,672                  | 3,535   |
| Contribution to provident fund   |      | 33,305                 | 21,104  |
| Consultancy charges paid to associated undertaking                             |      | 14,394                 | 850     |
| Brokerage paid to associated undertaking                                       |      | 1,610                  | 1,982   |
| Income from lendings to subsidiary   |      | 454,020                | -       |
| Expense on borrowings from Subsidiary  |      | 445,718                | -       |
| Insurance premium paid   |      | 103,736                | -       |
| Insurance commission earned  |      | 820                    | -       |
| <b>Balances</b>  |      |                        |         |
| Brokerage payable to associated undertaking                                    |      | 51                     | 59      |
| Deposits of provident fund   | 39.1 | 82,851                 | 29,752  |
| Deposits of holding company - Bugis Investments<br>(Mauritius) Pte. Limited    | 39.2 | 43,089                 | 16,469  |
| Deposits of associated undertaking - NAFA                                      | 39.3 | 9,725                  | 149,555 |
| Deposits of associated undertaking - Global Securities                         | 39.4 | 4,675                  | 2,092   |
| Deposits of associated undertaking - PICIC assets<br>management company        |      | 1,248                  | -       |
| Deposit of associated undertaking - PICIC Insurance Limited                    |      | 24,305                 | -       |
| Payable to directors   |      | 5,016                  | -       |
| Insurance premium payable - PICIC Insurance Limited                            |      | 717                    | -       |
| Receivable from Holding Company - Fullerton Financial<br>Holdings Pte. Limited |      | 133                    | -       |
| Investment in associated undertaking - NAFA                                    |      | 67,500                 | 67,500  |
| Investment in associated undertaking - NAFA Cash Fund                          |      | 200,000                | 200,000 |
| Advance for purchase of NAFA Stock Market Fund                                 |      | -                      | 75,000  |
| Advance for purchase of NAFA Multi Asset Fund                                  |      | -                      | 75,000  |
| Investment in associated undertaking - NAFA Stock Market Fund                  |      | 75,000                 | -       |
| Investment in associated undertaking - NAFA Multi Asset Fund                   |      | 75,000                 | -       |
| Investment in associated undertaking - NAFA Islamic Stock Fund                 |      | 75,000                 | -       |
| Investment in associated undertaking - NAFA Islamic Multi<br>Asset Fund        |      | 75,000                 | -       |

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|  | 2007             | 2006             |
|--|------------------|------------------|
|  | (Rupees '000')   |                  |
| <b>39.1 Deposits of Provident Fund</b>   |                  |                  |
| Opening balance  | 29,752           | 32,836           |
| Deposits during the year   | 69,510           | 46,051           |
|  | <u>99,262</u>    | <u>78,887</u>    |
| Withdrawals during the year  | (16,411)         | (49,135)         |
| Closing balance  | <u>82,851</u>    | <u>29,752</u>    |
| <b>39.2 Deposits of Holding Company - Bugis Investments (Mauritius) Pte. Limited</b> |                  |                  |
| Opening balance  | 16,469           | 16,149           |
| Deposits during the year   | 3,609,975        | -                |
| Exchange difference  | 293              | 320              |
|  | <u>3,626,737</u> | <u>16,469</u>    |
| Withdrawals during the year  | (3,583,648)      | -                |
| Closing balance  | <u>43,089</u>    | <u>16,469</u>    |
| <b>39.3 Deposits of Associated undertaking - NAFA</b>                                |                  |                  |
| Opening balance  | 149,555          | 79,671           |
| Deposits during the year   | 1,550,288        | 1,256,787        |
|  | <u>1,699,843</u> | <u>1,336,458</u> |
| Withdrawals during the year  | (1,690,118)      | (1,186,903)      |
| Closing balance  | <u>9,725</u>     | <u>149,555</u>   |
| <b>39.4 Deposits of Associated undertaking - Global Securities</b>                   |                  |                  |
| Opening balance  | 2,092            | 3,213            |
| Deposits during the year   | 360,140          | 57,313           |
|  | <u>362,232</u>   | <u>60,526</u>    |
| Withdrawals during the year  | (357,557)        | (58,434)         |
| Closing balance  | <u>4,675</u>     | <u>2,092</u>     |



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## 40. CAPITAL ADEQUACY

To support its Capital Adequacy Ratio the Bank undertook the issue of Rs. 4.0 Billion unsecured subordinated debt. Pre IPO proceeds were received before the year end, however, the State Bank approval was not in place as at the Balance Sheet date. Subsequently, the State Bank has approved the issue, therefore, Pre IPO and the IPO totaling Rs. 4.0 Billion will substantially be eligible for Tier II Capital. Additionally, the computation of the valuation of the intangible embedded in Goodwill, which is expected to be completed in next few weeks, will also enhance Tier I capital of the Bank and consequently will also increase the eligibility for Tier II Capital in respect of TFCs issue.

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

|  | 2007                       | 2006                       |                   |                            |
|--|----------------------------|----------------------------|-------------------|----------------------------|
|  | (Rupees '000')             |                            |                   |                            |
| <b>Regulatory Capital Base</b>                                       |                            |                            |                   |                            |
| Tier I Capital   |                            |                            |                   |                            |
| Shareholders Capital/Assigned Capital                                | 36,044,145                 | 3,361,522                  |                   |                            |
| Reserves   | 719,810                    | 719,810                    |                   |                            |
| Unappropriated profits (Net of Losses)                               | (143,392)                  | 293,073                    |                   |                            |
|  | 36,620,563                 | 4,374,405                  |                   |                            |
| Less: Adjustments  | 30,551,351                 | 47,833                     |                   |                            |
| Total Tier I Capital   | <u>6,069,212</u>           | <u>4,326,572</u>           |                   |                            |
| Tier II Capital  |                            |                            |                   |                            |
| Subordinated Debt (upto 50% of total Tier I Capital)                 | -                          | -                          |                   |                            |
| General Provisions subject to 1.25% of<br>Total Risk Weighted Assets | 346,272                    | 212,498                    |                   |                            |
| Revaluation Reserve (upto 50%)                                       | -                          | -                          |                   |                            |
| Total Tier II Capital  | <u>346,272</u>             | <u>212,498</u>             |                   |                            |
| Eligible Tier III Capital  | -                          | -                          |                   |                            |
| <b>Total Regulatory Capital</b>                                      | <u>6,415,484</u>           | <u>4,539,070</u>           |                   |                            |
|  | (a)                        |                            |                   |                            |
| <b>Risk-Weighted Exposures</b>                                       |                            |                            |                   |                            |
|  | <b>Book Value</b>          | <b>Risk Adjusted Value</b> | <b>Book Value</b> | <b>Risk Adjusted Value</b> |
|  | <----- Rupees '000' -----> |                            |                   |                            |
| <b>Credit Risk</b>   |                            |                            |                   |                            |
| Balance Sheet Items:-  |                            |                            |                   |                            |
| Cash and other liquid Assets   | 11,720,518                 | 280,359                    | 4,290,901         | 272,500                    |
| Money at call  | 4,753,113                  | 4,273,113                  | 2,600,000         | 1,850,000                  |
| Investments  | 36,691,857                 | 8,904,461                  | 6,588,733         | 887,908                    |
| Loans and Advances   | 77,826,324                 | 63,129,983                 | 28,491,918        | 26,535,568                 |
| Fixed Assets   | 30,800,138                 | 4,024,615                  | 622,216           | 622,216                    |
| Other Assets   | 6,797,989                  | 6,715,844                  | 1,269,521         | 1,177,809                  |
|  | <u>168,589,939</u>         | <u>87,328,375</u>          | <u>43,863,289</u> | <u>31,346,001</u>          |
| Off Balance Sheet items  |                            |                            |                   |                            |
| Loan Repayment Guarantees  | 3,287,395                  | 3,287,395                  | 3,527,668         | 3,527,668                  |
| Purchase and Resale Agreements                                       | -                          | -                          | -                 | -                          |
| Performance Bonds etc.   | 3,700,543                  | 1,802,952                  | 863,778           | 351,231                    |
| Revolving underwriting Commitments                                   | -                          | -                          | -                 | -                          |
| Stand By Letters of Credit   | 12,808,233                 | 6,404,116                  | 7,255,243         | 3,627,621                  |
| Outstanding Foreign Exchange Contracts                               |                            |                            |                   |                            |
| - Purchase   | 18,917,859                 | 68,011                     | 6,042,476         | 77,530                     |
| - Sale   | 21,808,764                 | 110,601                    | 5,387,175         | 29,047                     |
|  | <u>60,522,794</u>          | <u>11,673,075</u>          | <u>23,076,341</u> | <u>7,613,097</u>           |
| Credit risk-weighted exposures                                       |                            | <u>99,001,450</u>          |                   | <u>38,959,098</u>          |
| Market Risk  |                            |                            |                   |                            |
| General market risk  |                            | 4,774                      |                   | 13,497                     |
| Specific market Risk   |                            | 4,774                      |                   | -                          |
| Capital charge to foreign exchange risk                              |                            | 7,434                      |                   | -                          |
| Market risk-weighted exposures                                       |                            | <u>212,275</u>             |                   | <u>168,713</u>             |
| <b>Total Risk-Weighted exposures</b>                                 |                            | <u>99,213,725</u>          |                   | <u>39,127,811</u>          |
|  | (b)                        |                            |                   |                            |
| Capital Adequacy Ratio ( (a) / (b) x 100)                            |                            | <u>6.47%</u>               |                   | <u>11.60%</u>              |

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## 41. RISK MANAGEMENT

The acceptance and management of financial risk is inherent to banking business activities. It involves identification, measurement, monitoring and controlling risks to ensure that: -

- Bank's risk exposure is within the limits established by board of directors.
- Risk taking decisions are in line with the business strategy and objectives set by board of directors.
- The expected payoffs compensate the risks taken
- Risk taking decisions are explicit and clear.
- Sufficient capital as buffer is available to take risk.

The bank is primarily subject to credit risk, market risk, liquidity risk and operational risk. The policies and procedures for managing these risks are outlined below. The bank has designed and implemented a framework of controls to identify, monitor and manage these risks.

### 41.1 Credit Risk

The bank has established an appropriate credit risk environment which is operating under a sound credit-granting process; maintaining an appropriate credit administration, measurement and monitoring process and ensuring adequate controls.

Credit approval process is followed by all businesses in the bank. Initial credit approvals and extensions are only approved by Credit Committee established at various levels (a credit committee has minimum of three members). Further, in order to measure credit risk, an indigenously developed rating system is followed, which has served the bank well in the past. This rating system is being fine tuned to address Basel II requirements and is under testing.

The Bank manages credit risk through: -

- Accurate detailed information about the borrower, cash flows, production, service and operation of the company.
- Insights into the major factors influencing customer attrition and product cancellation.
- Credit and collections treated as a highly people-intensive business.
- Establishment of acceptable risk levels.

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## 41.1.1 Segmental Information

### 41.1.1.1 Segments by class of business

|  | 2007              |               |                    |               |                               |               |
|--|-------------------|---------------|--------------------|---------------|-------------------------------|---------------|
|  | Advances (Gross)  |               | Deposits           |               | Contingencies and Commitments |               |
|  | Rupees<br>'000'   | Percent       | Rupees<br>'000'    | Percent       | Rupees<br>'000'               | Percent       |
| Agriculture, Forestry, Hunting and Fishing | 309,085           | 0.33          | 737,669            | 0.63          | 23,950                        | 0.04          |
| Mining and Quarrying                       | 821,532           | 0.89          | 765,056            | 0.66          | 17,670                        | 0.03          |
| Textile                                    | 26,143,819        | 28.24         | 1,910,907          | 1.64          | 7,012,797                     | 12.55         |
| Chemical and Pharmaceuticals               | 3,089,302         | 3.34          | 2,828,641          | 2.42          | 861,652                       | 1.54          |
| Cement, Glass and Ceramics                 | 3,006,577         | 3.25          | 101,846            | 0.09          | 1,499,643                     | 2.68          |
| Sugar                                      | 4,767,384         | 5.15          | 523,100            | 0.45          | 65,502                        | 0.12          |
| Footwear and Leather garments              | 737,940           | 0.80          | 244,476            | 0.21          | 129,148                       | 0.23          |
| Automobile and transportation equipment    | 1,590,324         | 1.72          | 273,050            | 0.23          | 825,593                       | 1.48          |
| Electronics and electrical appliances      | 1,399,994         | 1.51          | 144,645            | 0.12          | 488,045                       | 0.87          |
| Construction                               | 1,420,295         | 1.53          | 1,959,267          | 1.68          | 96,413                        | 0.17          |
| Power (electricity), Gas, Water, Sanitary  | 919,277           | 0.99          | 381,414            | 0.33          | 3,616,511                     | 6.47          |
| Wholesale and Retail Trade                 | 8,331,103         | 9.00          | 3,424,672          | 2.94          | 3,692,534                     | 6.61          |
| Exports/Imports                            | 5,001,725         | 5.40          | 548,345            | 0.47          | 1,447,294                     | 2.59          |
| Transport, Storage and Communication       | 1,975,936         | 2.13          | 3,727,695          | 3.20          | 4,295,196                     | 7.69          |
| Non profit organization/Trust              | 82                | 0.00          | 4,667,189          | 4.00          | 22,804,596                    | 40.82         |
| Insurance                                  | 8,128             | 0.01          | 50,561             | 0.04          | -                             | 0.00          |
| Paper and printing                         | 124,531           | 0.13          | -                  | 0.00          | -                             | 0.00          |
| Food and Beverages                         | 54,456            | 0.06          | -                  | 0.00          | -                             | 0.00          |
| Engineering                                | 53,966            | 0.06          | -                  | 0.00          | 19,692                        | 0.04          |
| Financial                                  | 66,830            | 0.07          | 4,382,844          | 3.76          | 42,054                        | 0.08          |
| Services                                   | 3,297,159         | 3.56          | 6,526,227          | 5.59          | 28,863                        | 0.05          |
| Individuals                                | 18,760,638        | 20.26         | 40,651,468         | 34.84         | 4,422,939                     | 7.92          |
| Others                                     | 10,706,253        | 11.57         | 42,822,147         | 36.70         | 4,474,021                     | 8.01          |
|  | <b>92,586,336</b> | <b>100.00</b> | <b>116,671,219</b> | <b>100.00</b> | <b>55,864,114</b>             | <b>100.00</b> |

  

|  | 2006              |               |                   |               |                               |               |
|--|-------------------|---------------|-------------------|---------------|-------------------------------|---------------|
|  | Advances (Gross)  |               | Deposits          |               | Contingencies and Commitments |               |
|  | Rupees<br>'000'   | Percent       | Rupees<br>'000'   | Percent       | Rupees<br>'000'               | Percent       |
| Agriculture, Forestry, Hunting and Fishing | 161,656           | 0.51          | 107,811           | 0.35          | 800                           | 0.01          |
| Mining and Quarrying                       | 14,433            | 0.05          | 4,723             | 0.02          | -                             | -             |
| Textile                                    | 11,139,201        | 34.95         | 881,421           | 2.88          | 2,434,708                     | 20.32         |
| Chemical and Pharmaceuticals               | 113,631           | 0.36          | 683,192           | 2.24          | 172,583                       | 1.44          |
| Cement                                     | 649,578           | 2.04          | 99,700            | 0.33          | 563,314                       | 4.70          |
| Sugar                                      | 386,321           | 1.21          | 9,534             | 0.03          | 210,599                       | 1.76          |
| Footwear and Leather garments              | 153,651           | 0.48          | 15,984            | 0.05          | 59,862                        | 0.50          |
| Automobile and transportation equipment    | 303,868           | 0.95          | 61,262            | 0.20          | 142,731                       | 1.19          |
| Electronics and electrical appliances      | 876,026           | 2.75          | 373,517           | 1.22          | 423,704                       | 3.54          |
| Construction                               | 224,656           | 0.70          | 199,857           | 0.65          | 161,299                       | 1.35          |
| Power (electricity), Gas, Water, Sanitary  | 237,709           | 0.75          | -                 | -             | 11,100                        | 0.09          |
| Wholesale and Retail Trade                 | 1,525,871         | 4.79          | 607,516           | 1.99          | 830,302                       | 6.93          |
| Exports/Imports                            | 1,912,547         | 6.00          | -                 | -             | 1,777,928                     | 14.84         |
| Transport, Storage and Communication       | 435,100           | 1.37          | 1,733,757         | 5.67          | 3,035,301                     | 25.33         |
| Non profit organization/Trust              | -                 | -             | 3,330,883         | 10.90         | -                             | -             |
| Financial                                  | 696               | 0.00          | 3,084,820         | 10.09         | -                             | -             |
| Services                                   | 687,350           | 2.16          | -                 | -             | 230,581                       | 1.92          |
| Individuals                                | 6,362,513         | 19.96         | 12,292,930        | 40.22         | -                             | -             |
| Others                                     | 6,690,044         | 20.99         | 7,079,633         | 23.16         | 1,926,936                     | 16.08         |
|  | <b>31,874,851</b> | <b>100.00</b> | <b>30,566,540</b> | <b>100.00</b> | <b>11,981,748</b>             | <b>100.00</b> |

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| 41.1.1.2 Segment by sector | 2007             |         |                 |         |                               |         |
|----------------------------|------------------|---------|-----------------|---------|-------------------------------|---------|
|                            | Advances (Gross) |         | Deposits        |         | Contingencies and Commitments |         |
|                            | Rupees<br>'000'  | Percent | Rupees<br>'000' | Percent | Rupees<br>'000'               | Percent |
| Public/ Government         | 10,604           | 0       | 24,704,262      | 21      | -                             | -       |
| Private                    | 92,575,732       | 100     | 91,966,957      | 79      | 55,864,114                    | 100     |
|                            | 92,586,336       | 100     | 116,671,219     | 100     | 55,864,114                    | 100     |

  

| 41.1.1.2 Segment by sector | 2006             |         |                 |         |                               |         |
|----------------------------|------------------|---------|-----------------|---------|-------------------------------|---------|
|                            | Advances (Gross) |         | Deposits        |         | Contingencies and Commitments |         |
|                            | Rupees<br>'000'  | Percent | Rupees<br>'000' | Percent | Rupees<br>'000'               | Percent |
| Public/ Government         | 13,874           | 0.04    | 2,549,671       | 8.34    | -                             | -       |
| Private                    | 31,860,977       | 99.96   | 28,016,869      | 91.66   | 11,981,748                    | 100     |
|                            | 31,874,851       | 100     | 30,566,540      | 100     | 11,981,748                    | 100     |

| 41.1.1.3 Details of non-performing advances and specific provisions by class of business segment | 2007                       |                          | 2006                |                          |
|--|----------------------------|--------------------------|---------------------|--------------------------|
|  | Classified Advances        | Specific Provisions Held | Classified Advances | Specific Provisions Held |
|  | <----- Rupees '000' -----> |                          |                     |                          |
| Agriculture, Forestry, Hunting and Fishing   | 44,976                     | 22,921                   | -                   | -                        |
| Mining and Quarrying   | 459                        | 180                      | -                   | -                        |
| Textile  | 6,418,577                  | 4,840,204                | 375,673             | 235,423                  |
| Chemical and Pharmaceuticals   | 644,167                    | 501,228                  | 4,111               | 4,111                    |
| Cement   | 130,275                    | 93,072                   | -                   | -                        |
| Sugar  | 747,195                    | 459,770                  | 8,227               | 8,227                    |
| Footwear and Leather garments  | 61,480                     | 60,993                   | -                   | -                        |
| Automobile and transportation equipment  | 902,344                    | 592,594                  | 1,288               | -                        |
| Electronics and electrical appliances  | 171,038                    | 171,038                  | 2,628               | -                        |
| Construction   | 340,505                    | 319,876                  | 51,761              | 11,762                   |
| Power (electricity), Gas, Water, Sanitary  | 27,341                     | 27,341                   | 94,891              | 66,610                   |
| Wholesale and Retail Trade   | 250,490                    | 158,626                  | -                   | -                        |
| Exports/Imports  | 197,536                    | 196,786                  | -                   | -                        |
| Transport, Storage and Communication   | 118,711                    | 84,023                   | 59,254              | 40,301                   |
| Paper and printing   | 124,531                    | 121,406                  | -                   | -                        |
| Food and Beverages   | 45,275                     | 34,252                   | -                   | -                        |
| Engineering  | 31,744                     | 16,628                   | -                   | -                        |
| Services   | 15,549                     | 13,054                   | 11,502              | 7,625                    |
| Individuals  | 1,399,796                  | 822,128                  | 130,597             | 85,690                   |
| Others   | 1,580,327                  | 1,276,231                | 283,936             | 150,435                  |
|  | 13,252,316                 | 9,812,351                | 1,023,868           | 610,184                  |

| 41.1.1.4 Details of non-performing advances and specific provisions by sector | 2007                       |                          | 2006                |                          |
|---|----------------------------|--------------------------|---------------------|--------------------------|
|   | Classified Advances        | Specific Provisions Held | Classified Advances | Specific Provisions Held |
|   | <----- Rupees '000' -----> |                          |                     |                          |
| Public / Government   | -                          | -                        | 8,227               | 8,227                    |
| Private   | 13,252,316                 | 9,812,351                | 1,015,641           | 601,957                  |
|   | 13,252,316                 | 9,812,351                | 1,023,868           | 610,184                  |

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## 41.1.1.5 Geographical Segement Analysis

|                                     | 2007                       |                          |                        |                                  |
|-------------------------------------|----------------------------|--------------------------|------------------------|----------------------------------|
|                                     | (Loss) before<br>taxation  | Total assets<br>employed | Net assets<br>employed | Contingencies and<br>commitments |
|                                     | <----- Rupees '000' -----> |                          |                        |                                  |
| Pakistan                            | (571,207)                  | 176,653,404              | 36,592,034             | 55,864,114                       |
| Asia Pacific (including South Asia) | -                          | -                        | -                      | -                                |
| Europe                              | -                          | -                        | -                      | -                                |
| United States of America and Canada | -                          | -                        | -                      | -                                |
| Middle East                         | -                          | -                        | -                      | -                                |
| Others                              | -                          | -                        | -                      | -                                |
|                                     | <u>(571,207)</u>           | <u>176,653,404</u>       | <u>36,592,034</u>      | <u>55,864,114</u>                |

  

|                                     | 2006                       |                          |                        |                                  |
|-------------------------------------|----------------------------|--------------------------|------------------------|----------------------------------|
|                                     | Profit before<br>taxation  | Total assets<br>employed | Net assets<br>employed | Contingencies and<br>commitments |
|                                     | <----- Rupees '000' -----> |                          |                        |                                  |
| Pakistan                            | 21,913                     | 46,423,540               | 4,326,572              | 11,981,748                       |
| Asia Pacific (including South Asia) | -                          | -                        | -                      | -                                |
| Europe                              | -                          | -                        | -                      | -                                |
| United States of America and Canada | -                          | -                        | -                      | -                                |
| Middle East                         | -                          | -                        | -                      | -                                |
| Others                              | -                          | -                        | -                      | -                                |
|                                     | <u>21,913</u>              | <u>46,423,540</u>        | <u>4,326,572</u>       | <u>11,981,748</u>                |

## 41.2 Market Risk

Market risk is primarily composed of price risk and arises out of treasury trading and investment activities. It is the risk that the value of on and off-balance sheet positions of the bank will be adversely affected by movements in market rates or prices.

The bank recognizes that it may be exposed to market risk in a variety of ways. Market risk exposure may be explicit in portfolio of securities / equities and foreign currencies that are actively traded. Conversely it may be implicit such as interest rate risk due to mismatch of loans and deposits. Besides, market risk may also arise from activities categorized as off-balance sheet items.

### 41.2.1 Foreign Exchange Risk

Foreign exchange risk is the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. It refers to the impact of adverse movement in currency exchange rates on the value of open foreign currency positions. The bank is also exposed to interest rate risk, which arises from the maturity mismatching of foreign currency positions. Even in cases where spot and forward positions in individual currencies are balanced, the maturity pattern of forward transactions may produce mismatches. As a result, the bank may suffer losses due to changes in discounts of the currencies concerned. In the foreign exchange business, the bank might also face the risk of default of the counter parties or settlement risk. While such type of risk crystallization does not cause principal loss, bank may have to undertake fresh transactions in the cash/spot market for replacing the failed transactions. Thus, the bank may incur replacement cost, which depends upon the currency rate movements. The bank might also face another risk called time-zone risk, which arises out of time lags in settlement of one currency in one center and the settlement of another currency in another time zone. Foreign exchange transactions with counter parties situated outside Pakistan also involve sovereign or country risk.

The bank has set the following objectives for managing the inherent risk on foreign currency exposures: -

- Maximize profitability with minimum risk by keeping the exposure at desirable levels in view of strict compliance of regulatory / international standards and the bank's internal guidelines.
- Manage appropriate maturity mismatch gaps.
- Identify warning and stress zones for mismatch gaps.
- Usage of different tools to manage the inherent risk of product and market, such as compliance of credit limit, monitoring of foreign exchange exposure limit, review of mark to market portfolio and safe settlement, etc.

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- The SBP has defined each bank's foreign exchange net open position exposure as 15% of its paid-up capital with a maximum cap of Rs 1,500 million. This serves the purpose of ensuring that banks stay within reasonable boundaries of exposure. This limit is termed as Foreign Exchange Exposure Limit (FEEL).
- At the bank, dealers are required not to exceed the limit set i.e. they may not oversell / overbuy beyond these limits.
- Foreign exchange mis-match position / gap analysis is monitored between purchase & sale of currencies in buckets of maturities: -

Up to 1 month,  
Over 1 to 3 months,  
Over 3 to 6 months  
Over 6 to 12 months

|                      | 2007                     |                    |                            | Net foreign<br>currency<br>exposure |
|----------------------|--------------------------|--------------------|----------------------------|-------------------------------------|
|                      | Assets                   | Liabilities        | Off Balance<br>sheet items |                                     |
|                      | ----- Rupees '000' ----- |                    |                            |                                     |
| Pakistan Rupee       | 172,141,487              | 133,804,348        | (2,871,744)                | 35,465,395                          |
| United States Dollar | 3,837,755                | 4,934,929          | 1,756,334                  | 659,160                             |
| Great Britain Pound  | 222,221                  | 775,689            | 1,032,434                  | 478,966                             |
| Euro                 | 291,307                  | 199,147            | (123,869)                  | (31,709)                            |
| Japanese Yen         | 145,399                  | 347,097            | 206,843                    | 5,145                               |
| Swiss Franc          | 4,133                    | 152                | -                          | 3,981                               |
| Others               | 11,102                   | 8                  | 2                          | 11,096                              |
|                      | <u>176,653,404</u>       | <u>140,061,370</u> | <u>-</u>                   | <u>36,592,034</u>                   |

  

|                      | 2006                     |                   |                            | Net foreign<br>currency<br>exposure |
|----------------------|--------------------------|-------------------|----------------------------|-------------------------------------|
|                      | Assets                   | Liabilities       | Off Balance<br>sheet items |                                     |
|                      | ----- Rupees '000' ----- |                   |                            |                                     |
| Pakistan Rupee       | 43,026,298               | 39,437,240        | 568,805                    | 4,157,863                           |
| United States Dollar | 3,041,957                | 2,149,415         | (834,321)                  | 58,221                              |
| Great Britain Pound  | 41,503                   | 313,266           | 307,396                    | 35,633                              |
| Euro                 | 288,872                  | 196,887           | (38,894)                   | 53,091                              |
| Japanese Yen         | 7,733                    | -                 | (2,986)                    | 4,747                               |
| Swiss Franc          | 1,978                    | 152               | -                          | 1,826                               |
| Others               | 15,199                   | 8                 | -                          | 15,191                              |
|                      | <u>46,423,540</u>        | <u>42,096,968</u> | <u>-</u>                   | <u>4,326,572</u>                    |

#### 41.2.2 Equity Price Risk

It is the risk to earnings or capital that results from adverse changes in the value of equity related portfolios of the bank. Price risk associated with equities could be systematic or unsystematic. The former refers to sensitivity of portfolio's value to changes in overall level of equity prices, while the later is associated with price volatility that is determined by firm specific characteristics.

The bank conducts stress testing analysis over the equity portfolio, by anticipating changes / shocks of -5%, -10% and -20% on the current price of shares within a portfolio, thereby, monitoring the effects of the predicted changes in the structure of shares portfolio on the Capital Adequacy Ratio (CAR).

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## 41.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

| Effective Yield/Interest rate  | Total            | Exposed to Yield/Interest risk |                    |                    |                         |                   |                   |                   | Above 10 Years | Non-interest bearing financial Instruments |
|--|------------------|--------------------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|----------------|--|
|  |                  | Upto 1 Month                   | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years |                |  |
|  |                  | Rupees '000'                   |                    |                    |                         |                   |                   |                   |                |  |
| <b>On-balance sheet financial instruments</b>  |                  |                                |                    |                    |                         |                   |                   |                   |                |  |
| <b>Assets</b>  |                  |                                |                    |                    |                         |                   |                   |                   |                |  |
|  | 10,318,722       | 373,755                        | -                  | -                  | -                       | -                 | -                 | -                 | -              | 9,944,967                                  |
| Cash and balances with treasury banks  | 1,401,796        | 508,146                        | 500,000            | -                  | -                       | -                 | -                 | -                 | -              | 393,650                                    |
| Balances with other banks  | 4,753,113        | 4,153,113                      | 600,000            | -                  | -                       | -                 | -                 | -                 | -              | -  |
| Lending to financial institutions  | 40,498,840       | 6,137,570                      | 11,221,879         | 2,506,154          | 2,622,041               | 9,439             | 2,888,170         | 5,065,520         | 395,049        | 9,625,761                                  |
| Investments  | 82,160,074       | 2,949,720                      | 10,126,440         | 3,631,223          | 43,403,961              | 5,991,547         | 6,564,744         | 1,676,362         | 606,783        | 1,710,310                                  |
| Advances   | 3,063,106        | -                              | -                  | -                  | -                       | -                 | -                 | -                 | -              | 3,063,106                                  |
| Other assets   | 142,195,651      | 14,122,304                     | 22,448,319         | 46,026,002         | 6,137,377               | 6,016,805         | 9,452,914         | 6,741,882         | 1,001,832      | 24,737,794                                 |
|  | 2,110,211        | -                              | -                  | -                  | -                       | -                 | -                 | -                 | -              | 2,110,211                                  |
| <b>Liabilities</b>   | 16,669,412       | 6,255,249                      | 3,429,353          | 4,208,879          | 130,996                 | 400,089           | 572,307           | 865,440           | -              | 164,121                                    |
| Bills payable  | 116,671,219      | 25,915,860                     | 21,716,830         | 34,906,831         | 8,244,723               | 924,584           | 1,747,399         | 46,102            | -              | 20,922,089                                 |
| Borrowings   | 7,176            | 233                            | 474                | 868                | 1,350                   | 4,251             | -                 | -                 | -              | -  |
| Deposits and other accounts  | 1,440,902        | -                              | -                  | -                  | -                       | -                 | -                 | -                 | -              | 1,440,902                                  |
| Liabilities against assets subject to finance lease  | 136,898,920      | 32,171,342                     | 25,146,657         | 39,116,578         | 8,377,069               | 1,328,924         | 2,319,706         | 2,869,779         | -              | 24,637,323                                 |
| Other liabilities  | 5,296,731        | (18,049,038)                   | (2,698,338)        | 6,909,424          | (2,239,692)             | 4,689,881         | 3,188,717         | 5,830,340         | 1,001,832      | 100,471                                    |
| <b>On-balance sheet gap</b>  |                  |                                |                    |                    |                         |                   |                   |                   |                |  |
|  |                  |                                |                    |                    |                         |                   |                   |                   |                |  |
|  |                  |                                |                    |                    |                         |                   |                   |                   |                |  |
| <b>Off-balance sheet financial instruments</b>   |                  |                                |                    |                    |                         |                   |                   |                   |                |  |
|  |                  |                                |                    |                    |                         |                   |                   |                   |                |  |
| Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.) | 1,090,095        | 1,090,095                      | -                  | -                  | -                       | -                 | -                 | -                 | -              | -  |
| Foreign exchange contracts - purchase  | 18,548,465       | 14,669,863                     | 2,220,113          | 1,658,489          | -                       | -                 | -                 | -                 | -              | -  |
| Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)                        | -                | -                              | -                  | -                  | -                       | -                 | -                 | -                 | -              | -  |
| Foreign exchange contracts - sale  | 14,766,871       | 11,254,872                     | 3,511,999          | -                  | -                       | -                 | -                 | -                 | -              | -  |
| <b>Off-balance sheet gap</b>   | <b>4,871,689</b> | <b>4,505,086</b>               | <b>(1,291,886)</b> | <b>1,658,489</b>   |                         |                   |                   |                   |                |  |
|  | (13,543,952)     | (3,990,224)                    | 8,567,913          | (2,243,943)        | 4,694,132               | 3,188,717         | 6,563,135         | 5,830,340         | 1,001,832      | 100,471                                    |
| <b>Total Yield/Interest Risk Sensitivity Gap</b>   |                  |                                |                    |                    |                         |                   |                   |                   |                |  |
|  | (13,543,952)     | (17,534,176)                   | (8,966,263)        | (11,210,206)       | (6,516,074)             | (3,327,357)       | 3,235,778         | 9,066,118         | 10,067,950     | 10,168,421                                 |

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|  | Effective Yield/Interest rate | 2006 Exposed to Yield/Interest risk |                    |                    |                         |                   |                   |                   |                    |                |         | Non-interest bearing financial instruments |           |
|--|-------------------------------|-------------------------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|---------|--|-----------|
|  |                               | Upto 1 Month                        | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years |         |  |           |
| <b>On-balance sheet financial instruments</b>  |                               |                                     |                    |                    |                         |                   |                   |                   |                    |                |         |  |           |
| <b>Assets</b>  |                               |                                     |                    |                    |                         |                   |                   |                   |                    |                |         |  |           |
| Cash and balances with treasury banks  | 4.35%                         | 354,496                             | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -       | -  | 2,573,908 |
| Balances with other banks  | 12.25%                        | 200,000                             | 900,000            | -                  | -                       | -                 | -                 | -                 | -                  | -              | -       | -  | 262,497   |
| Lending to financial institutions  | 11.06%                        | 700,000                             | 1,900,000          | -                  | -                       | -                 | -                 | -                 | -                  | -              | -       | -  | -         |
| Investments  | 9.09%                         | 159,625                             | 199,030            | -                  | 5,107,131               | -                 | 73,027            | 73,138            | 2,042              | 504,974        | -       | -  | 439,766   |
| Advances   | 12.68%                        | 11,878,226                          | 5,452,900          | 5,606,055          | 1,480,575               | 2,368,516         | 1,745,520         | 2,190,317         | 2,190,317          | 158,571        | 151,489 | -  | 616,241   |
| Other assets   | 10.48%                        | 45,699                              | -                  | -                  | -                       | -                 | -                 | 150,000           | -                  | -              | -       | -  | 3,892,412 |
|  |                               | 13,338,046                          | 8,451,930          | 5,606,055          | 6,587,706               | 2,461,543         | 1,969,658         | 2,192,359         | 663,545            | 151,489        | -       | -  | -         |
| <b>Liabilities</b>   |                               |                                     |                    |                    |                         |                   |                   |                   |                    |                |         |  |           |
| Bills payable  | -                             | -                                   | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -       | -  | 215,769   |
| Borrowings   | 7.64%                         | 3,450,508                           | 2,805,434          | 2,771,590          | 9,142                   | 18,284            | 18,284            | 36,568            | 54,311             | -              | -       | -  | 3,980,631 |
| Deposits and other accounts  | 9.95%                         | 9,620,876                           | 5,799,261          | 1,554,736          | 1,577,642               | 2,035,800         | 2,228,000         | 3,769,594         | -                  | -              | -       | -  | -         |
| Sub-ordinated loans  | -                             | -                                   | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -       | -  | -         |
| Liabilities against assets subject to finance lease  | -                             | -                                   | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -       | -  | -         |
| Other liabilities  | -                             | -                                   | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -       | -  | 382,712   |
|  |                               | 13,071,384                          | 8,604,695          | 4,326,326          | 1,586,784               | 2,054,084         | 2,246,284         | 3,806,162         | 54,311             | -              | -       | -  | 4,579,112 |
| <b>On-balance sheet gap</b>  |                               | 266,662                             | (152,765)          | 1,279,729          | 5,000,922               | 407,459           | (277,628)         | (1,613,803)       | 609,234            | 151,489        | -       | -  | (686,700) |
| <b>Off-balance sheet financial instruments</b>   |                               |                                     |                    |                    |                         |                   |                   |                   |                    |                |         |  |           |
| Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.) | -                             | -                                   | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -       | -  | -         |
| Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)                        | -                             | -                                   | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -       | -  | -         |
| <b>Off-balance sheet gap</b>   |                               | -                                   | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -       | -  | -         |
| <b>Total Yield/Interest Risk Sensitivity Gap</b>   |                               | 271,965                             | (152,765)          | 1,279,729          | 5,000,922               | 407,459           | (277,628)         | (1,613,803)       | 609,234            | 151,489        | -       | -  | (686,700) |
| <b>Cumulative Yield/Interest Risk Sensitivity Gap</b>  |                               | 271,965                             | 119,200            | 1,398,929          | 6,399,851               | 6,807,310         | 6,529,684         | 4,915,881         | 5,525,115          | 5,676,604      | -       | -  | 4,989,904 |



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## 41.3 Liquidity Risk

Liquidity risk is the risk caused, among others, by the inability of the bank to settle liabilities at due date. The liquidity risk policy is formulated keeping in view State Bank of Pakistan's guidelines on risk management, Basel standards and best market practices.

- Maintaining solvency of the bank at all times (measuring and limiting liquidity risk)
- Ensure and manage market access to funding (diversify funding, asset liquidation)
- Optimize balance sheet structure (long term funding profile).

### 41.3.1 Maturities of Assets and Liabilities

| Total  | 2007                  |                    |                    |                         |                   |                   |                   |                    |                |   |
|--|-----------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|---|
|  | Upto 1 Month          | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years |   |
|  | -----Rupees '000----- |                    |                    |                         |                   |                   |                   |                    |                |   |
|  | 10,318,722            | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | - |
| <b>Assets</b>  |                       |                    |                    |                         |                   |                   |                   |                    |                |   |
| Cash and balances with treasury banks                      | 1,401,796             | 500,000            | -                  | -                       | -                 | -                 | -                 | -                  | -              | - |
| Balances with other banks                                  | 4,753,113             | 600,000            | -                  | -                       | -                 | -                 | -                 | -                  | -              | - |
| Lending to financial institutions                          | 40,498,840            | 8,221,879          | 1,622,031          | 2,506,164               | 27,258            | 9,439             | 1,888,170         | 2,065,520          | 395,049        |   |
| Investments  | 82,160,074            | 10,126,440         | 43,403,961         | 3,631,223               | 5,991,547         | 5,498,984         | 6,564,744         | 1,676,362          | 606,783        |   |
| Advances   | 30,800,135            | 2,505,016          | 234,578            | 124,534                 | 120,234           | 78,934            | 15,433            | 21,097             | 26,777,874     |   |
| Operating fixed assets                                     | 3,366,766             | 152,944            | 114,075            | 337,786                 | 278,044           | 384,365           | 1,895,798         | 37,480             | 89,300         |   |
| Deferred tax assets  | 1,649,186             | 901,575            | 432,908            | 191,825                 | 125,264           | 87,643            | 16,624            | 23,282             | 2,916          |   |
| Other assets   | 176,653,404           | 21,349,303         | 45,807,553         | 6,791,532               | 6,542,347         | 6,059,365         | 10,380,769        | 3,823,741          | 27,871,922     |   |
| <b>Liabilities</b>   |                       |                    |                    |                         |                   |                   |                   |                    |                |   |
| Bills payable  | 1,363,049             | 747,162            | -                  | -                       | -                 | -                 | -                 | -                  | -              | - |
| Borrowings   | 16,669,412            | 3,429,253          | 4,208,879          | 130,986                 | 400,089           | 572,307           | 642,978           | 865,440            | -              |   |
| Deposits and other accounts                                | 116,671,219           | 44,837,948         | 34,906,831         | 8,244,723               | 2,924,584         | 1,747,399         | 2,246,801         | 46,102             | -              |   |
| Sub-ordinated loans  | -                     | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |   |
| Liabilities against assets subject to finance lease        | 7,176                 | 233                | 868                | 1,350                   | 4,251             | -                 | -                 | -                  | -              |   |
| Deferred tax liabilities                                   | -                     | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |   |
| Other liabilities  | 4,603,352             | 1,948,469          | 697,065            | 290,279                 | 301,763           | 106,756           | 101,249           | 44,505             | -              |   |
| <b>Net assets</b>  | 140,061,370           | 54,569,169         | 39,813,643         | 8,667,348               | 3,630,687         | 2,426,462         | 2,991,028         | 956,047            | -              |   |
|  | 36,592,034            | (6,465,031)        | 5,993,910          | (1,875,816)             | 2,911,660         | 3,632,903         | 7,389,741         | 2,867,694          | 27,871,922     |   |
| Share capital  | 22,017,968            |                    |                    |                         |                   |                   |                   |                    |                |   |
| Reserves   | 719,810               |                    |                    |                         |                   |                   |                   |                    |                |   |
| Unappropriated/ Unremitting profit                         | (143,392)             |                    |                    |                         |                   |                   |                   |                    |                |   |
| Shares to be issued in pursuance of Scheme of Amalgamation | 14,026,177            |                    |                    |                         |                   |                   |                   |                    |                |   |
| Deficit on revaluation of assets - net                     | 36,620,563            |                    |                    |                         |                   |                   |                   |                    |                |   |
|  | (28,529)              |                    |                    |                         |                   |                   |                   |                    |                |   |
|  | 36,592,034            |                    |                    |                         |                   |                   |                   |                    |                |   |

Current and saving deposits of the bank are assumed to mature in the future on the basis of historical trends.

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|   | 2006             |                          |                          |                               |                         |                         |                         | Above<br>10 Years |
|---|------------------|--------------------------|--------------------------|-------------------------------|-------------------------|-------------------------|-------------------------|-------------------|
|   | Upto 1<br>Month  | Over 1<br>to 3<br>Months | Over 3<br>to 6<br>Months | Over 6<br>Months to 1<br>Year | Over 1<br>to 2<br>Years | Over 2<br>to 3<br>Years | Over 3<br>to 5<br>Years |                   |
| <b>Total</b>  |                  |                          |                          |                               |                         |                         |                         |                   |
| <b>Assets</b>                                       |                  |                          |                          |                               |                         |                         |                         |                   |
| Cash and balances with treasury banks               | 2,928,404        | -                        | -                        | -                             | -                       | -                       | -                       | -                 |
| Balances with other banks                           | 762,496          | 600,001                  | -                        | -                             | -                       | -                       | -                       | -                 |
| Lending to financial institutions                   | 700,000          | 1,900,000                | -                        | -                             | -                       | -                       | -                       | -                 |
| Investments   | 176,891          | 199,030                  | -                        | 5,107,130                     | 73,027                  | 131,371                 | 504,975                 | -                 |
| Advances  | 11,878,226       | 5,452,900                | 5,606,055                | 1,480,575                     | 2,388,516               | 1,745,520               | 158,571                 | 151,489           |
| Operating fixed assets                              | 223              | 26                       | 1,800                    | 5,428                         | 38,651                  | 105,231                 | 38,605                  | 20,289            |
| Deferred tax assets                                 | 127,158          | 6,769                    | 9,966                    | 18,840                        | 30,291                  | 17,264                  | 801                     | 421               |
| Other assets  | 793,529          | 10,479                   | 19,293                   | 7,903                         | 63,715                  | 208,149                 | -                       | -                 |
|   | 17,265,540       | 8,169,205                | 5,636,914                | 6,619,876                     | 2,594,200               | 2,207,535               | 702,952                 | 172,179           |
| <b>Liabilities</b>                                  |                  |                          |                          |                               |                         |                         |                         |                   |
| Bills payable                                       | 215,769          | -                        | -                        | -                             | -                       | -                       | -                       | -                 |
| Borrowings  | 3,450,508        | 2,805,434                | 2,771,590                | 9,142                         | 18,292                  | 18,283                  | 54,304                  | -                 |
| Deposits and other accounts                         | 10,461,332       | 6,178,261                | 1,933,736                | 1,956,642                     | 2,702,800               | 2,896,000               | -                       | -                 |
| Sub-ordinated loans                                 | -                | -                        | -                        | -                             | -                       | -                       | -                       | -                 |
| Liabilities against assets subject to finance lease | -                | -                        | -                        | -                             | -                       | -                       | -                       | -                 |
| Deferred tax liabilities                            | -                | -                        | -                        | -                             | -                       | -                       | -                       | -                 |
| Other liabilities                                   | 805,107          | 142,812                  | 86,665                   | 168,707                       | 399,459                 | 322,908                 | 32,859                  | -                 |
|   | 14,932,716       | 9,126,507                | 4,791,991                | 2,134,491                     | 3,120,551               | 3,237,191               | 87,163                  | -                 |
| <b>Net assets</b>                                   | <b>2,332,824</b> | <b>(957,302)</b>         | <b>844,923</b>           | <b>4,485,385</b>              | <b>(526,351)</b>        | <b>(1,029,656)</b>      | <b>615,789</b>          | <b>172,179</b>    |
| Share capital                                       | 3,361,522        |                          |                          |                               |                         |                         |                         |                   |
| Reserves  | 719,810          |                          |                          |                               |                         |                         |                         |                   |
| Unappropriated profit                               | 293,073          |                          |                          |                               |                         |                         |                         |                   |
| Deficit on revaluation of assets - net              | 4,374,405        |                          |                          |                               |                         |                         |                         |                   |
|   | (47,833)         |                          |                          |                               |                         |                         |                         |                   |
|   | <u>4,326,572</u> |                          |                          |                               |                         |                         |                         |                   |

Current and saving deposits of the bank are assumed to mature in the future on the basis of historical trends.

## 41.4 Operational Risk Management

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of technology, processes, infrastructure, personnel and other risks having an operational risk impact. The bank seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The key objectives of Operational Risk measurement and management include:

- Ensuring continued solvency of the bank through capital adequacy and enhanced understanding and management of significant operational risk exposures.
- Ensuring that customer impact is minimized through proactive and focused risk management practices.
- Ensuring senior management attention on significant operational risk exposure areas and mitigating risks is prioritized focused and adequate.
- Ensuring that staff is sufficiently incentivised to perform their risk management roles & responsibilities diligently.

The bank's Integrated Risk Management Committee (IRMC) has the responsibility to supervise and direct the management of operational risks and key operational risk exposures. IRMC is also responsible for ensuring that adequate and appropriate policies and procedures are in place for the identification, assessment, monitoring, control and reporting of operational risks.

### Operational Risk Program and Tools

Line management needs information to enable it to analyze operational risks, implement mitigating measures and determine the effectiveness of these mitigating measures. The bank has implemented, or is in the process of implementing a number of programmes and tool to support line management.

- Compliance and Regulatory Risk Management (Regulatory Self-Assessment Framework)

A structured approach has been adopted which helps line management to identify and assess risk of non-compliance with regulatory requirements as well as internal policies. The bank has implemented a comprehensive Compliance Risk Management Framework whereby self-assessment is undertaken by each business / support unit to mitigate the risk of regulatory non-compliance.

The bank is also in the process of adopting an approach to indicate possible changes in the operational risk profile through Key Risk Indicators (KRI). KRIs allow for a trend analysis over time and trigger actions if required.

- Loss Event Database

A database that allows for systematic registration of operational risk. It is mandatory for Business Units to report losses above Rs. 50,000/- threshold into the database. This helps senior management in their analysis of operational risk. This is one of the criteria for qualifying for Standardized Approach under Basel II and will form the basis for calculating economic capital and regulatory capital in future.

- Key Operational Risk Control

The bank has also adopted a framework (Heat Map) - a tool that takes stock of significant operational risks faced by each unit of the bank and plots them on an impact/probability chart. These individual charts are then combined into one comprehensive chart, envisaging key risks faced by the whole bank. The chart accompanies, action plans, with target dates and responsible persons, for risks identified. This chart is discussed at IRMC meetings to monitor progress made to manage / mitigate risks identified.

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## 42. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on February 26, 2008 by the Board of Directors of the Bank.

## 43. RECLASSIFICATION

- Comparative figures of investment amounting to Rs.30 million has been reclassified from investments to Other Assets, being pre-IPO advance for purchase of Term Finance Certificates.
- Comparative figures of markup/return/ interest earned on loans and advances from customer amounting to Rs 25.914 million has been reclassified in other income being rebate income.

## 44. GENERAL

Figures have been rounded off to the nearest thousand rupees.

**Khawaja Iqbal Hassan**  
President / Chief Executive

**Francis A. Rozario**  
Chairman / Director

**Syed Aamir Zahidi**  
Director

**Thomas Patrick Sodano**  
Director

# Notes to the Financial Statements for the year ended December 31, 2007

## Statement showing written-off loans or any other financial relief of five hundred thousand rupees or above provided during the year ended December 31, 2007

Annexure I

| S.No | Name & Address of borrower  | Name of individual/ partners/ directors<br>Name | NIC No.         | Father's/ Husband Name    | Outstanding liabilities Before Adjustments |                 |        | Principal Written off | Interest/ Markup<br>written off | Other<br>Financial<br>Relief | Total  |
|------|---|---|-----------------|---------------------------|--|-----------------|--------|-----------------------|---------------------------------|------------------------------|--------|
|      |   |   |                 |                           | Principal                                  | Accrued Mark up | Others |                       |                                 |                              |        |
| 1    | M HUSSAIN SOLANGI<br>FLAT# 15 BLOCK# L 7 STEEL TOWN NEAR<br>CHARWAN HOUSE         | M HUSSAIN SOLANGI                               | 42501-8821002-9 | GHULAM RASOL              | 1,099                                      | 124             | -      | 1,099                 | 124                             | -                            | 1,223  |
| 2    | MUHAMMAD BOTA BHATTI<br>FLAT# F-55 RABIA CITY BLOCK 18<br>GULISTAN E JOHAR        | MUHAMMAD BOTA BHATTI                            | 42201-2168118-9 | JALALL UDDIN BHATTI       | 1,088                                      | 135             | -      | 1,088                 | 135                             | -                            | 1,223  |
| 3    | ARSHAD MEHMOOD<br>FLAT# A-16 RUFAI HIGHT PHASE 1 BLOCK#<br>17 GULISTAN-E-JOHAR    | ARSHAD MEHMOOD                                  | 42201-8068711-3 | MUHAMMAD AENNAYAT         | 1,085                                      | 108             | -      | 1,085                 | 108                             | -                            | 1,192  |
| 4    | FAISAL ALI RAZA<br>FLAT# D-9 BLOCK# 17 NOMAN GRAND<br>CITY GULISTAN-E-JOHAR       | FAISAL ALI RAZA                                 | 42201-4536512-9 | HAMID RAZA                | 1,069                                      | 106             | -      | 1,069                 | 106                             | -                            | 1,174  |
| 5    | MASOOD IRFAN<br>HOUSE# R-131 SECTOR# 15A/3 BUFFER<br>ZONE                         | MASOOD IRFAN                                    | 42101-3395747-5 | M IRFAN KHAN              | 1,069                                      | 93              | -      | 1,069                 | 93                              | -                            | 1,162  |
| 6    | SHEKH RIZWAN HAIDER CHAWALA<br>12-1 FAZLIA COLONY ICHRA                           | SHEKH RIZWAN HAIDER CHAWALA                     | 42201-8228746-7 | SH SHABEER HUSSAIN CHAWLA | 915  | 95              | -      | 1,011                 | 95                              | -                            | 1,011  |
| 7    | MUHAMMAD IRFAN<br>BILLY'S HEIGHT BLOCK# 3 FLAT# 601<br>BLOCK# 18 GULISTAN-E-JOHAR | MUHAMMAD IRFAN                                  | 42301-0674312-1 | ISHAQ                     | 786  | 108             | -      | 786                   | 108                             | -                            | 894    |
| 8    | MUHAMMAD IRFAN<br>BILLY'S HEIGHT BLOCK# 3 FLAT# 601<br>BLOCK# 18 GULISTAN-E-JOHAR | MUHAMMAD IRFAN                                  | 42301-0674312-1 | ISHAQ                     | 782  | 96              | -      | 782                   | 96                              | -                            | 878    |
| 9    | ROOHI FARZANA<br>H#23B, ST#15 RUSTAMPARK LAH                                      | ROOHI FARZANA                                   | 35202-2598696-2 | RASHID                    | 782  | 78              | -      | 782                   | 78                              | -                            | 860    |
| 10   | ZUBAIR AHMED MALIK<br>FLAT# A-4 GOSIA TARECE PLOT# 206<br>SHARFABAD               | ZUBAIR AHMED MALIK                              | 42201-0628668-9 | ABDUL MANNAN MALIK        | 782  | 78              | -      | 782                   | 78                              | -                            | 860    |
| 11   | SHAFIQ HUSSAIN SHAH<br>A-1280 NAZIMABAD NO4 MUJAHID<br>COLONY                     | SHAFIQ HUSSAIN SHAH                             | 42301-0788570-7 | PIR AFZAL SHAH            | 770  | 68              | -      | 770                   | 68                              | -                            | 838    |
| 12   | SHEHZAD ALI<br>119-D, ST#1 GHAZI ROAD AL FAISAL<br>TOWN                           | SHEHZAD ALI                                     | 35201-6787190-3 | MUHAMMAD SHARIF BHATTI    | 764  | 84              | -      | 764                   | 84                              | -                            | 849    |
| 13   | REHMAN WAHEED<br>H#2, ST#1, ALI STREET JAMOWALA NEW<br>SAMANABAD                  | REHMAN WAHEED                                   | 35202-2767399-5 | MUHAMMAD WAHEED           | 764  | 76              | -      | 764                   | 76                              | -                            | 840    |
| 14   | MUHAMMAD SHAFIQUE<br>H#6 ST#8 MOHALLA SHAHEEN PARK<br>MASKEEN PURA NABI PURALAH   | MUHAMMAD SHAFIQUE                               | 35201-9120339-1 | MUHAMMAD RAFIQUE          | 764  | 67              | -      | 764                   | 67                              | -                            | 831    |
| 15   | MUHAMMAD BILAL RASHEED  | MUHAMMAD BILAL RASHEED                          | 35202-0107913-3 | MUHAMMAD RASHEED CH       | 755  | 66              | -      | 755                   | 66                              | -                            | 821    |
|      |   |   |                 |                           | 13,274                                     | 1,382           | -      | 14,656                | 1,382                           | -                            | 14,656 |
|      |   |   |                 |                           | 13,274                                     | 1,382           | -      | 13,274                | 1,382                           | -                            | 14,656 |

# Auditors' Report to the Members

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We have audited the annexed consolidated financial statements of NIB Bank Limited and its subsidiaries (the "Group") comprising consolidated balance sheet as at December 31, 2007 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended in which are incorporated the unaudited certified returns from the branches except for nine branches which have been audited by us. The financial statements of Pakistan Industrial Credit and Investment Corporation Limited and PICIC Commercial Bank Limited which were acquired during the year and merged with and into NIB Bank Limited on December 31, 2007, were audited by other firms of chartered accountants. Subsidiaries, PICIC Asset Management Company Limited and PICIC Exchange Company (Private) Limited were also reviewed by other firms of chartered accountants, whose reports have been furnished to us and our opinion in so far as it relates to the amounts included for these subsidiaries is based solely on the audit / review reports of other auditors.

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

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on test basis evidence supporting the amount 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, in all material respects, the consolidated financial position of the Group as at December 31, 2007 and the consolidated results of its operations its consolidated cash flows, consolidated changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

M. Yousuf Adil Saleem & Co.  
Chartered Accountants  
Karachi.  
Date: March 06, 2008

# Consolidated Balance Sheet as at December 31, 2007

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|   | Note | 2007<br>(Rupees '000') | 2006              |
|---|------|------------------------|-------------------|
| <b>ASSETS</b>                                       |      |                        |                   |
| Cash and balances with treasury banks               | 8    | 10,330,072             | 2,928,404         |
| Balances with other banks                           | 9    | 2,309,386              | 1,362,497         |
| Lendings to financial institutions                  | 10   | 4,753,113              | 2,600,000         |
| Investments   | 11   | 38,601,627             | 6,564,036         |
| Advances  | 12   | 82,160,074             | 31,052,169        |
| Operating fixed assets                              | 13   | 31,501,219             | 622,216           |
| Deferred tax assets                                 | 14   | 3,368,742              | 127,158           |
| Other assets  | 15   | 3,558,285              | 1,172,363         |
|   |      | <u>176,582,518</u>     | <u>46,428,843</u> |
| <b>LIABILITIES</b>                                  |      |                        |                   |
| Bills payable                                       | 16   | 2,110,211              | 215,769           |
| Borrowings  | 17   | 16,669,412             | 9,164,121         |
| Deposits and other accounts                         | 18   | 116,523,928            | 30,566,540        |
| Sub-ordinated loans                                 |      | -                      | -                 |
| Liabilities against assets subject to finance lease | 19   | 7,176                  | -                 |
| Deferred tax liabilities                            |      | -                      | -                 |
| Other liabilities                                   | 20   | 4,632,105              | 2,150,538         |
|   |      | <u>139,942,832</u>     | <u>42,096,968</u> |
| <b>NET ASSETS</b>                                   |      | <u>36,639,686</u>      | <u>4,331,875</u>  |
| <b>REPRESENTED BY :</b>                             |      |                        |                   |
| Share capital                                       | 21   | 22,017,968             | 3,361,522         |
| Reserves  |      | 719,810                | 719,810           |
| Unappropriated profit                               |      | 8,903                  | 298,376           |
|   |      | <u>22,746,681</u>      | <u>4,379,708</u>  |
| Shares to be issued                                 | 21   | 14,026,177             | -                 |
|   |      | <u>36,772,858</u>      | <u>4,379,708</u>  |
| Deficit on revaluation of securities - net          | 22   | (133,172)              | (47,833)          |
|   |      | <u>36,639,686</u>      | <u>4,331,875</u>  |
| <b>CONTINGENCIES AND COMMITMENTS</b>                | 23   |                        |                   |

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

**Khawaja Iqbal Hassan**  
President / Chief Executive

**Francis A. Rozario**  
Chairman / Director

**Syed Aamir Zahidi**  
Director

**Thomas Patrick Sodano**  
Director

# Consolidated Profit and Loss Account for the year ended December 31, 2007

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|  | Note  | 2007<br>(Rupees '000') | 2006        |
|--|-------|------------------------|-------------|
| Mark-up / return / interest earned   | 24    | 7,034,967              | 3,473,364   |
| Mark-up / return / interest expensed   | 25    | 4,994,243              | 2,452,192   |
| Net Mark-up / interest income  |       | 2,040,724              | 1,021,172   |
| Provision against non-performing loans and advances                                      | 12.5  | 1,494,801              | 269,583     |
| Provision for diminution in the value of investments                                     |       | -                      | -           |
| Bad debts written off directly   |       | -                      | -           |
|  |       | (1,494,801)            | (269,583)   |
| Net mark-up / interest income after provisions   |       | 545,923                | 751,589     |
| <b>NON MARK-UP / INTEREST INCOME</b>   |       |                        |             |
| Fee, commission and brokerage income   |       | 441,869                | 179,994     |
| Dividend income  |       | 111,152                | 14,528      |
| Income from dealing in foreign currencies  |       | 226,364                | 208,627     |
| Gain on sale of securities   | 26    | 24,021                 | 222         |
| Unrealized (loss) / gain on revaluation of investments<br>classified as held for trading |       | (1,963)                | -           |
| Other income   | 27    | 107,728                | 90,635      |
| Total non-markup / interest income   |       | 909,171                | 494,006     |
|  |       | 1,455,094              | 1,245,595   |
| <b>NON MARK-UP / INTEREST EXPENSES</b>   |       |                        |             |
| Administrative expenses  | 28    | 2,095,782              | 1,221,423   |
| Other provisions / (reversals) / write offs  |       | 2,669                  | (328)       |
| Other charges  | 29    | 2,133                  | 2,587       |
| Total non-markup / interest expense  |       | (2,100,584)            | (1,223,682) |
|  |       | (645,490)              | 21,913      |
| Share of post acquisition profit of amalgamating entities                                | 7.12  | 196,647                | -           |
| Share of profit from associates  | 11.11 | 202,855                | 8,079       |
| Extra ordinary / unusual items   |       | -                      | -           |
| <b>(Loss) / Profit before taxation</b>   |       | (245,988)              | 29,992      |
| Taxation - Current   | 30    | (124,341)              | (33,422)    |
| - Prior years'   |       | -                      | -           |
| - Deferred   | 30    | 258,834                | 129,367     |
|  |       | 134,493                | 95,945      |
| <b>(Loss)/ profit after taxation</b>   |       | (111,495)              | 125,937     |
| Share of profit attributable to minority interest  |       | (92,070)               | -           |
| <b>(Loss)/ profit attributable to shareholders</b>                                       |       | (203,565)              | 125,937     |
| Unappropriated profit brought forward  |       | 298,376                | 197,626     |
| <b>Accumulated profit available for appropriation</b>                                    |       | 94,811                 | 323,563     |
| Basic / diluted (loss) / earnings per share  | 31    | (0.18)                 | 0.22        |

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

**Khawaja Iqbal Hassan**  
President / Chief Executive

**Francis A. Rozario**  
Chairman / Director

**Syed Aamir Zahidi**  
Director

**Thomas Patrick Sodano**  
Director



# Consolidated Cash Flow Statement for the year ended December 31, 2007

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2007  
(Rupees '000')

2006

(Rupees '000')

## A. CASH FLOW FROM OPERATING ACTIVITIES

|   |                    |                  |
|---|--------------------|------------------|
| (Loss) / profit before taxation                     | (245,988)          | 29,992           |
| Adjustments for non-cash items                      |                    |                  |
| Depreciation  | 171,778            | 104,856          |
| Amortization  | 64,906             | 11,176           |
| Dividend income                                     | (111,152)          | (14,528)         |
| Gain on sale of investments                         | (24,021)           | (222)            |
| Gain on sale of operating fixed asset               | (6,248)            | (10,114)         |
| Provision against non-performing loans and advances | 1,494,801          | 269,583          |
| Share of profit from associates                     | (202,855)          | (8,079)          |
| Share of profit from amalgamating entities          | (196,647)          | -                |
| Other provisions / (reversals)                      | 2,669              | (328)            |
|   | <u>1,193,231</u>   | <u>352,344</u>   |
|   | 947,243            | 382,336          |
| (Increase) / decrease in operating assets           |                    |                  |
| Lendings to financial institutions                  | (2,153,113)        | (330,000)        |
| Advances  | (25,294,909)       | (11,698,823)     |
| Others assets                                       | (369,462)          | (530,838)        |
| Increase / (decrease) in operating liabilities      |                    |                  |
| Bills Payable                                       | 400,119            | (58,556)         |
| Borrowings  | 2,703,890          | 4,617,025        |
| Deposits and other accounts                         | 14,440,775         | 9,442,984        |
| Other liabilities                                   | (156,721)          | 292,142          |
|   | <u>(9,482,178)</u> | <u>2,116,270</u> |
| Income tax paid                                     | (156,718)          | (67,925)         |
| Net cash (used in) / from operating activities      | <u>(9,638,896)</u> | <u>2,048,345</u> |

## B. CASH FLOW FROM INVESTING ACTIVITIES

|  |                     |                    |
|--|---------------------|--------------------|
| Net investments                                      | 1,076,893           | (1,463,645)        |
| Acquisition of PICIC Group - net cash acquired       | (14,878,018)        | -                  |
| Dividend income                                      | 111,152             | 14,528             |
| Operating fixed assets acquired                      | (944,460)           | (390,332)          |
| Sale proceeds of operating fixed assets disposed-off | 25,171              | 30,746             |
| Net cash used in investing activities                | <u>(14,609,262)</u> | <u>(1,808,703)</u> |

# Consolidated Cash Flow Statement for the year ended December 31, 2007

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|  | Note | 2007<br>(Rupees '000') | 2006             |
|--|------|------------------------|------------------|
| <b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>      |      |                        |                  |
| Issue of share capital at premium                  |      | 32,682,623             | -                |
| Issuance cost against right shares                 |      | (85,908)               | -                |
| Cash from financing activities                     |      | <u>32,596,715</u>      | <u>-</u>         |
| Net increase in cash and cash equivalents          |      | 8,348,557              | 239,642          |
| Cash and cash equivalents at beginning of the year |      | 4,290,901              | 4,051,259        |
| Cash and cash equivalents at end of the year       | 32   | <u>12,639,458</u>      | <u>4,290,901</u> |

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

**Khawaja Iqbal Hassan**  
President / Chief Executive

**Francis A. Rozario**  
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**Syed Aamir Zahidi**  
Director

**Thomas Patrick Sodano**  
Director

# Consolidated Statement of Changes in Equity for the year ended December 31, 2007

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|  | Share<br>capital  | Reserves                   |                      |                    |                                   | Sub Total         | Minority<br>Interest | Total             |
|--|-------------------|----------------------------|----------------------|--------------------|-----------------------------------|-------------------|----------------------|-------------------|
|  |                   | Capital                    |                      | Revenue            |                                   |                   |                      |                   |
|  |                   | Share<br>premium           | Statutory<br>reserve | General<br>reserve | Unappropriated<br>profit / (loss) |                   |                      |                   |
|  |                   |                            |                      |                    |                                   |                   |                      |                   |
|  |                   | <----- Rupees '000' -----> |                      |                    |                                   |                   |                      |                   |
| <b>Balance as at December 31, 2005</b>                                       | 3,361,522         | 639,744                    | 49,407               | 5,472              | 197,626                           | 4,253,771         | -                    | 4,253,771         |
| Profit after taxation  | -                 | -                          | -                    | -                  | 125,937                           | 125,937           | -                    | 125,937           |
| Transferred to statutory reserve   | -                 | -                          | 25,187               | -                  | (25,187)                          | -                 | -                    | -                 |
| <b>Balance as at December 31, 2006</b>                                       | 3,361,522         | 639,744                    | 74,594               | 5,472              | 298,376                           | 4,379,708         | -                    | 4,379,708         |
| Loss after taxation  | -                 | -                          | -                    | -                  | (203,565)                         | (203,565)         | 92,070               | (111,495)         |
| Issue of right shares  | 18,656,446        | -                          | -                    | -                  | -                                 | 18,656,446        | -                    | 18,656,446        |
| Minority interest arising on acquisition                                     | -                 | -                          | -                    | -                  | -                                 | -                 | (1,248,078)          | (1,248,078)       |
| Minority share of deficit on revaluation<br>of available for sale securities | -                 | -                          | -                    | -                  | -                                 | -                 | (67,044)             | (67,044)          |
| Acquisition of minority interest   | -                 | -                          | -                    | -                  | -                                 | -                 | 1,223,052            | 1,223,052         |
| Right share issue cost - net of tax  | -                 | -                          | -                    | -                  | (85,908)                          | (85,908)          | -                    | (85,908)          |
| <b>Balance as at December 31, 2007</b>                                       | <b>22,017,968</b> | <b>639,744</b>             | <b>74,594</b>        | <b>5,472</b>       | <b>8,903</b>                      | <b>22,746,681</b> | <b>-</b>             | <b>22,746,681</b> |

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

**Khawaja Iqbal Hassan**  
President / Chief Executive

**Francis A. Rozario**  
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**Syed Aamir Zahidi**  
Director

**Thomas Patrick Sodano**  
Director

# Notes to the Consolidated Financial Statements for the year ended December 31, 2007

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## 1. STATUS AND NATURE OF BUSINESS

The "Group" consists of:

### Holding Company

#### NIB Bank Limited (the Bank)

NIB Bank Limited is incorporated in Pakistan and its registered office is situated at Muhammadi House, I.I.Chundrigar Road, Karachi in the province of Sindh. The Bank is listed on all the stock exchanges in Pakistan and has 240 branches (2006: 41 branches). The Bank is a scheduled commercial bank and is principally engaged in the business of banking as defined in the Banking Companies Ordinance, 1962.

During the year, the State Bank of Pakistan (SBP) sanctioned a scheme of amalgamation (the scheme) under section 48 of Banking Companies Ordinance 1962, on December 31, 2007 by virtue of which Pakistan Industrial Credit and Investment Corporation Limited "PICIC" and PICIC Commercial Bank Limited "PCBL" were amalgamated with and into NIB Bank Limited on December 31, 2007 (at close of business). This scheme of amalgamation had earlier been approved by shareholders of the Bank in their extra ordinary general meeting held on November 26, 2007.

NIB Bank Limited is a subsidiary of Bugis Investments (Mauritius) Pte. Limited which is a wholly owned subsidiary of Fullerton Financial Holdings Pte. Limited which in turn is a wholly owned subsidiary of Temasek Holdings, an investment arm of the Government of Singapore.

### Subsidiary Companies

Following are the subsidiaries consolidated in these financial statements:

|                          | PICIC Asset Management Company Limited            | PICIC Exchange Company (Private) Limited |
|--------------------------|---|--|
| Share holding            | 100%  | 100%                                     |
| Date of acquisition      | June 30, 2007                                     | June 30, 2007                            |
| Nature of business       | Investment Advisory and Asset Management Services | Dealing in Foreign Exchange              |
| Country of incorporation | Pakistan  | Pakistan                                 |

The Bank has acquired interest in PICIC Asset Management Company Limited (PICIC AMC) and PICIC Exchange Company (Pvt.) Limited by virtue of acquisition and amalgamation of PICIC and PCBL respectively. Interest in these subsidiaries was acquired in the same phases as mentioned in note 7.2.

The Bank has also acquired 95.89% interest in Financial and Management Services (Pvt.) Limited by virtue of acquisition and amalgamation of PICIC. This subsidiary has not been consolidated as it is not material and is fully provided in these financial statements.

# Notes to the Consolidated Financial Statements for the year ended December 31, 2007

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## 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 purchase 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. STATEMENT OF COMPLIANCE

3.1 These consolidated financial statements are prepared in accordance with the directives issued by the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan, the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984 and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards as are notified under the provision of the Companies Ordinance, 1984. Wherever the requirements of the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984, or directives issued by the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the requirements of the said directives take precedence.

3.2 The SBP as per BSD Circular Letter 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. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

### 3.3 Interpretations to published approved accounting standards that are not yet effective

The following standards and interpretations with respect to approved Accounting Standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretations.

| Standards and Interpretations |   | Effective date (accounting periods beginning on or after) |
|-------------------------------|---|---|
| IAS 1                         | Presentation of Financial Statements  | January 01, 2009  |
| IAS 23                        | Borrowings Costs  | January 01, 2009  |
| IAS 27                        | Consolidated and Separate Financial Statements  | January 01, 2009  |
| IFRS 3                        | Business Combinations   | January 01, 2009  |
| IFRIC 11                      | Group and Treasury Share Transactions   | March 01, 2007  |
| IFRIC 12                      | Service Concession Arrangements   | January 01, 2008  |
| IFRIC 13                      | Customer Loyalty Programs   | July 01, 2008   |
| IFRIC 14                      | The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interactions | January 01, 2008  |
| IAS 41                        | Agriculture   | May 22, 2007  |

# Notes to the Consolidated Financial Statements for the year ended December 31, 2007

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The Group expects that the adoption of the above standards and interpretations will have no material impact on the Group's consolidated financial statements in the period of initial application.

In addition to the above, the following new standards have been issued by the IASB but have not yet been adopted by the Institute of Chartered Accountants of Pakistan or notified by the SECP and hence presently do not form part of the local financial reporting framework: -

|        |                                    |
|--------|------------------------------------|
| IFRS 4 | Insurance Contracts                |
| IFRS 7 | Financial Instruments: Disclosures |
| IFRS 8 | Operating Segments                 |

## 4. BASIS OF MEASUREMENT

These consolidated financial statements have been prepared under the historical cost convention, except for the measurement of certain investments and commitments in respect of forward exchange contracts that are taken at revalued amounts and staff retirement benefit (Gratuity) stated at present value.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Basis of Consolidation

#### Subsidiaries

Subsidiaries are entities controlled by the Group. Control exist when the Group has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### Initial acquisition

The first phase of acquisition of the entities is accounted for by applying "the purchase method". Under this method the cost of acquisition is measured as fair value of the assets given and the liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identified assets acquired, liabilities and contingent liabilities assumed are fair valued at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of identifiable net assets acquired is recorded as goodwill.

#### Acquisition of entities under common control

Further acquisition of control in subsidiaries on second and third phases is determined as "business combinations under common control". The fair value of net assets acquired at first phase of the acquisition is treated as carrying value and after taking effect of operations between the periods after first phase of acquisition till cut off date for subsequent acquisitions, the carrying value of net assets were determined. The excess of cost of acquisition over the carrying value of identifiable net assets acquired is included in the goodwill.

## Transactions eliminated on consolidation

Material intra - group balances and transactions have been eliminated.

## 5.2 Revenue recognition

Mark-up / return on performing loans / advances and investments is recognized on time proportionate basis. Where debt securities are purchased at premium or discount, those premiums / discounts are amortized using effective interest rate through the profit and loss account over the remaining period of maturity so as to produce a constant rate of return. Interest or mark-up recoverable on non-performing advances is recognized on a receipt basis in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan as amended from time to time.

The financing method is used in accounting for income on finance leases and hire purchase transactions. Under this method, the unearned income, i.e. the excess of aggregate lease rentals and the estimated residual value over the net investment (cost of leased assets) is deferred and then amortized to income over the term of the lease on a pattern reflecting a constant periodic rate of return on the net investment in lease. Unrealized lease income is suspended, where necessary, in accordance with the requirements of the Prudential regulations issued by SBP.

Rental income from assets given on operating lease is recognized on time proportionate basis over the lease period.

Gains / losses on termination of lease contracts, documentation charges and other lease income are recognized as income when they are realized.

Fee, commission and brokerage is recognized at the time of performance of service.

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

Management fee of the mutual funds managed by the Group is recognized on an accrual basis.

## 5.3 Grants and assistance

In terms of Kreditanstalt für Wiederaufbau (KfW) loan relented by the Government of Pakistan (GoP), the Group is required to bear interest at 11 percent per annum and pay to GoP interest at 10 percent per annum and transfer the remaining 1 percent per annum margin to a counter part fund to be used by the Group for financing feasibility surveys, market surveys and similar investigations destined for the preparation of projects.

Future benefits comprising of funds available for utilization is presented in the consolidated balance sheet as deferred income. Benefits availed to the extent of matching expenses charged to the income have been recognized in the profit and loss account as miscellaneous income.

## 5.4 Investments

Investments of the Group, other than investments in associates are classified as securities held-to-maturity, held-for-trading and available-for-sale.

### Held-to-maturity

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

### Held-for-trading

These securities are either acquired for generating a profit from short-term fluctuations in prices or securities included in portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

### Available-for-sale

These are securities which do not fall under held for trading or held to maturity securities.

### Initial Measurement

Investments in securities are recognized on trade-date basis and initially measured at fair value.

### Subsequent measurement

#### Held-to-maturity

These are measured at amortized cost using effective interest rate method, less any impairment loss recognized to reflect irrecoverable amount.

#### Held-for-trading

These are measured at subsequent reporting dates at fair value. Gains and losses on remeasurement are included in the net profit and loss for the year.

#### Available for sale

Quoted securities classified as available for sale investments are measured at subsequent reporting dates at fair value and surplus / deficit arising thereon is kept in a separate account shown in the consolidated balance sheet below equity. The surplus / deficit arising on these securities is taken to the consolidated profit and loss account when actually realized upon disposal.

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

### Investment in Associates

Investments in associates are accounted for under equity method.

Provision for diminution in the value of investments is made for permanent impairment, if any, in their value.

Gain or loss on sale of investments is included in profit and loss for the year.



## 5.5 Lendings to / borrowings from financial institutions

Securities sold subject to a repurchase agreement (repo) are retained in the consolidated financial statements as investments and the counter party liability is included in borrowings. Securities purchased under agreement to resale (reverse repo) are not recognized in the consolidated financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. In case of continuous funding system transactions are shown under advances. The difference between sale and repurchase / purchase and resale price is treated as markup / return expensed or earned as the case may be.

## 5.6 Advances

Advances including continuous funding system and net investment in finance lease are stated net of provisions. Provisions comprise of:

### Specific provision

The Group maintains specific provisions for doubtful debts at a level that can reasonably be anticipated keeping in view, the requirements of the Prudential Regulations issued by the SBP.

### General provision

The Group maintains general provision at the rate of 5% against unsecured consumer portfolio and at the rate of 1.5% against secured consumer portfolio in accordance with the Prudential Regulations issued by the SBP.

### Net investment in finance lease

Lease including hire purchase where the Group transfers substantially all the risks and rewards incidental to the ownership of an asset and are classified as finance lease. Net investment in finance lease is recognized at an amount equal to the aggregate of minimum lease payments including any guaranteed residual value and excluding unearned finance income, if any.

## 5.7 Operating fixed assets / depreciation and amortization

### Property and equipment

#### Owned

Property and equipment except leasehold land is stated at cost less accumulated depreciation and accumulated impairment loss, if any. Leasehold land is stated at cost.

Depreciation is charged to income applying the straight line method over the estimated useful lives while taking into account any residual value, at the rates given in note 13.2 to the consolidated financial statements. In respect of additions and deletions to assets during the year, depreciation is charged from the month of acquisition while depreciation on disposals during the year is charged upto the month of disposal.

Normal repairs and maintenance is charged to profit and loss account for the year as and when incurred. Major repairs and improvements are capitalized and assets so replaced are retired.

Gains and losses on disposal of property and equipment if any, are taken to profit and loss account for the year.

**Assets held under Finance Lease**

Assets held under finance leases are stated at cost less accumulated depreciation. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods. Depreciation on assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the Group.

Finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of return on the outstanding liability.

**Assets held under Operating Lease**

Operating lease assets are stated at cost less accumulated depreciation and impairment, if any.

Repairs and maintenance is charged to profit and loss account as and when incurred.

**Capital work in progress**

These are stated at cost.

**Intangible assets****Goodwill**

Goodwill represents the excess of cost of an acquisition over the fair value / carrying value of the share of net identifiable assets acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment.

**Computer Software**

Computer Softwares are stated at cost less accumulated amortization and accumulated impairment loss, if any. Amortization is carried out on the straight line method at the rates given in note 13.3 to the financial statements.

**Management Rights**

In case of PICIC AMC intangible asset comprise of Management Rights of PICIC Investment Fund and PICIC Growth Fund acquired from PICIC. These rights are stated at cost less accumulated amortization and impairment loss, if any. Amortization is being charged on a straight line basis over a period of 10 years.

**Acquired intangibles in business combination**

Acquired intangibles in business combination that have finite lives are amortized over their economic useful life based on the manner that benefits of the relevant assets are consumed.

**5.8 Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount of goodwill is estimated at each reporting date. Recoverable amount is the greater of net selling price and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, where an impairment loss reverses subsequently, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for that asset in prior years. A reversal of an impairment loss is recognized as income immediately.

## 5.9 Staff retirement benefits

### Defined contribution Plan

The holding company operates a defined contributory provident fund for all its permanent employees. Equal monthly contributions are made both by the Bank and the employees to the fund at the rate of 10% of basic salary.

PICIC AMC also operates an approved funded contributory provident fund for all its regular employees. Equal monthly contributions are made both by PICIC AMC and the employees at the rate of 10% per annum of the basic salary.

### Defined benefit Plan

The holding company operates an unfunded gratuity scheme covering all eligible employees who have attained the minimum qualifying period of five years. Eligible employees are those employees who have joined service of the holding company on or before the March 31, 2006. Provision is made in accordance with the actuarial recommendations. Actuarial valuation is carried out periodically using "Projected unit Credit Method".

Actuarial gain / loss is recognized using 10% corridor approach. Corridor is defined as greater of 10% of present value of defined benefit obligation and fair value of plan assets.

PICIC AMC also operates an approved funded gratuity scheme for all its regular employees who have completed the minimum qualifying period of service as defined under the scheme. Contributions are made to cover the obligations under the schemes on the basis of actuarial valuation and are charged to income.

Consequent to the amalgamation of PICIC and PCBL with and into NIB Bank, the retirement benefit funds instituted by these merged entities for employees would be terminated and wound up in accordance with the Trust Deeds of the funds. The employees of these entities have been transferred to the merged entity as fresh employees effective December 31, 2007.

## 5.10 Taxation

### Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration the tax credits and rebates available and any adjustments to tax payable in respect of previous years.

### Deferred

Deferred tax is recognized using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. However, deferred tax is not recognised on the initial recognition of goodwill. The Group records deferred tax assets/liabilities using the tax rates, enacted or substantially enacted at the balance sheet date expected to be applicable at the time of its reversal.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Group recognizes deferred tax asset/liability on deficit/surplus on revaluation of securities in accordance with the requirements of the International Accounting Standard (IAS) 12 "Income Taxes". The related deferred tax asset/liability is adjusted against the related deficit/surplus.

The Group recognizes deferred tax asset for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized in accordance with the requirements of the International Accounting Standard (IAS) 12 "Income Taxes".

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## 5.11 Provisions

Provisions are recognized 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 quarterly and are adjusted to reflect the current best estimate.

## 5.12 Off setting

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

## 5.13 Dividend

Dividend is recognized as a liability in the period in which it is declared.

## 5.14 Distributions of bonus shares and other appropriations to reserves

The Group recognizes all appropriations, other than statutory appropriations, to reserves including those in respect of bonus shares made after the balance sheet date, in the period in which such appropriations are approved.

## 5.15 Foreign currencies

Transactions in foreign currencies are translated to rupees at the foreign exchange rates prevailing at the transaction date. Assets and liabilities in foreign currencies are translated into Rupees at the rates of exchange approximating those prevailing at the balance sheet date. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

Commitments for outstanding forward exchange contracts are disclosed in these consolidated financial statements at committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Rupee terms at the rates of exchange approximating those prevailing at the balance sheet date.

Assets against which the constituents have exercised their option to transfer exchange risk to the Group and liabilities for which the bank has exercised its option to transfer exchange risk to the Government, are translated at the rates of exchange guaranteed by the bank and the Government, respectively.

Assets, liabilities, commitments and contingent liabilities in respect of Bangladesh are translated at parity rates approximating to those prevailing prior to August 15, 1971.

Exchange gains and losses are included in income currently except net unrealized exchange gain on long-term monetary items, which as a matter of prudence, is carried forward as unrealized gain in view of uncertainty associated with its realization.

## 5.16 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks.

## 5.17 Financial instruments

All financial assets and liabilities are recognized at the time when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the Group loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any loss on derecognition of the financial assets and financial liabilities is taken to income directly. Financial assets carried on the consolidated balance sheet include cash and bank balances, lendings to financial institutions, investments, advances, certain receivables and financial liabilities include borrowings, deposits, bills payable and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

## 5.18 Derivative financial instruments

Derivative financial instruments are recognized at their fair value on the date on which a derivative contract is entered into. These instruments are marked to market and changes in fair values are taken to the consolidated profit and loss account. Fair values are obtained from quoted market prices in active markets.

## 5.19 Segment reporting

A segment is a distinguishable component of the Group that is engaged 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. The Group's primary format of reporting is based on business segments.

### 5.19.1 Business Segments

#### Corporate Banking

Corporate Banking includes underwriting and IPO related activities.

#### Trading and sales

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

#### Retail and consumer Banking

It represents retail lending and deposits, banking services, private lending and deposits, banking services and retail offered to its retail customers and small and medium enterprises.

#### Commercial Banking

It represents projects finance, export finance, trade finance, leasing, lending, guarantees and bills of exchange relating to its corporate customers.

### 5.19.2 Geographical segments

The Group operates in Pakistan only.

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

In the process of applying the Group's accounting policies, which are described in note 5, management has made the following judgments and estimated uncertainty that have the significant effect on the amounts recognized in the consolidated financial statements:

### 6.1 Held-to-maturity securities

As described in note 5.4, held-to-maturity securities are investments where the management has positive intent and ability to hold to maturity. The classification of these securities involves management judgment whether the financial assets are held to maturity investments.

### 6.2 Provision against non-performing advances

Apart from the provision determined on the basis of time based criteria given in Prudential Regulations of the SBP, management also applies subjective criteria of classification and accordingly the classification of an advance is downgraded on the basis of evaluation of credit worthiness of borrower, its cash flows, operations in account and adequacy of security in order to ensure accurate measurement of the provision.

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## 6.3 Retirement Benefits

The key actuarial assumptions concerning the valuation of defined benefit plan and the sources of estimation are disclosed in note 34.2 to the consolidated financial statements.

## 6.4 Useful life of property and equipment

Estimates of useful life of the property and equipment are based on management's best estimate.

## 6.5 Fair value determination on acquisition

The fair value determined on acquisition is disclosed in the note 7 to the consolidated financial statements.

## 6.6 Deferred taxation

As described in note 5.10, deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Assessment of future taxable profits involves management judgment.

## 7. BUSINESS COMBINATION

7.1 Pursuant to a scheme of amalgamation duly approved by State Bank of Pakistan, the entire undertakings of PICIC and PCBL were merged with and into NIB Bank Limited effective December 31, 2007 as at close of business. PCBL was a subsidiary of PICIC by virtue of a 60% holding in its share capital.

The above mentioned entities were acquired by the holding company in phases as follows:

### 7.2 Pakistan Industrial Credit and Investment Corporation A Development Finance

|           | Mode of acquisition | Date of acquisition | Proportion of shares acquired |
|-----------|---------------------|---------------------|-------------------------------|
| 1st Phase | Cash consideration  | 30-Jun-07           | 63.36%                        |
| 2nd Phase | Cash consideration  | 30-Sep-07           | 4.51%                         |
| 3rd Phase | Issuance of shares  | 31-Dec-07           | 32.13%                        |

### PICIC Commercial Bank Limited A Scheduled Commercial Bank

|           |                    |           |        |
|-----------|--------------------|-----------|--------|
| 1st Phase | *Indirect          | 30-Jun-07 | 38.02% |
| 2nd Phase | Cash consideration | 30-Sep-07 | 4.96%  |
|           | *Indirect          | 30-Sep-07 | 2.70%  |
| 3rd Phase | Issuance of shares | 31-Dec-07 | 32.51% |
|           | *Indirect          | 31-Dec-07 | 21.81% |

\* Shareholding by the holding company in PCBL was acquired indirectly by virtue of acquisition of shares in PICIC.

7.3 As a result of the amalgamation, PICIC will no more remain a Development Finance Institution.

7.4 Details of net assets acquired and goodwill are as follows:

| Purchase consideration:                  | 1st Phase                  | 2nd Phase | 3rd Phase  | Total      |
|--|----------------------------|-----------|------------|------------|
|  | <----- Rupees '000' -----> |           |            |            |
| Cash paid                                | 20,521,393                 | 1,911,898 | -          | 22,433,291 |
| Shares to be issued                      | 7.7                        | -         | 14,026,177 | 14,026,177 |
| Direct costs relating to the acquisition | 144,802                    | -         | -          | 144,802    |
| Total Purchase consideration             | 20,666,195                 | 1,911,898 | 14,026,177 | 36,604,270 |
| Less: Fair value of net assets acquired  |                            |           |            |            |
| PICIC                                    | 3,703,413                  | -         | -          | 3,703,413  |
| PCBL                                     | 1,265,773                  | -         | -          | 1,265,773  |
|  | 4,969,186                  | -         | -          | 4,969,186  |
| Carrying value of net assets acquired    |                            |           |            |            |
| PICIC                                    | -                          | 153,937   | 2,583,288  | 2,737,225  |
| PCBL                                     | -                          | 238,452   | 1,883,884  | 2,122,336  |
|  | -                          | 392,389   | 4,467,172  | 4,859,561  |
| Total net assets acquired                | 4,969,186                  | 392,389   | 4,467,172  | 9,828,747  |
| Goodwill on merger                       | 15,697,009                 | 1,519,509 | 9,559,005  | 26,775,523 |

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- 7.5 The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets liabilities and contingent liabilities and the cost of the combination.

In connection with the above, the management is in the process of carrying out a detailed exercise for identification and valuation of intangible assets required to be separately recognized under the initial accounting for the acquiring under International Financial Reporting Standard ("IFRS") 3, Business Combinations, and the exercise is expected to be completed shortly. IFRS 3 envisages such a situation and allows an acquirer to account for the acquisition using provisionally values if the initial accounting for the acquisition can be determined only provisionally by the year end. However, adjustments to these provisional values consequent to completion of the initial accounting of the acquisition is required, under IFRS 3, to be incorporated in the financial statements with effect from the acquisition date, within a period of twelve months from the acquisition date.

The management expects to finalize the determination of valuation of such intangible assets before one year from the acquisition date, in compliance with the time frame envisaged in IFRS 3.

- 7.6 The goodwill is attributable to the significant synergies expected to arise from the development of PICIC & PCBL within the NIB Group and to those other intangibles, such as the branch network, which are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

- 7.7 In the acquisition of PICIC and PCBL 424,409,837 and 217,520,480 ordinary shares were issued respectively at a fair value of Rs. 21.85/- per share. In both acquisitions the fair value was proposed by external consultants and subsequently revised by the State Bank of Pakistan.

- 7.8 The assets and liabilities arising from the acquisition on June 30, 2007 are as follows:

|   | PICIC                      |                           | PCBL              |                           | Total              |
|---|----------------------------|---------------------------|-------------------|---------------------------|--------------------|
|   | Fair Value                 | Acquiree's carrying value | Fair Value        | Acquiree's carrying value | Fair Value         |
|   | <----- Rupees '000' -----> |                           |                   |                           |                    |
| Cash and balances with treasury banks               | 212,049                    | 212,049                   | 6,932,504         | 6,932,504                 | 7,144,553          |
| Balances with other banks                           | 1,000,350                  | 1,000,350                 | 3,245,910         | 3,245,910                 | 4,246,260          |
| Lendings to financial institutions                  | 575,048                    | 575,048                   | 5,077,039         | 5,077,039                 | 5,652,087          |
| Investments   | 12,979,250                 | 13,241,134                | 27,583,282        | 28,019,863                | 40,562,532         |
| Advances  | 12,500,963                 | 16,033,028                | 31,451,468        | 33,334,675                | 43,952,431         |
| Operating fixed assets                              | 1,508,135                  | 315,778                   | 1,352,175         | 917,678                   | 2,860,310          |
| Deferred tax assets                                 | 1,750,776                  | 1,009,344                 | 1,114,567         | 478,071                   | 2,865,343          |
| Other assets  | 705,809                    | 705,809                   | 1,390,753         | 1,390,753                 | 2,096,562          |
| <b>Total assets</b>                                 | <b>31,232,380</b>          | <b>33,092,540</b>         | <b>78,147,698</b> | <b>79,396,493</b>         | <b>109,380,078</b> |
| Bills Payable                                       | -                          | -                         | 837,434           | 837,434                   | 837,434            |
| Borrowings from financial institutions              | 6,189,335                  | 6,189,335                 | 3,889,475         | 3,889,475                 | 10,078,810         |
| Deposits and other accounts                         | 17,545,730                 | 17,545,730                | 68,730,058        | 68,730,058                | 86,275,788         |
| Liabilities against assets subject to finance lease | -                          | -                         | 9,526             | 9,526                     | 9,526              |
| Other liabilities                                   | 1,652,283                  | 1,652,283                 | 1,351,625         | 1,351,625                 | 3,003,908          |
| <b>Total Liabilities</b>                            | <b>25,387,348</b>          | <b>25,387,348</b>         | <b>74,818,118</b> | <b>74,818,118</b>         | <b>100,205,466</b> |
| <b>Total Net Assets</b>                             |                            |                           |                   |                           | <b>9,174,611</b>   |

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- 7.9 The carrying values of the net assets as on September 30, 2007 of PICIC and PCBL were Rs.5,766.35 million and Rs.3,485.13 million respectively.

## 7.10 Amalgamation

The assets and liabilities balances of PICIC and PCBL as at December 31, 2007 were as follows:

|   | PICIC                      | PCBL              | TOTAL              |
|---|----------------------------|-------------------|--------------------|
|   | <----- Rupees '000' -----> |                   |                    |
| <b>Assets</b>                                       |                            |                   |                    |
| Cash and balances with treasury banks               | 156,717                    | 6,147,494         | 6,304,211          |
| Balances with other banks                           | 534,704                    | 326,125           | 860,829            |
| Lendings to financial institutions                  | 1,294,225                  | 17,500,000        | 18,794,225         |
| Investments   | 11,906,395                 | 19,539,931        | 31,446,326         |
| Advances  | 10,592,959                 | 26,723,065        | 37,316,024         |
| Operating fixed assets                              | 1,468,581                  | 1,275,171         | 2,743,752          |
| Deferred tax assets                                 | 1,843,405                  | 1,135,442         | 2,978,847          |
| Other assets  | 705,057                    | 1,234,410         | 1,939,467          |
| <b>Total Assets</b>                                 | <b>28,502,043</b>          | <b>73,881,638</b> | <b>102,383,681</b> |
| <b>Liabilities</b>                                  |                            |                   |                    |
| Bills Payable                                       | -                          | 1,494,323         | 1,494,323          |
| Borrowings from financial institutions              | 9,569,646                  | 6,870,079         | 16,439,725         |
| Deposits and other accounts                         | 10,792,948                 | 60,723,665        | 71,516,613         |
| Liabilities against assets subject to finance lease | -                          | 7,176             | 7,176              |
| Other liabilities                                   | 1,493,617                  | 1,275,629         | 2,769,246          |
| <b>Total Liabilities</b>                            | <b>21,856,211</b>          | <b>70,370,872</b> | <b>92,227,083</b>  |
| <b>Net Assets</b>                                   | <b>6,645,832</b>           | <b>3,510,766</b>  | <b>10,156,598</b>  |

- 7.11 Had these business combinations been affected at January 01, 2007, the operating loss of the holding company would have been Rs.315 million and loss before tax be Rs.5,154 million.

## 7.12 Share of post acquisition profit from amalgamating entities - Net of tax For the period from July 01, 2007 to December 31, 2007

|  | PICIC                      | PCBL      | Total     |
|--|----------------------------|-----------|-----------|
|  | <----- Rupees '000' -----> |           |           |
| Mark-up / return / interest earned             | 559,219                    | 1,372,116 | 1,931,335 |
| Mark-up / return / interest expensed           | 636,157                    | 955,698   | 1,591,855 |
| Net mark-up / interest (loss) / income         | (76,938)                   | 416,418   | 339,480   |
| Provision / diminution / write offs            | 72,307                     | 126,166   | 198,473   |
| Net mark-up / interest (loss) after provisions | (149,245)                  | 290,252   | 141,005   |
| Non mark-up / interest income                  | 417,819                    | 164,364   | 582,183   |
|  | 268,574                    | 454,616   | 723,190   |
| Non mark-up / interest expenses                | 194,359                    | 328,072   | 522,431   |
| Profit before taxation                         | 74,215                     | 126,544   | 200,759   |
| Taxation                                       | (130,977)                  | 3,885     | (127,092) |
|  | 205,192                    | 122,659   | 327,851   |
| Consolidation adjustments                      | (127,889)                  | (3,315)   | (131,204) |
| Profit after taxation                          | 77,303                     | 119,344   | 196,647   |



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| 8. CASH AND BALANCES WITH TREASURY BANKS                         | Note | 2007<br>(Rupees '000') | 2006             |
|--|------|------------------------|------------------|
| In hand  |      |                        |                  |
| Local currency   | 8.1  | 1,741,488              | 419,041          |
| Foreign currencies   |      | 385,341                | 176,910          |
| With State Bank of Pakistan in                                   |      |                        |                  |
| Local currency current account                                   | 8.2  | 7,073,389              | 1,853,586        |
| Local currency deposit account                                   |      | 124,000                | -                |
| Foreign currency current accounts                                | 8.3  | 399,545                | 124,085          |
| Foreign currency deposit account                                 | 8.4  | 370,581                | 354,496          |
| With National Bank of Pakistan in local currency current account |      | 235,728                | 286              |
|  |      | <u>10,330,072</u>      | <u>2,928,404</u> |

**8.1** This includes National Prize Bonds of Rs.10.369 million (2006 : Rs. 0.924 million).

**8.2** The current account is maintained under the requirements of Section 22 of the Banking Companies Ordinance, 1962.

**8.3** This includes special cash reserve at nil return required to be maintained with the SBP on deposits held under the new foreign currency scheme.

**8.4** This represents special cash reserve at 5% required to be maintained with SBP on deposits held under the new foreign currency account scheme at the rate of return ranging from 3.71% to 4.72% (2006: 4.32% to 4.39%) per annum on monthly basis.

| 9. BALANCES WITH OTHER BANKS        |     | 2007<br>(Rupees '000') | 2006             |
|-------------------------------------|-----|------------------------|------------------|
| In Pakistan                         |     |                        |                  |
| On current accounts                 |     | 140,819                | 1,652            |
| On deposit accounts                 | 9.1 | 1,442,239              | 1,100,000        |
| Outside Pakistan                    |     |                        |                  |
| On current accounts                 | 9.2 | 729,217                | 264,809          |
| On deposit account                  |     | 1,075                  | -                |
|                                     |     | <u>2,313,350</u>       | <u>1,366,461</u> |
| Provision against doubtful balances |     | (3,964)                | (3,964)          |
|                                     |     | <u>2,309,386</u>       | <u>1,362,497</u> |

**9.1** This includes Rs. 500 million (2006 : 1,100 million) short term placements carrying interest rate ranging from 10% to 10.50 % per annum (2006: 11.50% to 12.55% per annum) maturing within three months.

**9.2** This includes amount held in automated investment plans. This balance is current by nature and on increase in the balance over specified amount, interest is received from the correspondent banks at various rates.

# Notes to the Consolidated Financial Statements for the year ended December 31, 2007

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|   | Note        | 2007<br>(Rupees '000') | 2006             |
|---|-------------|------------------------|------------------|
| <b>10. LENDINGS TO FINANCIAL INSTITUTIONS</b> |             |                        |                  |
| Call money lendings                           | 10.2        | 2,875,000              | 1,850,000        |
| Repurchase agreement lendings (Reverse Repo)  | 10.3 & 10.4 | 1,878,113              | 750,000          |
|   |             | <u>4,753,113</u>       | <u>2,600,000</u> |

## 10.1 Particulars of Lendings

|                       |                  |                  |
|-----------------------|------------------|------------------|
| In local currency     | 4,753,113        | 2,600,000        |
| In foreign currencies | -                | -                |
|                       | <u>4,753,113</u> | <u>2,600,000</u> |

**10.2** These represent Call money lendings to financial institutions carrying mark-up rates ranging from 9.55% to 10.70% (2006 : 11.25% to 12.70%) per annum and having maturity upto three months.

**10.3** These represent repurchase agreement lendings to financial institutions carrying mark-up rates ranging from 8.35% to 9.95% (2006 : 9% to 9.4%) per annum and having maturity upto two months.

## 10.4 Securities held as collateral against lendings to financial institutions

|                           | 2007                     |                             |                  | 2006           |                             |                |
|---------------------------|--------------------------|-----------------------------|------------------|----------------|-----------------------------|----------------|
|                           | Held by Group            | Further given as collateral | Total            | Held by bank   | Further given as collateral | Total          |
|                           | ----- Rupees '000' ----- |                             |                  |                |                             |                |
| Treasury Bills            | 33,103                   | 395,010                     | 428,113          | -              | -                           | -              |
| Pakistan Investment Bonds | 1,450,000                | -                           | 1,450,000        | 750,000        | -                           | 750,000        |
|                           | <u>1,483,103</u>         | <u>395,010</u>              | <u>1,878,113</u> | <u>750,000</u> | <u>-</u>                    | <u>750,000</u> |

# Notes to the Consolidated Financial Statements for the year ended December 31, 2007

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## 11. INVESTMENTS

### 11.1 (a) Investments by types:

| Note  | 2007                       |                     |           | 2006         |                     |         |
|---|----------------------------|---------------------|-----------|--------------|---------------------|---------|
|   | Held By Group              | Given as Collateral | Total     | Held By Bank | Given as Collateral | Total   |
|   | ←----- Rupees '000' -----> |                     |           |              |                     |         |
| <b>Held for trading securities</b>                                  | 11.2                       | 295,270             | -         | 295,270      | -                   | -       |
| <b>Available for sale securities</b>                                |                            |                     |           |              |                     |         |
| Market Treasury Bills   | 11.3                       | 11,131,480          | 7,833,475 | 18,964,955   | 4,343,209           | 922,613 |
| Pakistan Investment Bonds   | 11.3                       | 6,795,794           | 1,526,128 | 8,321,922    | -                   | -       |
| Defence Saving Certificates   | 11.4                       | 5,771               | -         | 5,771        | -                   | -       |
| Cumulative Preference shares  | 11.5                       | 100,000             | -         | 100,000      | 25,000              | -       |
| Investments in mutual funds   |                            | 375,003             | -         | 375,003      | -                   | -       |
| Ordinary shares / certificates in listed companies / modarabas      | 11.6                       | 3,544,832           | -         | 3,544,832    | 207,383             | -       |
| Ordinary shares of unlisted companies                               | 11.6                       | 64,280              | -         | 64,280       | -                   | -       |
| Term Finance Certificates   |                            | 1,551,287           | -         | 1,551,287    | -                   | -       |
|   |                            | 23,568,447          | 9,359,603 | 32,928,050   | 4,575,592           | 922,613 |
| <b>Held to maturity securities</b>                                  |                            |                     |           |              |                     |         |
| Pakistan Investment Bonds   | 11.3                       | 433,825             | -         | 433,825      | 439,591             | -       |
| Term Finance Certificates   |                            | 363,484             | -         | 363,484      | 436,513             | -       |
|   |                            | 797,309             | -         | 797,309      | 876,104             | -       |
| <b>Associates</b>   | 11.11                      | 4,882,026           | -         | 4,882,026    | 272,803             | -       |
| <b>Subsidiaries</b>   | 11.12                      | 724                 | -         | 724          | -                   | -       |
| <b>Investments at cost</b>  |                            | 29,543,776          | 9,359,603 | 38,903,379   | 5,724,499           | 922,613 |
| Provision for diminution in value of investments                    | 11.13 & 11.14              | (123,006)           | -         | (123,006)    | (35,488)            | -       |
| <b>Investments - net of provisions</b>                              |                            | 29,420,770          | 9,359,603 | 38,780,373   | 5,689,011           | 922,613 |
| Deficit on revaluation of Held for trading securities               | 11.15                      | (5,231)             | -         | (5,231)      | -                   | -       |
| (Deficit) / surplus on revaluation of Available for sale securities | 22                         | (171,961)           | (1,554)   | (173,515)    | (47,703)            | 115     |
| <b>Total Investments at market value</b>                            |                            | 29,243,578          | 9,358,049 | 38,601,627   | 5,641,308           | 922,728 |

### 11.1 (b) Investments by segments:

|  | Note | 2007<br>(Rupees '000') | 2006      |
|--|------|------------------------|-----------|
| <b>Federal Government Securities</b>                             |      |                        |           |
| - Market Treasury Bills  | 11.3 | 18,964,955             | 5,265,822 |
| - Pakistan Investment Bonds                                      | 11.3 | 8,755,747              | 439,591   |
| - Defence Saving Certificate                                     | 11.4 | 5,771                  | -         |
| <b>Cumulative Preference Shares</b>                              | 11.5 | 100,000                | 25,000    |
| <b>Fully Paid-up Ordinary Shares &amp; Modaraba certificates</b> |      |                        |           |
| - Listed   | 11.6 | 3,830,231              | 207,383   |
| - Unlisted   | 11.7 | 64,280                 | -         |
| <b>Term Finance Certificates</b>                                 |      |                        |           |
| - Listed   | 11.8 | 600,581                | 71,210    |
| - Unlisted   | 11.9 | 1,314,190              | 365,303   |

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|   | Note          | 2007<br>(Rupees '000')   | 2006                    |
|---|---------------|--------------------------|-------------------------|
| <b>Investments in Mutual Funds (listed)</b>               | 11.10         | 384,874                  | -                       |
| <b>Investment in Associates</b>                           | 11.11         | 4,882,026                | 272,803                 |
| <b>Investment in Subsidiaries</b>                         | 11.12         | 724                      | -                       |
| <b>Total investments at cost</b>                          |               | <u>38,903,379</u>        | <u>6,647,112</u>        |
| Provision for diminution in value of investments          | 11.13 & 11.14 | (123,006)                | (35,488)                |
| <b>Investments (net of provisions)</b>                    |               | <u>38,780,373</u>        | <u>6,611,624</u>        |
| Deficit on revaluation of securities - held for trading   | 11.15         | (5,231)                  | -                       |
| Deficit on revaluation of securities - available for sale | 22            | (173,515)                | (47,588)                |
| <b>Total investments at market value</b>                  |               | <u><u>38,601,627</u></u> | <u><u>6,564,036</u></u> |

## 11.2 Held for trading securities

### Ordinary shares in listed Companies

| 2007          | 2006 |   |                |          |
|---------------|------|---|----------------|----------|
| No. of Shares |      |   |                |          |
| 25,000        | -    | Adamjee Insurance Company Limited       | 8,149          | -        |
| 200,000       | -    | Allied Bank Limited                     | 27,790         | -        |
| 825,000       | -    | BankIslami Pakistan Limited             | 12,326         | -        |
| 64,000        | -    | Engro Chemicals Pakistan Limited        | 17,760         | -        |
| 450,000       | -    | Fauji Fertilizer Bin Qasim Limited      | 17,550         | -        |
| 198,000       | -    | Indus Motor Company Limited             | 60,336         | -        |
| 50,000        | -    | National Bank of Pakistan Limited       | 12,428         | -        |
| 400,000       | -    | Oil and Gas Development Company Ltd.    | 47,920         | -        |
| 100,000       | -    | Pakistan Petroleum Limited              | 25,822         | -        |
| 50,000        | -    | Pakistan Telecommunication Co. Ltd. "A" | 2,850          | -        |
| 150,000       | -    | Soneri Bank Limited                     | 8,467          | -        |
| 150,000       | -    | Standard Chartered Bank (Pakistan) Ltd. | 7,943          | -        |
| 100,000       | -    | Sui Northern Gas Company Limited        | 6,933          | -        |
| 250,000       | -    | The Bank of Punjab                      | 29,125         | -        |
|               |      |   | <u>285,399</u> | <u>-</u> |

### Units of close ended mutual fund

|         |   |                      |              |          |
|---------|---|----------------------|--------------|----------|
| 500,000 | - | Meezan Balanced Fund | 5,125        | -        |
| 487,000 | - | NAMCO Balanced Fund  | 4,746        | -        |
|         |   |                      | <u>9,871</u> | <u>-</u> |

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**11.3** Market Treasury Bills and Pakistan Investment Bonds are held with SBP and are eligible for rediscounting. Market Treasury Bills embody effective yield ranging from 8.95% to 9.45% (2006 : 8.8% to 9.01%) maturing within 1 to 12 months and Pakistan Investment Bonds carry markup ranging from 8% to 10% (2006 : 8%) per annum on semi-annual basis maturing within 6 to 14 years. Certain government securities are required to be maintained with SBP to meet statutory liquidity requirement calculated on the basis of demand and time liabilities.

**11.4** During the year SBP issued lost DSCs to the holding company with 2 years restriction on disposal. These certificates carry interest rate of 6.5% per annum.

## 11.5 Particulars of investment in Cumulative Preference Shares

| Investee                               | Note   | Number of Shares /<br>Certificates held |           | Total nominal value |        |
|--|--------|---|-----------|---------------------|--------|
|  |        | 2007                                    | 2006      | 2007                | 2006   |
|  |        |   |           | (Rupees '000')      |        |
| Pak Electron Limited (PEL)             | 11.5.1 | 2,500,000                               | 2,500,000 | 25,000              | 25,000 |
| Fazal Cloth Mills Limited              | 11.5.2 | 2,500,000                               | -         | 25,000              | -      |
| Jamshoro Joint Venture Company Limited | 11.5.3 | 5,000,000                               | -         | 50,000              | -      |
|  |        |   |           | 100,000             | 25,000 |

**11.5.1** These preference shares carry fixed dividend of 9.5% on cumulative basis. For redemption, the payment of call option can be exercised by PEL up to 100% after 5 years of issue date on 1% premium of issue price. Conversion option of preference shares into ordinary shares can be exercised by the holding company up to 100% after 5 years of issue date as per ratio specified in the agreement.

**11.5.2** These preference shares are redeemable upon the exercise of call option by the company.

**11.5.3** Redeemable after 5 years of issuance, subject to 60% of the long term loans from Financial institution has been repaid.

## 11.6 Particulars of listed shares / certificates

|  | Number of<br>shares/<br>certificates<br>held | Paid-up<br>value per<br>share/<br>certificate<br><br>Rupees | Total<br>value<br>2007<br>(Rupees'000') |
|--|--|---|---|
| <b>Held for trading</b>                        |  |   |   |
| <b>Ordinary Share</b>                          |  |   |   |
| Engro Chemicals Pakistan Limited               | 64,000                                       | 10  | 640                                     |
| National Bank of Pakistan Limited              | 50,000                                       | 10  | 500                                     |
| Pakistan Petroleum Limited                     | 100,000                                      | 10  | 1,000                                   |
| Sui Northern Gas Company Limited               | 100,000                                      | 10  | 1,000                                   |
| Oil and Gas Development Company Limited        | 400,000                                      | 10  | 4,000                                   |
| Adamjee Insurance Company Limited              | 25,000                                       | 10  | 250                                     |
| Allied Bank Limited                            | 200,000                                      | 10  | 2,000                                   |
| Bank Islami Pakistan Limited                   | 825,000                                      | 10  | 8,250                                   |
| Soneri Bank Limited                            | 150,000                                      | 10  | 1,500                                   |
| Standard Chartered Bank(Pakistan) Limited      | 150,000                                      | 10  | 1,500                                   |
| The Bank of Punjab                             | 250,000                                      | 10  | 2,500                                   |
| Pakistan Telecommunication Company Limited "A" | 50,000                                       | 10  | 500                                     |

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|  | Number of<br>shares/<br>certificates<br>held | Paid-up<br>value per<br>share/<br>certificate<br><br>Rupees | Total<br>value<br>2007<br>(Rupees<br>'000') |
|--|--|---|---|
| Indus Motor Company Limited              | 198,000                                      | 10  | 1,980                                       |
| Fauji Fertilizer Bin Qasim Limited       | 450,000                                      | 10  | 4,500                                       |
| <b>Modaraba certificates</b>             |  |   |   |
| Meezan Balanced Fund                     | 500,000                                      | 10  | 5,000                                       |
| NAMCO Balanced Fund                      | 487,000                                      | 10  | 4,870                                       |
| <b>Available for sale</b>                |  |   |   |
| Abbott Laboratories Pakistan Limited     | 906,152                                      | 10  | 9,062                                       |
| Adamjee Insurance Company Limited        | 300,000                                      | 10  | 3,000                                       |
| Allied Bank Limited                      | 429,000                                      | 10  | 4,290                                       |
| Attock Cement Limited                    | 164,200                                      | 10  | 1,642                                       |
| Attock Refinery Limited                  | 499,140                                      | 10  | 4,991                                       |
| Awan Textile Mills Limited               | 39,000                                       | 10  | 390   |
| B.R.R. International Modaraba            | 899,250                                      | 10  | 8,993                                       |
| Bank Al-Habib Limited                    | 355,168                                      | 10  | 3,552                                       |
| BankIslami Pakistan Limited              | 335,146                                      | 10  | 3,351                                       |
| Berger Paints (Pakistan) Limited         | 447,160                                      | 10  | 4,472                                       |
| Bosicor Pakistan Limited                 | 800,000                                      | 10  | 8,000                                       |
| Brother Textile Mills Limited            | 87   | 10  | 1   |
| Chakwal Cement (GDR)                     | 10,000                                       | 10  | 100   |
| Clariant Pakistan Limited                | 225,919                                      | 10  | 2,259                                       |
| Crescent Commercial Bank Limited         | 626,402                                      | 10  | 6,264                                       |
| Crescent Steel & Allied Products Limited | 412,942                                      | 10  | 4,129                                       |
| Dewan Farooq Motors Limited              | 1,018,225                                    | 10  | 10,182                                      |
| Engro Chemicals Pakistan Limited         | 575,000                                      | 10  | 5,750                                       |
| Fateh Industries Limited                 | 35   | 10  | -   |
| Fauji Cement Company Limited             | 1,025,000                                    | 10  | 10,250                                      |
| Fauji Fertilizer Company Limited         | 2,911,564                                    | 10  | 29,116                                      |
| First Equity Modaraba                    | 1,480,000                                    | 10  | 14,800                                      |
| First Habib Bank Modaraba                | 146,507                                      | 10  | 1,465                                       |
| IGI Investment Bank Limited              | 922,184                                      | 10  | 9,222                                       |
| First National Bank Moadaraba            | 1,481,500                                    | 10  | 14,815                                      |
| First Tawakkal Modaraba                  | 446,774                                      | 10  | 4,468                                       |
| General Tyres and Rubber Limited         | 841,000                                      | 10  | 8,410                                       |
| Glamour Textile Mills Limited            | 200,000                                      | 10  | 2,000                                       |
| GlaxoSmithKline Pakistan Limited         | 666,545                                      | 10  | 6,665                                       |
| Habib Bank Limited                       | 100  | 10  | 1   |
| Habib Insurance Company Limited          | 1,130,504                                    | 5   | 5,653                                       |

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|  | Number of<br>shares/<br>certificates<br>held | Paid-up<br>value per<br>share/<br>certificate<br><br>Rupees | Total<br>value<br>2007<br><br>(Rupees<br>'000') |
|--|--|---|---|
| Habib Sugar Mills Limited                  | 412,562                                      | 5   | 2,063   |
| Hira Textile Mills Limited                 | 1,406,624                                    | 10  | 14,066  |
| Hub Power Company Limited                  | 16,856,500                                   | 10  | 168,565   |
| Ibrahim Fibres Limited                     | 300  | 10  | 3   |
| ICI Pakistan Limited                       | 1,113,500                                    | 10  | 11,135  |
| Indus Motors Limited                       | 228,900                                      | 10  | 2,289   |
| K.S.B. Pumps Limited                       | 136,772                                      | 10  | 1,368   |
| Karam Ceramics Limited                     | 426,656                                      | 10  | 4,267   |
| Kohinoor Energy Limited                    | 100,000                                      | 10  | 1,000   |
| Maple Leaf Cement Limited                  | 281,250                                      | 10  | 2,813   |
| Millat Tractors Limited                    | 559,200                                      | 10  | 5,592   |
| Mohib Textile Mills Limited                | 5  | 10  | -   |
| MY Bank Limited                            | 1,146,750                                    | 10  | 11,468  |
| Nagina Cotton Mills Limited                | 229,600                                      | 10  | 2,296   |
| National Bank Limited                      | 25,000                                       | 10  | 250   |
| New Jubilee Life Insurance Co. Limited     | 175,000                                      | 10  | 1,750   |
| Nimir Industrial Chemical Limited          | 5,077,259                                    | 10  | 50,773  |
| Oil and Gas Development Company Limited    | 441  | 10  | 4   |
| Orix Leasing Company Limited               | 920,000                                      | 10  | 9,200   |
| Pakistan Oil Fields Limited                | 110,000                                      | 10  | 1,100   |
| Pakistan Petroleum Limited                 | 440,000                                      | 10  | 4,400   |
| Pakistan PTA Limited                       | 1,557,000                                    | 10  | 15,570  |
| Pakistan Refinery Limited                  | 16,800                                       | 10  | 168   |
| Pakistan State Oil Company Limited         | 20,000                                       | 10  | 200   |
| Pakistan Telecommunication Company Limited | 3,940,000                                    | 10  | 39,400  |
| Pakistan Tobacco Company Limited           | 159,700                                      | 10  | 1,597   |
| Pioneer Cement Limited                     | 430,450                                      | 10  | 4,305   |
| Premier Insurance Company Limited          | 133,610                                      | 5   | 668   |
| Prosperity Weaving Mills Limited           | 127,820                                      | 10  | 1,278   |
| Rupali Polyester Limited                   | 169,500                                      | 10  | 1,695   |
| Saudi Pak Leasing Company Limited          | 336,835                                      | 10  | 3,368   |
| Security Investment Bank Limited           | 10   | 10  | -   |
| Shahtaj Sugar Mills Limited                | 430,646                                      | 10  | 4,306   |
| Shakarganj Mills Limited                   | 455,617                                      | 10  | 4,556   |
| Sitara Chemicals Industries Limited        | 112,120                                      | 10  | 1,121   |
| Sitara Energy Limited                      | 990,500                                      | 10  | 9,905   |
| Standard Chartered Leasing Limited         | 522,500                                      | 10  | 5,225   |
| Standard Chartered Modaraba                | 496,923                                      | 10  | 4,969   |
| Sui Southern Gas Company Limited           | 500,000                                      | 10  | 5,000   |
| Suraj Cotton Mills Limited                 | 1,552,000                                    | 10  | 15,520  |

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|  | Number of<br>shares/<br>certificates<br>held | Paid-up<br>value per<br>share/<br>certificate<br><br>Rupees | Total<br>value<br>2007<br>(Rupees '000') |
|--|--|---|--|
| Tariq Glass Limited                                | 2,022,404                                    | 10  | 20,224                                   |
| Tawakkal Garments Limited                          | 150,000                                      | 10  | 1,500                                    |
| Telecard Limited                                   | 25,000                                       | 10  | 250                                      |
| Tripack Films Limited                              | 280,000                                      | 10  | 2,800                                    |
| Trust Securities and Brokerage Limited             | 120,000                                      | 10  | 1,200                                    |
| United Bank Limited                                | 300,000                                      | 10  | 3,000                                    |
| Yousuf Weaving Mills Limited                       | 100  | 10  | 1  |
| <b>Modaraba certificates</b>                       |  |   |  |
| First Fidelity Lease Modaraba                      | 1  | 10  | 10                                       |
| LTVCM (face value Rs.15/- to 65/- per Certificate) | 171,473                                      | 33  | 5,573,000                                |
| Trust Modaraba                                     | 100  | 10  | 1,000                                    |

## 11.7 Particulars of unlisted shares

|   | Note   | Percentage<br>of holding | Number of<br>shares held | Break-up<br>value / cost of<br>investment<br>(Rupees '000') |
|---|--------|--------------------------|--------------------------|---|
| Pakistan Export Finance Guarantee Agency Ltd.<br>Chief Executive; Mr. S.M. Zaeem              | 11.7.1 | 5.26%                    | 568,044                  | 5,680   |
| Central Depository Company of Pakistan Limited<br>Chief Executive; Mr. Muhammad Hanif Jakhura | 11.7.2 | 7.50%                    | 650,000                  | 5,000   |
| Crescent Capital Management (Private) Limited<br>Chief Executive; Mr. Tariq Aleem             | 11.7.3 | 4.88%                    | 100,000                  | 1,000   |
| Equity Participation Fund Limited<br>Chief Executive; Mr. S. Shabahat Hussain                 | 11.7.4 | 0.97%                    | 15,000                   | 1,500   |
| Pakistan Textile City (Private) Limited<br>Chief Executive; Mr. Zaheer A. Hussain             | 11.7.5 | 4.55%                    | 5,000,000                | 50,000  |
| National Investment Trust Limited<br>Chief Executive; Mr. Tariq Iqbal Khan                    | 11.7.6 | 8.33%                    | 52,800                   | 100   |
| Sunbiz (Private) Limited<br>Chief Executive; Mr. Nisar Ahmed                                  | 11.7.7 | 4.65%                    | 10,000                   | 1,000   |
|   |        |                          |                          | 64,280  |

**11.7.1** Value of investment based on the net assets, stated in the audited financial statements of investee company as at Dec 31, 2007 amounts to Rs. 2.292 million.

**11.7.2** Value of investment based on the net assets, stated in the audited financial statements of investee company as at June 30, 2007 amounts to Rs. 83.181 million.

**11.7.3** Value of investment based on the net assets, stated in the audited financial statements of investee company as at June 30, 2005 amounts to Rs. 0.091 million.

**11.7.4** Value of investment based on the net assets, stated in the audited financial statements of investee company as at June 30, 2007 amounts to Rs. 11.206 million.



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11.7.5 Value of investment based on the net assets, stated in the audited financial statements of investee company as at June 30, 2007 amounts to Rs. 51.098 million.

11.7.6 Value of investment based on the net assets, stated in the audited financial statements of investee company as at June 30, 2007 amounts to Rs. 267.446 million.

11.7.7 Value of investment based on the net assets, stated in the audited financial statements of investee company as at June 30, 2006 amounts to Rs. Nil.

|   | Note | Number of<br>certificates<br>held | Paid up<br>value per<br>certificate<br>Rupees | Total paid-up<br>value<br>(Rupees '000') |
|---|------|-----------------------------------|---|--|
| <b>11.8 Particulars of investment in Listed Term Finance Certificates</b> |      |                                   |   |  |
| Askari Commercial Bank Limited  |      | 3,184                             | 4,996   | 15,907                                   |
| Azgard Nine Limited   |      | 250                               | 100,000                                       | 12,500                                   |
| Azgard Nine Limited   |      | 10,000                            | 4,996   | 52,503                                   |
| Bank al-Habib Limited   |      | 425                               | 99,880  | 42,449                                   |
| Engro Chemicals Pakistan Limited  |      | 10,000                            | 5,000   | 50,200                                   |
| Escort Investment Bank Limited  |      | 2,016                             | 4,999   | 10,078                                   |
| PACE Pakistan Limited   |      | 6,000                             | 5,000   | 30,000                                   |
| Pakistan Services Limited   |      | 2,988                             | 1,428   | 4,266                                    |
| Saudi Pak Leasing Company Limited   |      | 7,000                             | 5,000   | 35,000                                   |
| Soneri Bank Limited   |      | 5,000                             | 1,998   | 9,990                                    |
| Soneri Bank Limited   |      | 4,000                             | 4,995   | 19,980                                   |
| Telecard Limited  |      | 74,888                            | 3,644   | 258,654                                  |
| Trust Leasing & Investment Bank Limited                                   |      | 10,947                            | 3,000   | 34,056                                   |
| United Bank Limited   |      | 5,000                             | 5,000   | 24,998                                   |
|   |      |                                   |   | <u>600,581</u>                           |

#### 11.9 Particulars of investment in unlisted Term Finance Certificates

|  |        |        |         |                  |
|--|--------|--------|---------|------------------|
| Avari Hotels Limited                     |        | 30,400 | 5,000   | 152,000          |
| Chanda Oil & Gas Securitization Co. Ltd. |        | 15,619 | 3,600   | 56,228           |
| Choudhary Sugar Mills Limited            |        | 10,000 | 1,469   | 14,693           |
| New Khan Transport Company (Pvt.) Ltd.   |        | 20,000 | 3,007   | 60,135           |
| Pakistan Mobile Communication Limited    |        | 60,000 | 4,997   | 299,820          |
| Dewan Mushtaq Cement Limited             | 11.9.1 | -      | -       | 198,464          |
| Dewan Hattar Cement Limited              | 11.9.1 | -      | -       | 100,081          |
| Zaver Petroleum Corporation Limited      |        | 60,000 | 4,990   | 299,400          |
| Dewan Farooq Spinning Mills Limited      |        | 15,000 | 2,502   | 37,535           |
| Dominion Fertilizer (Pvt.) Ltd.          |        | 100    | 958,340 | 95,834           |
|  |        |        |         | <u>1,314,190</u> |

11.9.1 This includes unlisted Term Finance Certificates (TFCs) of Rs. 298.546 million (2006: Rs. 365.303 million) which have been issued by Dewan Mushtaq Cement Limited (Formerly Pakland Cement Limited) and Dewan Hattar Cement Limited (Formerly Saadi Cement Limited). The exposure of various financial institutions against the above customers was restructured under a scheme of arrangement sanctioned by the High Court of Sindh. The State Bank of Pakistan (SBP) vide their letter No. BPD/PU-22/22.03/X/2005/1836 dated February 15, 2005 allowed that the above restructuring would constitute fresh facility by treating the existing outstanding amounts as paid-off.

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|  | Number of certificates held | Paid up value per certificate Rupees | Total paid-up value (Rupees '000') |
|--|-----------------------------|--------------------------------------|------------------------------------|
| <b>11.10 Mutual funds (listed)</b>         |                             |                                      |                                    |
| 1st Habib Income Fund                      | 203,000                     | 99                                   | 20,000                             |
| AKD Opportunity Fund                       | 538,859                     | 60                                   | 32,493                             |
| Faisal Saving Growth Fund                  | 101,248                     | 105                                  | 10,638                             |
| First Dawood Mutual Fund                   | 1,556,100                   | 8                                    | 12,060                             |
| First Habib Income Fund                    | 152,250                     | 105                                  | 15,951                             |
| HBL Income Fund                            | 513,239                     | 97                                   | 50,000                             |
| HBL Multi Asset Fund                       | 250,000                     | 100                                  | 25,000                             |
| IGI Income Fund Ltd                        | 100,109                     | 105                                  | 10,506                             |
| MCB Dynamic Cash Fund                      | 258,449                     | 105                                  | 27,059                             |
| Meezan Balanced fund                       | 500,000                     | 10                                   | 5,125                              |
| NAMCO balanced fund                        | 487,000                     | 10                                   | 4,746                              |
| Pakistan Strategic Allocation Fund         | 8,370,000                   | 10                                   | 76,116                             |
| UTP Growth Fund                            | 227,410                     | 9                                    | 2,911                              |
| UTP Large Cap Fund (ABAMCO Composite Fund) | 4,995,395                   | 8                                    | 40,462                             |
| UTP Large Capital. Fund                    | 6,389,697                   | 8                                    | 51,757                             |
|  |                             |                                      | 384,874                            |

|  | % holding | Number of shares/units |      | Total paid up value |      |
|--|-----------|------------------------|------|---------------------|------|
|  |           | 2007                   | 2006 | 2007                | 2006 |

## 11.11 Associates

|  | % holding | 2007       | 2006       | 2007    | 2006    |
|--|-----------|------------|------------|---------|---------|
| NAFA Cash Fund                           | 0.91      | 20,000,000 | 20,380,000 | 200,000 | 200,000 |
| NAFA Islamic Multi Asset Fund            | 8.83      | 7,500,000  | -          | 75,000  | -       |
| NAFA Islamic Income Fund                 | 8.34      | 7,500,000  | -          | 75,000  | -       |
| NAFA Multi Asset Fund                    | 6.00      | 7,500,000  | -          | 75,000  | -       |
| NAFA Stock Fund                          | 5.55      | 7,500,000  | -          | 75,000  | -       |
| National Fullerton Asset Management Ltd. | 27.00     | 6,749,998  | 6,749,998  | 67,500  | 67,500  |
| PICIC Energy Fund                        | 27.17     | 27,172,160 | -          | 271,722 | -       |
| PICIC Growth Fund                        | 15.34     | 43,482,858 | -          | 434,829 | -       |
| PICIC Insurance Limited                  | 30.00     | 5,999,996  | -          | 60,000  | -       |
| PICIC Investment Fund                    | 34.08     | 96,704,649 | -          | 967,046 | -       |

### 11.11.1 Summarized financial information in respect of associates is set out below:

|   | Total assets           | Total liabilities | Net assets | Revenue   | Profit / (loss) for the period | Share of profit / (loss) from associate |
|---|------------------------|-------------------|------------|-----------|--------------------------------|---|
|   | -----Rupees '000'----- |                   |            |           |                                |   |
| NAFA Cash Fund                              | 23,388,651             | (314,043)         | 23,074,608 | 1,181,451 | 2,577,540                      | 23,484                                  |
| NAFA Islamic Multi Asset Fund               | 865,986                | (39,248)          | 826,738    | (15,844)  | (22,396)                       | (1,978)                                 |
| NAFA Islamic Income Fund                    | 980,497                | (69,931)          | 910,566    | 16,732    | 11,731                         | 979                                     |
| NAFA Multi Asset Fund                       | 2,050,987              | (479,278)         | 1,571,709  | 213,246   | 164,707                        | 18,243                                  |
| NAFA Stock Fund                             | 1,954,001              | (113,628)         | 1,840,373  | 251,872   | 206,390                        | 23,237                                  |
| National Fullerton Asset Management Limited | 397,585                | (100,613)         | 296,972    | 270,140   | 80,913                         | 21,847                                  |
| PICIC Energy Fund                           | 1,168,370              | (26,022)          | 1,142,348  | 163,839   | 140,338                        | 38,133                                  |

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|                               | Total<br>assets | Total<br>liabilities | Net assets | Revenue | Profit /<br>(loss) for<br>the period | Share of<br>profit / (loss)<br>from<br>associate |
|-------------------------------|-----------------|----------------------|------------|---------|--------------------------------------|--|
| -----Rupees '000'-----        |                 |                      |            |         |                                      |  |
| PICIC Growth Fund             | 12,800,343      | (195,650)            | 12,604,693 | 369,402 | 213,793                              | 32,796   |
| PICIC Investment Fund         | 5,825,683       | (117,053)            | 5,708,630  | 243,858 | 170,623                              | 58,145   |
| PICIC Insurance Company Ltd.* | 675,027         | (531,633)            | 143,394    | 151,701 | (40,082)                             | (12,025)   |
|                               |                 |                      |            |         |                                      | 202,855  |

\* The results and net assets are based on audited figures for the year ended December 31, 2007. Other unaudited figures are for the half year ended December 31, 2007.

|  | 2007<br>Number of Shares | 2006 | 2007<br>(Rupees '000') | 2006<br>(Rupees '000') |
|--|--------------------------|------|------------------------|------------------------|
| <b>11.12 Subsidiaries</b>  |                          |      |                        |                        |
| Financial and Management Services (Pvt.) Limited                                 | 88,850                   | -    | 724                    | -                      |
| <b>11.13 Particulars of provision for diminution in value of investments</b>     |                          |      |                        |                        |
| Opening balance  |                          |      | 35,488                 | 35,488                 |
| Charge for the year  |                          |      | -                      | -                      |
| Reversals  |                          |      | -                      | -                      |
| Amount written off   |                          |      | -                      | -                      |
| Assumed on amalgamation  |                          |      | 87,518                 | -                      |
| Closing balance  |                          |      | 123,006                | 35,488                 |
| <b>11.14 Particular of provision in respect of type and segment</b>              |                          |      |                        |                        |
| Available for sale securities  |                          |      | 122,282                | 35,488                 |
| Subsidiaries   |                          |      | 724                    | -                      |
|  |                          |      | 123,006                | 35,488                 |
| <b>11.15 Particulars of deficit on investment classified as held for trading</b> |                          |      |                        |                        |
| Ordinary shares of listed companies  |                          |      |                        |                        |
| Engro Chemicals Pakistan Limited   |                          |      | (752)                  | -                      |
| National Bank of Pakistan Limited  |                          |      | (821)                  | -                      |
| Pakistan Petroleum Limited   |                          |      | (1,317)                | -                      |
| Sui Northern Gas Company Limited   |                          |      | (378)                  | -                      |
| Adamjee Insurance Company Limited  |                          |      | 810                    | -                      |
| Allied Bank Limited  |                          |      | (1,760)                | -                      |
| Bank Islami Pakistan Limited   |                          |      | 1,031                  | -                      |
| Soneri Bank Limited  |                          |      | (655)                  | -                      |
| Standard Chartered Bank (Pakistan) Limited                                       |                          |      | (743)                  | -                      |
| The Bank of Punjab   |                          |      | (2,230)                | -                      |
| Pakistan Telecommunication Company Limited "A"                                   |                          |      | (747)                  | -                      |
| Indus Motor Company Limited  |                          |      | 2,706                  | -                      |
| Fauji Fertilizer Bin Qasim Limited   |                          |      | 1,372                  | -                      |
| Oil and Gas Development Company Limited  |                          |      | (140)                  | -                      |
| Meezan Balanced fund   |                          |      | (925)                  | -                      |
| NAMCO balanced fund  |                          |      | (682)                  | -                      |
|  |                          |      | (5,231)                | -                      |

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|   | 2007              |            | 2006              |         |
|---|-------------------|------------|-------------------|---------|
|   | (Rupees<br>'000') | Rating     | (Rupees<br>'000') | Rating  |
| <b>11.16 Quality of available for sale securities<br/>at market value</b> |                   |            |                   |         |
| <b>Federal Government Securities</b>                                      |                   |            |                   |         |
| Market Treasury Bills   | 18,961,771        | Unrated    | 5,266,521         | Unrated |
| Pakistan Investment Bonds   | 8,265,039         | Unrated    | -                 | -       |
| <b>Defence saving Certificates</b>  | 5,771             | Unrated    | -                 | -       |
| <b>Cumulative Preference shares</b>                                       |                   |            |                   |         |
| Pak Electron Limited  | 25,000            | A & A1     | 25,000            | A & A1  |
| Fazal Cloth Mills Limited   | 25,000            | *          | -                 | -       |
| Jamshoro Joint Venture Company Limited                                    | 50,000            | A+         | -                 | -       |
| <b>Ordinary shares</b>  |                   |            |                   |         |
| Abbott Laboratories Pakistan Limited                                      | 191,968           | *          | -                 | -       |
| Adamjee Insurance Company Limited   | 107,505           | AA         | -                 | -       |
| Allied Bank Limited   | 55,834            | AA/A1+     | -                 | -       |
| Attock Cement Limited   | 16,371            | *          | -                 | -       |
| Attock Refinery Limited   | 125,434           | AA-/A1+    | -                 | -       |
| BR.R. Guardian Modaraba (formerly B.R.R. International modaraba)          | 6,385             | A/A-2      | -                 | -       |
| Bank Al-Habib Limited   | 27,419            | AA/A1+     | -                 | -       |
| Bank Islami Pakistan Limited  | 5,429             | A-/A2      | -                 | -       |
| Berger Paints (Pakistan) Limited  | 65,956            | *          | -                 | -       |
| Bosicor Pak   | 17,080            | *          | -                 | -       |
| Clariant Pakistan Limited   | 49,691            | *          | -                 | -       |
| Crescent Commercial Bank Limited  | 13,123            | A/A-1      | -                 | -       |
| Crescent Steel & Allied Products Limited                                  | 40,221            | A+/A-1     | -                 | -       |
| Dewan Farooq Motors Limited   | 13,237            | A/A2       | -                 | -       |
| Engro Chemicals Pakistan Limited  | 152,806           | AA/A1+     | -                 | -       |
| Fauji Cement Company Limited  | 15,273            | Unrated    | -                 | -       |
| Fauji Fertilizer Company Limited  | 345,748           | Unrated    | -                 | -       |
| First Equity Modaraba   | 6,808             | *          | -                 | -       |
| First Habib Bank Modaraba   | 1,260             | AA-/A-1+   | -                 | -       |
| IGI Investment Bank Limited   | 13,602            | A/A1       | -                 | -       |
| First National Bank Modaraba  | 12,593            | A-/A-2     | -                 | -       |
| General Tyres and Rubber Limited  | 22,455            | *          | -                 | -       |
| GlaxoSmithKline Pakistan Limited  | 128,243           | *          | -                 | -       |
| Habib Bank Limited  | 24                | A-1+ & AA+ | -                 | -       |
| Habib Insurance Company Limited   | 89,140            | A+         | -                 | -       |
| Habib Sugar Mills Limited   | 22,134            | *          | -                 | -       |
| Hira Textile Mills Limited  | 11,183            | Unrated    | -                 | -       |
| Hub Power Company Limited   | 514,124           | Unrated    | 105,813           | Unrated |
| ICI Pakistan Limited  | 218,970           | Unrated    | -                 | -       |

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|   | 2007              |           | 2006              |           |
|---|-------------------|-----------|-------------------|-----------|
|   | (Rupees<br>'000') | Rating    | (Rupees<br>'000') | Rating    |
| Indus Motor Company Limited                   | 73,065            | *         | -                 | -         |
| K.S.B. Pumps Limited                          | 27,163            | *         | -                 | -         |
| Karam Ceramics Limited                        | 8,320             | *         | -                 | -         |
| Kohinoor Energy Limited                       | 3,180             | Unrated   | -                 | -         |
| Maple Leaf Cement Limited                     | 5,400             | *         | -                 | -         |
| Millat Tractors Limited                       | 151,264           | *         | -                 | -         |
| MY Bank Limited                               | 27,465            | BBB/A-2   | -                 | -         |
| Nagina Cotton Mills Limited                   | 3,559             | *         | -                 | -         |
| National Bank Limited                         | 5,804             | AAA/A-1+  | -                 | -         |
| New Jubilee Life Insurance Co. Limited        | 12,346            | *         | -                 | -         |
| Nimir Industrial Chemical Limited             | 22,340            | Unrated   | 17,515            | Unrated   |
| Oil and Gas Development Company Limited       | 53                | AAA & A1+ | 51                | AAA & A1+ |
| Orix Leasing Company Limited                  | 24,978            | AA+/A1+   | -                 | -         |
| Pakistan Oil Fields Limited                   | 36,784            | *         | -                 | -         |
| Pakistan Petroleum Limited                    | 107,822           | *         | -                 | -         |
| Pakistan PTA Limited                          | 7,863             | *         | -                 | -         |
| Pakistan Refinery Limited                     | 4,197             | Unrated   | -                 | -         |
| Pakistan State Oil Company Limited            | 8,132             | AAA/A1+   | -                 | -         |
| Pakistan Telecommunication Company Ltd.       | 165,677           | *         | -                 | -         |
| Pakistan Tobacco Company Limited              | 24,833            | *         | -                 | -         |
| Pioneer Cement Limited                        | 13,602            | A-/A2     | -                 | -         |
| Premier Insurance Company Limited             | 6,460             | A         | -                 | -         |
| Prosperity Weaving Mills                      | 1,598             | *         | -                 | -         |
| Rupali Polyester Limited                      | 6,865             | *         | -                 | -         |
| Saudi Pak Leasing Company Limited             | 2,543             | A-/A-2    | -                 | -         |
| Shahtaj Sugar Mills Limited                   | 22,587            | *         | -                 | -         |
| Shakarganj Mills Limited                      | 17,564            | *         | -                 | -         |
| Sitara Chemicals Industries Limited           | 37,672            | *         | -                 | -         |
| Sitara Energy Limited                         | 23,475            | *         | -                 | -         |
| Standard Chartered Leasing Limited            | 5,747             | A(P)      | -                 | -         |
| Standard Chartered Modaraba                   | 6,236             | AA+/A1+   | -                 | -         |
| Sui Southern Gas Company Limited              | 13,075            | AA-/A1+   | -                 | -         |
| Suraj Cotton Mills Limited                    | 74,341            | *         | -                 | -         |
| Tariq Glass Limited                           | 61,481            | *         | -                 | -         |
| Telecard Limited                              | 271               | Unrated   | 229               | Unrated   |
| Tripack Films Limited                         | 56,924            | A+/A1     | -                 | -         |
| Trust Securities and Brokerage Limited        | 1,020             | *         | -                 | -         |
| United Bank Limited                           | 51,870            | AA+/A-1+  | -                 | -         |
| <b>Ordinary shares of unlisted companies</b>  |                   |           |                   |           |
| Central Depository Company of Pakistan Ltd.   | 5,000             | *         | -                 | -         |
| Crescent Capital Management (Private) Ltd.    | 86                | *         | -                 | -         |
| Equity Participation Fund Limited             | 1,500             | *         | -                 | -         |
| National Investment Trust Limited             | 100               | AM2       | -                 | -         |
| Pakistan Export Finance Guarantee Agency Ltd. | 2,292             | Unrated   | -                 | -         |
| Pakistan Textile City (Private) Limited       | 50,000            | *         | -                 | -         |

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|  | 2007              |           | 2006              |        |
|--|-------------------|-----------|-------------------|--------|
|  | (Rupees<br>'000') | Rating    | (Rupees<br>'000') | Rating |
| <b>Certificates of Mutual Funds</b>        |                   |           |                   |        |
| 1st Habib Income Fund                      | 21,268            | Unrated   | -                 | -      |
| AKD Opportunity Fund                       | 32,493            | Unrated   | -                 | -      |
| Faisal Saving Growth Fund                  | 10,638            | *         | -                 | -      |
| First Dawood Mutual Fund                   | 12,060            | FR 4-STAR | -                 | -      |
| First Habib Income Fund                    | 15,951            | *         | -                 | -      |
| HBL Income Fund                            | 53,664            | Unrated   | -                 | -      |
| HBL Multi Asset Fund                       | 25,034            | Unrated   | -                 | -      |
| IGI Income Fund                            | 10,505            | *         | -                 | -      |
| MCB Dynamic Cash Fund                      | 27,059            | *         | -                 | -      |
| Pakistan Strategic Allocation Fund         | 76,167            | FR 4-STAR | -                 | -      |
| UTP Growth Fund                            | 2,911             | *         | -                 | -      |
| UTP Large Cap Fund (ABAMCO Composite Fund) | 40,462            | 4-STAR    | -                 | -      |
| UTP Large Capital Fund                     | 51,757            | FR 4-STAR | -                 | -      |
| <b>Term Finance Certificates</b>           |                   |           |                   |        |
| Askari Commercial Bank Limited             | 15,907            | AA-       | -                 | -      |
| Avari Hotels Limited                       | 152,000           | A-        | -                 | -      |
| Azgard Nine Limited                        | 52,503            | A+        | -                 | -      |
| Chanda Oil & Gas Securitization Co. Ltd.   | 56,228            | A+        | -                 | -      |
| Choudhary Sugar Mills Limited              | 14,693            | Unrated   | -                 | -      |
| Dewan farooq spinning                      | 37,535            | *         | -                 | -      |
| Dominion Fertilizer (Ptv.) Ltd.            | 95,834            | *         | -                 | -      |
| Engro Chemicals Pakistan Limited           | 50,200            | AA        | -                 | -      |
| Escorts Investment Bank Limited            | 10,078            | A+        | -                 | -      |
| New Khan Transport Company (Pvt.) Ltd.     | 60,135            | Unrated   | -                 | -      |
| PACE Pakistan Limited                      | 30,000            | Unrated   | -                 | -      |
| Pakistan Mobile Communication Limited      | 299,820           | AA-       | -                 | -      |
| Pakistan Services Limited                  | 4,266             | A         | -                 | -      |
| Saudi Pak Leasing Company Limited          | 35,000            | A         | -                 | -      |
| Soneri Bank                                | 19,980            | *         | -                 | -      |
| Telecard Limited                           | 258,654           | BBB       | -                 | -      |
| Trust Leasing & Investment Bank Limited    | 34,056            | AA        | -                 | -      |
| United Bank Limited                        | 24,998            | AA        | -                 | -      |
| Zaver Petroleum Corporation Limited        | 299,400           | Unrated   | -                 | -      |
|  | <u>32,736,407</u> |           | <u>5,415,129</u>  |        |

\* Not Available

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|   | Note | 2007<br>(Rupees '000') | 2006              |
|---|------|------------------------|-------------------|
| <b>12. ADVANCES</b>                                       |      |                        |                   |
| Loans, cash credits, running finance, etc.                |      |                        |                   |
| In Pakistan   | 12.1 | 83,454,286             | 25,150,496        |
| Outside Pakistan  |      | -                      | -                 |
| Net investment in finance lease                           |      |                        |                   |
| In Pakistan   | 12.3 | 6,116,106              | 4,763,735         |
| Outside Pakistan  |      | -                      | -                 |
| Bills discounted and purchased (excluding treasury bills) |      |                        |                   |
| Payable in Pakistan                                       |      | 1,309,849              | 689,977           |
| Payable outside Pakistan                                  |      | 1,689,436              | 1,270,643         |
| Financing in respect of margin finance                    |      | 16,659                 | -                 |
| <b>Advances - Gross</b>                                   |      | <u>92,586,336</u>      | <u>31,874,851</u> |
| Provision against non-performing advances -               |      |                        |                   |
| Specific  | 12.5 | (9,812,351)            | (610,184)         |
| General   | 12.5 | (613,911)              | (212,498)         |
|   |      | <u>(10,426,262)</u>    | <u>(822,682)</u>  |
| <b>Advances - Net of provision</b>                        |      | <u>82,160,074</u>      | <u>31,052,169</u> |

**12.1** This includes a sum of Rs.85.791 million (2006 : Rs.84.833 million) representing unrealized exchange gain, which has not been recognised as income and deferred in the financial statements, in accordance with the policy of the Group, as stated in note 5.15.

## 12.2 Particulars of advances

|                                 |                   |                   |
|---------------------------------|-------------------|-------------------|
| <b>12.2.1</b> In local currency | 89,443,520        | 29,397,914        |
| In foreign currencies           | 3,142,816         | 2,476,937         |
|                                 | <u>92,586,336</u> | <u>31,874,851</u> |
| <b>12.2.2</b> Short term        | 59,775,392        | 25,240,438        |
| Long term                       | 32,810,944        | 6,634,413         |
|                                 | <u>92,586,336</u> | <u>31,874,851</u> |

## 12.3 Net Investment in Finance Lease

|   | 2007                    |   |                 |                  | 2006                    |   |                 |                  |
|---|-------------------------|---|-----------------|------------------|-------------------------|---|-----------------|------------------|
|   | Not later than one year | Later than one and less than five years | Over five years | Total            | Not later than one year | Later than one and less than five years | Over five years | Total            |
|   | Rupees '000'            |   |                 |                  |                         |   |                 |                  |
| Lease rentals receivable  | 2,517,981               | 2,561,900                               | -               | 5,079,881        | 2,491,908               | 1,728,801                               | -               | 4,220,709        |
| Residual value  | 907,338                 | 992,511                                 | -               | 1,899,849        | 581,973                 | 924,681                                 | -               | 1,506,654        |
| Minimum lease payments  | 3,425,319               | 3,554,411                               | -               | 6,979,730        | 3,073,881               | 2,653,482                               | -               | 5,727,363        |
| Financial charges for future periods (including income suspended) | (497,941)               | (365,683)                               | -               | (863,624)        | (513,789)               | (449,839)                               | -               | (963,628)        |
| Present value of minimum lease                                    | <u>2,927,378</u>        | <u>3,188,728</u>                        | <u>-</u>        | <u>6,116,106</u> | <u>2,560,092</u>        | <u>2,203,643</u>                        | <u>-</u>        | <u>4,763,735</u> |

Minimum Lease payments receivable includes a sum of Rs. 7.545 million (2006:Rs 10.537 million) due from an associated undertaking.

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12.4 Advances include Rs.13,252.316 million (2006: Rs. 1,023.868 million) which have been placed under non-performing status as detailed below:

| Category of Classification | 2007                |              |            |                    |              |           |                |              |           |
|----------------------------|---------------------|--------------|------------|--------------------|--------------|-----------|----------------|--------------|-----------|
|                            | Classified Advances |              |            | Provision Required |              |           | Provision Held |              |           |
|                            | NIB                 | Amalgamation | Total      | NIB                | Amalgamation | Total     | NIB            | Amalgamation | Total     |
|                            | Rupees '000'        |              |            |                    |              |           |                |              |           |
| Substandard                | 1,463,556           | 1,262,096    | 2,725,652  | 365,889            | 313,317      | 679,206   | 365,889        | 313,317      | 679,206   |
| Doubtful                   | 245,566             | 1,867,336    | 2,112,902  | 122,783            | 922,866      | 1,045,649 | 122,783        | 922,866      | 1,045,649 |
| Loss                       | 1,365,233           | 7,048,529    | 8,413,762  | 1,365,233          | 6,722,263    | 8,087,496 | 1,365,233      | 6,722,263    | 8,087,496 |
|                            | 3,074,355           | 10,177,961   | 13,252,316 | 1,853,905          | 7,958,446    | 9,812,351 | 1,853,905      | 7,958,446    | 9,812,351 |

| Category of Classification | 2006                |              |           |                    |              |         |                |              |         |
|----------------------------|---------------------|--------------|-----------|--------------------|--------------|---------|----------------|--------------|---------|
|                            | Classified Advances |              |           | Provision Required |              |         | Provision Held |              |         |
|                            | NIB                 | Amalgamation | Total     | NIB                | Amalgamation | Total   | NIB            | Amalgamation | Total   |
|                            | Rupees '000'        |              |           |                    |              |         |                |              |         |
| Substandard                | 200,346             | -            | 200,346   | 35,354             | -            | 35,354  | 35,354         | -            | 35,354  |
| Doubtful                   | 75,285              | -            | 75,285    | 23,220             | -            | 23,220  | 23,220         | -            | 23,220  |
| Loss                       | 748,237             | -            | 748,237   | 551,610            | -            | 551,610 | 551,610        | -            | 551,610 |
|                            | 1,023,868           | -            | 1,023,868 | 610,184            | -            | 610,184 | 610,184        | -            | 610,184 |

## 12.5 Particulars of provision against non-performing advances

| Note                | 2007         |           |            |          |         |          | 2006 |  |  |
|---------------------|--------------|-----------|------------|----------|---------|----------|------|--|--|
|                     | Specific     | General   | Total      | Specific | General | Total    |      |  |  |
|                     | Rupees '000' |           |            |          |         |          |      |  |  |
| Opening balance     | 610,184      | 212,498   | 822,682    | 539,741  | 18,654  | 558,395  |      |  |  |
| Charge for the year | 1,572,351    | 36,513    | 1,608,864  | 150,151  | 194,512 | 344,663  |      |  |  |
| Reversals           | (78,551)     | (35,512)  | (114,063)  | (74,412) | (668)   | (75,080) |      |  |  |
|                     | 1,493,800    | 1,001     | 1,494,801  | 75,739   | 193,844 | 269,583  |      |  |  |
| Amalgamation        | 7,958,446    | 400,412   | 8,358,858  | -        | -       | -        |      |  |  |
| Amounts written off | 12.6         | (250,079) | (250,079)  | (5,296)  | -       | (5,296)  |      |  |  |
| Closing balance     | 9,812,351    | 613,911   | 10,426,262 | 610,184  | 212,498 | 822,682  |      |  |  |



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**12.5.1** During the year the State Bank of Pakistan has introduced certain amendments in the Prudential Regulations in respect of maintenance of provisioning requirements against non-performing loans and advances vide BSD Circular No. 7 dated October 12, 2007. The amendments made in the provisioning requirements and the resulting additional provision of Rs.788.279 million is explained below:

Under the revised guidelines issued by SBP, banks cannot avail the benefit of discounted forced sales value of mortgaged assets held as collateral by the banks against their non-performing (excluding housing finance portfolio) loans for the purpose of determining the provisioning requirement to be maintained for non-performing customers with effect from December 31, 2007. Previously, the Prudential Regulations issued by SBP allowed banks to avail the benefit of discounted forced sales value of mortgaged assets, with certain conditions, held as collateral against non-performing loans of over Rs. 10 million while determining the provisioning requirement there against. Had the provision against non-performing loans and advances been determined in accordance with the requirement previously laid down by SBP, the specific provision against non-performing loans and advances would have been lower and consequently profit before taxation and advances (net of provisions) as at December 31, 2007 would have been higher by approximately Rs.788.279 million.

## 12.5.2 Particulars of provision against non-performing advances - currency wise

|                       | 2007                     |                |                   | 2006           |                |                |
|-----------------------|--------------------------|----------------|-------------------|----------------|----------------|----------------|
|                       | Specific                 | General        | Total             | Specific       | General        | Total          |
|                       | ----- Rupees '000' ----- |                |                   |                |                |                |
| In local currency     | 9,812,351                | 613,911        | 10,426,262        | 610,184        | 212,498        | 822,682        |
| In foreign currencies | -                        | -              | -                 | -              | -              | -              |
|                       | <u>9,812,351</u>         | <u>613,911</u> | <u>10,426,262</u> | <u>610,184</u> | <u>212,498</u> | <u>822,682</u> |

|   | Note | 2007<br>(Rupees '000') | 2006         |
|---|------|------------------------|--------------|
| <b>12.6 Particulars of write off:</b>             |      |                        |              |
| <b>12.6.1 Against provisions</b>                  | 12.7 | 250,079                | 5,296        |
| Directly charged to profit and loss account       |      | -                      | -            |
|   |      | <u>250,079</u>         | <u>5,296</u> |
| <b>12.6.2 Write offs of Rs. 500,000 and above</b> |      | 13,274                 | 2,069        |
| Write offs of below Rs. 500,000                   |      | 236,805                | 3,227        |
|   |      | <u>250,079</u>         | <u>5,296</u> |

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## 12.7 Details of loans write off of Rs.500,000/- and above

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written off loans or any other financial relief of five hundred thousand rupees and above allowed to person(s) during the year ended December 31, 2007 is given in Annexure 1.

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

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

| Note                          | 2007<br>(Rupees '000') | 2006           |
|-------------------------------|------------------------|----------------|
| Balance at beginning of year  | 246,612                | 91,075         |
| Loans granted during the year | 263,469                | 169,226        |
| Repayments                    | 58,973                 | 13,689         |
| Assumed on amalgamation       | 502,506                | -              |
| Balance at end of year        | <u>953,614</u>         | <u>246,612</u> |

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

|                              |          |          |
|------------------------------|----------|----------|
| Balance at beginning of year | -        | -        |
| Loan granted during the year | -        | -        |
| Repayment                    | -        | -        |
| Assumed on amalgamation      | -        | -        |
| Balance at end of year       | <u>-</u> | <u>-</u> |

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

|                              |              |          |
|------------------------------|--------------|----------|
| Balance at beginning of year | -            | -        |
| Loan granted during the year | -            | -        |
| Repayment                    | -            | -        |
| Assumed on amalgamation      | 8,068        | -        |
| Balance at end of year       | <u>8,068</u> | <u>-</u> |

## 13. OPERATING FIXED ASSETS

|                          |      |                   |                |
|--------------------------|------|-------------------|----------------|
| Capital work in progress | 13.1 | 583,054           | 83,621         |
| Property and equipment   | 13.2 | 3,350,605         | 503,358        |
| Intangible assets        | 13.3 | 27,567,560        | 35,237         |
|                          |      | <u>31,501,219</u> | <u>622,216</u> |

### 13.1 Capital work in progress

|                                       |                |               |
|---------------------------------------|----------------|---------------|
| Civil works                           | 2,695          | 7,951         |
| Equipment and electric work           | 38,085         | 9,229         |
| Advances to suppliers and contractors | 210,186        | 6,925         |
| Advance for computer software         | 284,685        | 59,270        |
| Others                                | 47,403         | 246           |
|                                       | <u>583,054</u> | <u>83,621</u> |

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## 13.2 Property and Equipment

| Particulars                               | C O S T                |                        |                         | DEPRECIATION                    |                             |                                  | Net Book value at December 31, 2007 | Rate of Depreciation per annum |           |
|---|------------------------|------------------------|-------------------------|---------------------------------|-----------------------------|----------------------------------|-------------------------------------|--------------------------------|-----------|
|   | As at January 01, 2007 | Additions/ (Deletions) | As at December 31, 2007 | Accumulated at January 01, 2007 | For the year/ (on deletion) | Accumulated at December 31, 2007 |                                     |                                |           |
| Rupees '000'                              |                        |                        |                         |                                 |                             |                                  |                                     |                                |           |
| Free hold land                            | -                      | -                      | 33,239                  | 33,239                          | -                           | -                                | -                                   | 33,239                         | -         |
| Leasehold land (note 13.2.3)              | 7,407                  | -                      | 1,403,522               | 1,410,929                       | -                           | -                                | 15,633                              | 1,395,296                      | -         |
| Buildings on freehold land                | -                      | -                      | 155,788                 | 155,788                         | -                           | -                                | 49,447                              | 106,341                        | -         |
| Buildings on leasehold land               | 33,780                 | 46                     | 508,768                 | 542,594                         | 20,665                      | 1,193                            | 43,314                              | 477,422                        | 5%        |
| Furniture and fixtures                    | 41,038                 | 21,084                 | 1,492,091               | 1,554,187                       | 9,298                       | 5,060                            | 890,602                             | 904,935                        | 10%       |
| Electrical, office and computer equipment | 251,910                | 139,425                | 8,831                   | 398,355                         | 95,276                      | 73,930                           | 6,237                               | 174,690                        | 20% & 33% |
| Vehicles                                  | 129,915                | 79,405                 | 153,884                 | 328,980                         | 33,593                      | 32,526                           | 78,329                              | 128,089                        | 20%       |
| Leasehold Improvements                    | 250,241                | 119,872                | 58                      | 370,171                         | 52,101                      | 59,069                           | 41                                  | 111,211                        | 20%       |
|   | 714,291                | 359,832                | 3,756,181               | 4,794,244                       | 210,933                     | 171,778                          | 1,083,603                           | 1,449,176                      |           |
|   |                        | (36,060)               |                         |                                 |                             | (17,137)                         |                                     |                                |           |
| <b>Assets held under finance lease:</b>   |                        |                        |                         |                                 |                             |                                  |                                     |                                |           |
| Vehicles                                  | -                      | -                      | 14,804                  | 14,804                          | -                           | -                                | 9,266                               | 9,266                          | 15%       |
|   | 714,291                | 359,832                | 3,770,985               | 4,809,048                       | 210,933                     | 171,778                          | 1,092,869                           | 1,458,443                      |           |
|   |                        | (36,060)               |                         |                                 |                             | (17,137)                         |                                     |                                |           |

13.2.1 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs.430.526 million (2006: Rs. 51.860 million).

13.2.2 For certain leased assets having a lease term of three years, depreciation is charged based on their estimated useful life of five years as the holding company intends to exercise its option to purchase such assets upon completion of their lease terms.

13.2.3 This includes a plot of land costing Rs 9.240 million in Block-6, KDA Scheme-5, Clifton, Karachi possession of which was taken over by PICIC in April, 1983 from KDA against payment of entire lawful dues including non-utilization fee. On July 22, 2000 the Karachi Port Trust (KPT) served a notice that PICIC has occupied the KPT land and constructed boundary wall without lawful authority. PICIC had filed a suit in the Sindh High Court. The Honourable Court through an interim order on July 31, 2000 had interalia directed the parties concerned to maintain status quo in respect of the plot in question. Through a subsequent order KPT has been restrained from resorting to coercive measures in relation to possession of the plot. On September 14, 2000 KDA's governing body reportedly resolved to cancel allotment of the subject plot and offered to PICIC an alternate plot which action has been questioned through another suit before the Sindh High Court. The Honourable Court has directed KDA through an order dated September 18, 2000 to maintain status quo. The Honourable High Court of Sindh has awarded decrees in favour of PICIC on November 1, 2004 and January 24, 2005 against KPT and KDA respectively. KPT and KDA have filed appeals before Sindh High Court but adjourned to date in office for want of time.

| Particulars                               | C O S T                |                        |                         | DEPRECIATION                    |                              |                                  | Net Book value at December 31, 2006 | Rate of Depreciation per annum |
|---|------------------------|------------------------|-------------------------|---------------------------------|------------------------------|----------------------------------|-------------------------------------|--------------------------------|
|   | As at January 01, 2006 | Additions/ (Deletions) | As at December 31, 2006 | Accumulated at January 01, 2006 | For the year / (on deletion) | Accumulated at December 31, 2006 |                                     |                                |
| Rupees in 000                             |                        |                        |                         |                                 |                              |                                  |                                     |                                |
| Leasehold land                            | 7,407                  | -                      | 7,407                   | -                               | -                            | -                                | 7,407                               | -                              |
| Buildings on leasehold land               | 23,642                 | 10,138                 | 33,780                  | 19,983                          | 682                          | 20,665                           | 13,115                              | 5%                             |
| Furniture and fixtures                    | 27,974                 | 16,325                 | 41,038                  | 9,255                           | 3,304                        | 9,298                            | 31,740                              | 10%                            |
| Electrical, office and computer equipment | 132,514                | 120,937                | 251,910                 | 52,028                          | 44,041                       | 95,276                           | 156,634                             | 20% & 33%                      |
| Vehicles                                  | 96,115                 | 67,741                 | 129,915                 | 26,043                          | 23,599                       | 33,593                           | 96,322                              | 20%                            |
| Leasehold improvements                    | 139,988                | 110,253                | 250,241                 | 19,165                          | 32,936                       | 52,101                           | 198,140                             | 20%                            |
|   | 427,640                | 325,394                | 714,291                 | 126,474                         | 104,562                      | 210,933                          | 503,358                             |                                |
|   |                        | (38,743)               |                         |                                 | (20,103)                     |                                  |                                     |                                |
| <b>Assets under operating lease</b>       |                        |                        |                         |                                 |                              |                                  |                                     |                                |
| Non-commercial vehicles                   | 3,606                  | -                      | -                       | 1,320                           | 294                          | -                                | -                                   | 15%                            |
|   |                        | (3,606)                |                         |                                 | (1,614)                      |                                  |                                     |                                |
|   | 431,246                | 325,394                | 714,291                 | 127,794                         | 104,856                      | 210,933                          | 503,358                             |                                |
|   |                        | (42,349)               |                         |                                 | (21,717)                     |                                  |                                     |                                |

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## 13.2.4 Detail of disposal of property and equipment during the year

| Description   | Cost   | Accumulated depreciation | Book value | Sale proceeds | Mode of disposal       | Particulars of buyer  |
|---|--------|--------------------------|------------|---------------|------------------------|---|
| < ----- Rupees '000' ----- >  |        |                          |            |               |                        |   |
| Vehicles  | 1,420  | 308                      | 1,112      | 1,156         | Employee Service Rules | Mr. Ahmed Qureshi, 135-P, Phase I, DHA, Lahore.                                     |
|   | 1,238  | 371                      | 867        | 875           | Insurance Claim        | EFU General Insurance Company Limited, Karachi                                      |
|   | 1,543  | 179                      | 1,364      | 1,398         | Employee Service Rules | Mr. Naveed Sherwani H# 6, 1st Street.,<br>Khayaban-e-Seher, Phase VI, DHA, Karachi. |
|   | 1,036  | 224                      | 812        | 1,036         | Insurance Claim        | EFU General Insurance Company Limited, Karachi                                      |
|   | 1,158  | 632                      | 526        | 781           | Negotiation            | Mr. Rehan Mithani, D-87/1 Clifton 7 Karachi.  |
|   | 1,715  | 657                      | 1,058      | 1,350         | Negotiation            | Greaves Pakistan (Pvt.) Limited, Karachi  |
|   | 609    | 254                      | 355        | 450           | Negotiation            | Mr. Kamran, House No. A22/3, Gulshan-e-Faisal Society,<br>Bath Island, Karachi      |
|   | 609    | 284                      | 325        | 435           | Negotiation            | Mr. Muazzam S/o Maula Bux, House No.B12 Al Johar<br>Society, Karachi.               |
|   | 901    | 225                      | 676        | 710           | Negotiation            | Mr.Ethsamullah Usmani, B-32, Block No.2, Gulshan-e-<br>Iqbal, Karachi               |
| Sub Total   | 10,229 | 3,134                    | 7,095      | 8,191         |                        |   |
| Items having cost less than Rs.1 million or net book value not exceeding Rs. 0.25 million | 25,831 | 14,003                   | 11,828     | 16,980        |                        |   |
| 2007  | 36,060 | 17,137                   | 18,923     | 25,171        |                        |   |
| 2006  | 42,349 | 21,717                   | 20,632     | 30,746        |                        |   |

## 13.3 Intangible Assets

| Particulars             | 2007                   |           |                         |                                 |              |  |                                  |         | Net Book value at December 31, 2007 | Rate of Amortization per annum |
|-------------------------|------------------------|-----------|-------------------------|---------------------------------|--------------|--|----------------------------------|---------|-------------------------------------|--------------------------------|
|                         | C O S T                |           |                         |                                 | AMORTIZATION |  |                                  |         |                                     |                                |
|                         | As at January 01, 2007 | Additions | As at December 31, 2007 | Accumulated at January 01, 2007 | For the year | Addition by amalgamation / acquisition | Accumulated at December 31, 2007 |         |                                     |                                |
| Computer softwares      | 53,473                 | 80,179    | 37,108                  | 170,760                         | 18,236       | 16,406                                 | 36,693                           | 71,335  | 99,425                              | 33.33% & 50%                   |
| Goodwill (7.4 & 13.3.2) | -                      | -         | 26,837,635              | 26,837,635                      | -            | -                                      | -                                | -       | 26,837,635                          |                                |
| Management rights       | -                      | -         | 970,000                 | 970,000                         | -            | 48,500                                 | 291,000                          | 339,500 | 630,500                             |                                |
|                         | 53,473                 | 80,179    | 27,844,743              | 27,978,395                      | 18,236       | 64,906                                 | 327,693                          | 410,835 | 27,567,560                          |                                |

13.3.1 Included in cost of computer softwares are fully depreciated items still in use having cost of Rs.36.508 million.

13.3.2 It includes Goodwill on consolidation amounting to Rs. 62.112 million.

| Particulars        | 2006                   |           |                         |                                 |              |  |                                  |        | Net Book value at December 31, 2007 | Rate of Amortization per annum |
|--------------------|------------------------|-----------|-------------------------|---------------------------------|--------------|--|----------------------------------|--------|-------------------------------------|--------------------------------|
|                    | C O S T                |           |                         |                                 | AMORTIZATION |  |                                  |        |                                     |                                |
|                    | As at January 01, 2007 | Additions | As at December 31, 2007 | Accumulated at January 01, 2007 | For the year | Addition by amalgamation / acquisition | Accumulated at December 31, 2007 |        |                                     |                                |
| Computer softwares |                        | 38,184    | 15,289                  | 53,473                          | 7,060        | 11,176                                 | 18,236                           | 35,237 | 35,237                              | 33.33% & 50%                   |
|                    |                        | 38,184    | 15,289                  | 53,473                          | 7,060        | 11,176                                 | 18,236                           | 35,237 |                                     |                                |

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| 14. DEFERRED TAX ASSETS / (LIABILITIES)                                     | Note | 2007<br>(Rupees '000') | 2006             |
|---|------|------------------------|------------------|
| <b>Deferred tax debits arising due to:</b>                                  |      |                        |                  |
| Provision against loans and advances  |      | 3,512,544              | 213,565          |
| Provision against other receivables   |      | 7,202                  | 6,559            |
| Provision against balances with other banks                                 |      | 1,387                  | 1,387            |
| Provision for leave encashment  |      | 12,604                 | -                |
| Gratuity  |      | 15,577                 | 11,501           |
| Unused tax losses   |      | 319,047                | -                |
| Government securities   |      | 160,366                | -                |
|   |      | <u>4,028,727</u>       | <u>233,012</u>   |
| <b>Deferred tax credits arising due to:</b>                                 |      |                        |                  |
| Excess of accounting base of leased assets over tax base                    |      | (552,639)              | (91,801)         |
| Excess of accounting base of Available for Sale securities<br>over tax base |      | -                      | (245)            |
| Excess of accounting base of government securities over tax base            |      | 2,043                  | -                |
| Accelerated accounting depreciation on owned assets                         |      | (69,403)               | (13,808)         |
| Unrealised exchange gains   | 14.1 | (8,358)                | -                |
| Unrealised exchange losses  | 14.2 | (31,628)               | -                |
|   |      | <u>(659,985)</u>       | <u>(105,854)</u> |
|   |      | <u>3,368,742</u>       | <u>127,158</u>   |

**14.1** In 1987 and 1989, the Bank (formerly PICIC Corporation) exercised its option to avail the exchange risk coverage offered by the Government of Pakistan, Ministry of Finance and Economic Affairs (Economic Affairs Division), through Office Memo 1(16)/50/DM/86 dated July 8, 1987 and 1(12)/50/DM/89 dated June 1, 1989 respectively and, in turn the Corporation offered the risk coverage to its constitutes.

**14.2** Unrealised exchange losses as on April 21, 1987 (formerly PICIC Corporation) the effective date of exercise of both the options arising on related borrowings as reduced by gains arising on related advances was claimed as loss for tax purposes.

| 15. OTHER ASSETS  | Note | 2007<br>(Rupees '000') | 2006    |
|---|------|------------------------|---------|
| Income / mark-up accrued                                  |      |                        |         |
| Local currency  | 15.1 | 2,843,241              | 588,511 |
| Foreign currencies  |      | 16,544                 | 15,409  |
| Advances, deposits, advance rent and other prepayments    | 15.2 | 698,792                | 298,843 |
| Advance taxation - net                                    |      | 12,142                 | 84,572  |
| Non - banking assets acquired in satisfaction of claims   | 15.3 | 28,472                 | -       |
| Unrealized gain on forward exchange contracts - net       |      | 43,555                 | 23,622  |
| Dividend receivable                                       |      | 8,385                  | -       |
| Receivable against sale of investments                    |      | 744                    | -       |
| Receivable from Financial Management Services (Pvt.) Ltd. |      | 10,329                 | -       |

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|   | Note | 2007<br>(Rupees '000')  | 2006                    |
|---|------|-------------------------|-------------------------|
| Receivable from Provident Fund  |      | 107,245                 | -                       |
| Receivable from Leave Encashment Fund                                 |      | 61,914                  | -                       |
| Receivable from Gratuity Fund   |      | 76,634                  | -                       |
| Receivable from related parties                                       |      | 8,096                   | -                       |
| Stationery and stamps on hand   |      | 6,564                   | -                       |
| Advance for purchase of units in mutual funds of associates           |      | -                       | 150,000                 |
| Advance for purchase of term finance certificates                     |      | -                       | 30,000                  |
| Assets in respect of Bangladesh                                       | 15.4 | 425,409                 | -                       |
| Sundry debtors  |      | 110,981                 | -                       |
| Insurance claim   |      | 27,907                  | -                       |
| Management fee receivable   |      | 192,671                 | -                       |
| Others  |      | 22,589                  | 145                     |
|   |      | <u>4,702,214</u>        | <u>1,191,102</u>        |
| Liabilities in respect of Bangladesh                                  | 15.4 | (342,416)               | -                       |
| Rupee Borrowings from Government of Pakistan in respect of Bangladesh |      | (82,993)                | -                       |
| Provisions held against other assets                                  | 15.5 | (718,520)               | (18,739)                |
| <b>Other assets - net of provisions</b>                               |      | <u><u>3,558,285</u></u> | <u><u>1,172,363</u></u> |

15.1 It includes Rs. 1.290 million in respect of associated undertakings .

## 15.2 Advances, deposits, advance rent and other prepayments

|              |                |                |
|--------------|----------------|----------------|
| Advances     | 380,302        | 13,103         |
| Deposits     | 17,254         | 12,321         |
| Advance rent | 209,994        | 164,644        |
| Prepayments  | 91,242         | 108,775        |
|              | <u>698,792</u> | <u>298,843</u> |

15.3 Represents cost of land, plant and machinery of textile units acquired by PICIC and held for resale.

15.4 All the assets and liabilities as of Nov 30, 1971 of PICIC (now merged with and into NIB) clearly identifiable as being in or in respect of the areas now under Bangladesh and referred to above were segregated as of that date and in such segregation, for purposes of conversion of foreign currency amounts, generally speaking, the parity rates ruling prior to August 15, 1971 were used, and all income accrued or due in 1971 but not received in that year and interest accrued but not due on borrowings was accrued or due in 1971 but not received in that year and interest accrued but not due on borrowings was eliminated. Subsequently, consequent to the assuming by Bangladesh of certain foreign currency loan obligations as of July 1, 1974, including amounts previously identified by PICIC as its foreign currency liabilities in respect of Bangladesh, such amounts were eliminated from the books of PICIC by reducing an equivalent sum from its related foreign assets in that area.

Arising from advices received from the lenders and as a result of diversion of shipments and of the meeting of certain contingent liabilities, there have been certain modifications to the foreign currency advances relating to Bangladesh. Furthermore, the difference between the actual amount of rupees required to remit maturities of foreign currency borrowings in respect of Bangladesh and the figures at which they appeared in the books and the interest paid to foreign lenders has been treated as increasing the rupee assets in that area.

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The Government of Pakistan while initially agreeing to provide the rupee finance required for discharging current maturities of foreign currency borrowings and interest related to Bangladesh did not accept any responsibility for PICIC's assets in that area. However, following an agreement reached between PICIC and the Government of Pakistan during 1976, the Government has agreed that it would continue to provide the funds for servicing PICIC's foreign currency liabilities relating to Bangladesh and has further agreed that an amount equivalent to the rupee assets in Bangladesh financed from PICIC's own funds not exceeding Rs. 82 million would be deemed to have been allocated out of the rupee loans by the Government and that such allocated amount together with the rupee finance being provided by the Government including any interest thereon would not be recovered from PICIC until such time as PICIC recovers the related assets from Bangladesh and only to the extent of such recovery.

Accordingly, such allocated amounts together with the rupee finance being provided by the Government for discharging the current maturities of foreign currency borrowings (including the interest and charges thereon and any exchange difference between the final rupee payment and the amount at which the liability, commitment or contingent liability as appearing in the books relating to Bangladesh) have been treated as liabilities in respect of Bangladesh. Further, in view of the aforesaid agreement no interest is being accrued on the allocated amount of rupee loans or in respect of the rupee finance provided by the Government related to PICIC's assets in Bangladesh nor is it considered necessary to provide for any loss that may arise in respect of PICIC's assets in Bangladesh.

|   | Note   | 2007<br>(Rupees '000') | 2006          |
|---|--------|------------------------|---------------|
| <b>15.5 Particulars of provision against other assets</b> |        |                        |               |
| Opening balance   |        | 18,739                 | 19,067        |
| Charge for the year                                       |        | 1,838                  | -             |
| Reversals   |        | -                      | (328)         |
| Assumed on amalgamation                                   | 15.5.1 | 697,943                | -             |
| Closing balance   |        | <u>718,520</u>         | <u>18,739</u> |

**15.5.1** This includes a sum of Rs. 34.101 million (2006 : Rs.34.101 million) representing unrealised exchange gain, which has not been recognised as income and deferred in the financial statements, in accordance with the policy of the Group, as stated in note 5.15.

|  |  | 2007<br>(Rupees '000') | 2006             |
|--|--|------------------------|------------------|
| <b>16. BILLS PAYABLE</b>   |  |                        |                  |
| In Pakistan  |  | 2,098,881              | 206,669          |
| Outside Pakistan   |  | 11,330                 | 9,100            |
|  |  | <u>2,110,211</u>       | <u>215,769</u>   |
| <b>17. BORROWINGS</b>  |  |                        |                  |
| In Pakistan  |  | 16,551,487             | 9,157,328        |
| Outside Pakistan   |  | 117,925                | 6,793            |
|  |  | <u>16,669,412</u>      | <u>9,164,121</u> |
| <b>17.1 Particulars of borrowings with respect to currencies</b> |  |                        |                  |
| In local currency  |  | 16,551,487             | 9,096,418        |
| In foreign currencies  |  | 117,925                | 67,703           |
|  |  | <u>16,669,412</u>      | <u>9,164,121</u> |

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|   | Note        | 2007<br>(Rupees '000') | 2006             |
|---|-------------|------------------------|------------------|
| <b>17.2 Details of borrowings - secured / unsecured</b>   |             |                        |                  |
| <b>Secured</b>  |             |                        |                  |
| Borrowings from SBP under   |             |                        |                  |
| Export refinance scheme   | 17.3        | 8,800,524              | 6,001,433        |
| Long term finance for export oriented projects  | 17.4        | 1,154,583              | 145,731          |
| Repurchase agreement borrowings   | 17.5 & 17.7 | 4,554,094              | 917,555          |
| <b>Unsecured</b>  |             |                        |                  |
| Call borrowings   | 17.6        | 1,880,000              | 2,090,910        |
| Overdrawn nostro accounts   |             | 117,925                | 6,793            |
| Overdrawn bank accounts   |             | -                      | 1,699            |
| Foreign borrowings payable in local currency  | 17.8        | 162,286                | -                |
|   |             | <u>16,669,412</u>      | <u>9,164,121</u> |
| <b>17.3</b> Borrowings from SBP under export refinance are subject to mark-up at the rates ranging from 6.5% (2006: 6.5% to 7.5%) per annum maturing within six months.   |             |                        |                  |
| <b>17.4</b> Borrowings from SBP under export oriented projects are subject to mark up ranging from 2% to 5% (2006: 4.9% to 5%) per annum maturing within seven years.   |             |                        |                  |
| <b>17.5</b> These borrowings are subject to markup at the rate ranging from 9.3% to 9.95% (2006: 8.7 %) per annum maturing within three month. Government securities have been given as collateral against these borrowings.  |             |                        |                  |
| <b>17.6</b> These borrowings are subject to markup at the rate ranging from 9.55% to 10% (2006: 6% to 11.75% ) per annum maturing within three month.   |             |                        |                  |
| <b>17.7</b> This include Rs 100 million outstanding as at December 31, 2007 (in formerly PICIC Corporation) was borrowed from a company in 2004 against pledge of PIBs. As the lender had failed to return the pledged PIBs upon the maturity of contract period this amount is appearing a a pending transaction with a corresponding amount appearing a investment in PIB. No interest is accrued a either expense on this borrowing or as income from PIB pending the filing of the dispute between the Group and the company. |             |                        |                  |
| <b>17.8</b> It includes unrealized exchange loss of Rs. 96.011 million which has been netted off against unrealized exchange gain (note 20) as it is payable when recovered from sub-borrowers, who have availed the related German credit.   |             |                        |                  |

|  | Note | 2007<br>(Rupees '000') | 2006       |
|--|------|------------------------|------------|
| <b>18. DEPOSITS AND OTHER ACCOUNTS</b> |      |                        |            |
| Customers                              |      |                        |            |
| Fixed deposits                         |      | 50,711,633             | 18,336,843 |
| Savings deposits                       |      | 37,048,642             | 6,298,832  |
| Current accounts - Remunerative        | 18.2 | 3,000,000              | -          |
| Current accounts - Non remunerative    |      | 21,986,636             | 3,517,525  |
| Margin accounts                        |      | 304,503                | 373,886    |



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|                           | 2007           | 2006       |
|---------------------------|----------------|------------|
|                           | (Rupees '000') |            |
| Financial institutions    |                |            |
| Remunerative deposits     | 3,249,944      | 1,947,156  |
| Non-remunerative deposits | 222,570        | 92,298     |
|                           | 116,523,928    | 30,566,540 |

## 18.1 Particulars of deposits

|                       |             |            |
|-----------------------|-------------|------------|
| In local currency     | 109,379,202 | 28,016,868 |
| In foreign currencies | 7,144,726   | 2,549,672  |
|                       | 116,523,928 | 30,566,540 |

**18.2** This represents pre IPO receipts deposited with the Group on account of subscription money towards issue of 8 year term finance certificates. The total issue consists of Rs.3,000 million under pre-IPO / private placement and the remaining Rs.1,000 million represents the initial public offer to the general public made on February 22, 2008 for subscription on March 4 and 5, 2008. The issue of these term finance certificates has been approved by the State Bank of Pakistan subsequently. These unsecured term finance certificates with payment of principal and profit is subordinate to all other indebtedness of the Group.

## 19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

|   | Minimum<br>lease<br>payments | Financial<br>charge<br>for future<br>period | Principal<br>outstanding |
|---|------------------------------|---|--------------------------|
|   | -----Rupees '000'-----       |   |                          |
| Not later than one year                           | 3,501                        | 576   | 2,925                    |
| Later than one year and not later than five years | 4,518                        | 267   | 4,251                    |
|   | 8,019                        | 843   | 7,176                    |

This represents obligation under finance lease agreement with a Modaraba to acquire vehicles and computer equipment. Payments under the lease include finance charge at rates ranging from 12.97 to 13.65 percent per annum (2006 : 13.43 to 15.02 percent per annum). Overdue rentals in certain agreements are subject to additional charge at the rate of Rs. 500 per day (2006 : Rs.500 per day). The Group intends to exercise its option to purchase the above assets upon completion of the lease periods.

2007  
(Rupees '000')

## 20. OTHER LIABILITIES

|   |           |         |
|---|-----------|---------|
| Mark-up / return / interest payable in: |           |         |
| Local currency                          | 1,341,947 | 348,764 |
| Foreign currencies                      | 53,241    | 13,523  |
| Unearned Income on Inland Bills         | 3,883     | 13,622  |
| Accrued expenses                        | 450,306   | 138,395 |
| Insurance premium payable               | 69,751    | -       |
| Withholding tax payable                 | 15,093    | 19,136  |
| Advance from lessees                    | 11,567    | 15,583  |
| Unclaimed dividend                      | 45,714    | 1,289   |
| Central Excise Duty payable             | 35,681    | -       |
| Borrowing from Government of Pakistan   | 2,095     | -       |

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|   | Note | 2007             | 2006             |
|---|------|------------------|------------------|
|   |      | (Rupees '000')   |                  |
| Branch adjustment account               |      | 86,158           | 72,652           |
| Unrealized exchange gain - net          |      | 15,522           | -                |
| Security and other deposits             |      | 174,996          | -                |
| Payable to IBRD - Managed Fund          |      | 44,767           | -                |
| Payable against purchase of investments |      | 30,960           | -                |
| Payable to defined benefit plan         | 34.4 | 44,506           | 32,859           |
| Security deposits against lease         |      | 1,873,528        | 1,476,560        |
| Locker claims payable                   |      | 21,000           | -                |
| Others                                  |      | 311,390          | 18,155           |
|   |      | <u>4,632,105</u> | <u>2,150,538</u> |

## 21. SHARE CAPITAL

### 21.1 Authorized

| 2007                 | 2006               |                                | 2007              | 2006             |
|----------------------|--------------------|--------------------------------|-------------------|------------------|
| No. of Shares        |                    |                                | (Rupees '000')    |                  |
| <u>3,500,000,000</u> | <u>450,000,000</u> | Ordinary shares of Rs. 10 each | <u>35,000,000</u> | <u>4,500,000</u> |

### 21.2 Issued, subscribed and paid up

Fully paid up ordinary shares of Rs.10/ each

|                      |                    |  |                   |                  |
|----------------------|--------------------|--|-------------------|------------------|
| 2,078,902,659        | 213,258,077        | Fully paid in cash                       | 20,789,027        | 2,132,581        |
|                      |                    | Issued for consideration other than cash |                   |                  |
| <u>122,894,100</u>   | <u>122,894,100</u> | (under scheme of amalgamation)           | <u>1,228,941</u>  | <u>1,228,941</u> |
| <u>2,201,796,759</u> | <u>336,152,177</u> |  | <u>22,017,968</u> | <u>3,361,522</u> |

21.2.1 The holding Company Bugis Investments (Mauritius) Pte. Limited and associated undertaking IFIC Bangladesh hold 1,795,911,770 and 24,578,800 ordinary shares respectively.

2007 2006  
No. of Shares

### 21.2.2 Reconciliation of number of ordinary shares of Rs 10 each

|                                      |                      |                    |
|--------------------------------------|----------------------|--------------------|
| At the beginning of the year         | 336,152,177          | 336,152,177        |
| Add: Issued during the year for cash | <u>1,865,644,582</u> | -                  |
| At the end of the year               | <u>2,201,796,759</u> | <u>336,152,177</u> |

### 21.2.3 Shares to be issued

The amount of Rs.14,026,177 in respect of shares to be issued in pursuance of scheme of amalgamation represents 424,409,837 and 217,520,480 number of shares to be issued to shareholders of PICIC and PCBL at a fair vale of Rs.21.85 per share as proposed by the external consultants and subsequently revised by State Bank of Pakistan.

## 22. DEFICIT ON REVALUATION OF SECURITIES

(Rupees '000')

|   |                  |                 |
|---|------------------|-----------------|
| Market Treasury Bills                                       | (2,683)          | 700             |
| Pakistan Investment Bonds                                   | (7,121)          | -               |
| Mutual Funds  | (134,009)        | -               |
| Investment in listed shares                                 | <u>(29,702)</u>  | <u>(48,288)</u> |
|   | (173,515)        | (47,588)        |
| Share of surplus on revaluation of securities of associates | <u>36,912</u>    | -               |
|   | (136,603)        | (47,588)        |
| Related deferred tax liability / (asset)                    | <u>3,431</u>     | <u>(245)</u>    |
|   | <u>(133,172)</u> | <u>(47,833)</u> |



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|   | 2007             | 2006             |
|---|------------------|------------------|
|   | (Rupees '000')   |                  |
| <b>24. MARK-UP / RETURN / INTEREST EARNED</b>     |                  |                  |
| On loans and advances to:                         |                  |                  |
| Customers   | 5,107,829        | 2,662,617        |
| On investments in:                                |                  |                  |
| Available for sale securities                     | 667,488          | 191,926          |
| Held to maturity securities                       | 78,930           | 201,770          |
| On deposits with financial institutions           | 524,673          | 296,293          |
| On securities purchased under resale agreements   | 652,005          | 119,817          |
| Others  | 4,042            | 941              |
|   | <u>7,034,967</u> | <u>3,473,364</u> |
| <b>25. MARK-UP / RETURN / INTEREST EXPENSED</b>   |                  |                  |
| Deposits and other accounts                       | 2,784,691        | 1,732,813        |
| Securities sold under repurchase agreements       | 727,369          | 158,180          |
| Other short term borrowings                       | 1,339,426        | 437,331          |
| Long term borrowings                              | 34,422           | 6,457            |
| Others  | 108,335          | 117,411          |
|   | <u>4,994,243</u> | <u>2,452,192</u> |
| <b>26. GAIN ON SALE OF SECURITIES</b>             |                  |                  |
| Market Treasury Bills                             | 5,007            | 222              |
| Pakistan Investment Bonds                         | 1,577            | -                |
| Listed Term Finance Certificates                  | 1,808            | -                |
| Units of mutual funds                             | 15,629           | -                |
|   | <u>24,021</u>    | <u>222</u>       |
| <b>27. OTHER INCOME</b>                           |                  |                  |
| Gain on disposal of property and equipment        | 6,248            | 10,114           |
| Service charges                                   | 50,868           | 40,814           |
| Recovery against loans written off in prior years | -                | 12,500           |
| Rebate income                                     | 23,302           | 25,914           |
| Others  | 27,310           | 1,293            |
|   | <u>107,728</u>   | <u>90,635</u>    |

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|   | Note | 2007             | 2006             |
|---|------|------------------|------------------|
|   |      | (Rupees '000')   |                  |
| <b>28. ADMINISTRATIVE EXPENSES</b>  |      |                  |                  |
| Salaries, allowances, etc.  |      | 1,097,175        | 605,675          |
| Charge to defined benefit plan  | 34.5 | 11,647           | 9,377            |
| Contribution to defined contribution plan   |      | 33,717           | 21,104           |
| Brokerage and commission  |      | 11,553           | 21,732           |
| Rent, taxes, insurance, electricity, etc.   |      | 247,306          | 168,038          |
| Legal and professional  |      | 57,009           | 34,663           |
| Communications  |      | 132,571          | 57,484           |
| Repairs and maintenance   |      | 34,590           | 25,011           |
| Rentals for operating lease   |      | 5,183            | 5,257            |
| Stationery and printing   |      | 45,400           | 28,908           |
| Advertisement and publicity   |      | 13,180           | 56,368           |
| Fees and subscription   |      | 35,411           | 14,209           |
| Auditors' remuneration  | 28.1 | 5,215            | 2,715            |
| Depreciation  | 13.2 | 171,778          | 104,856          |
| Amortization  | 13.3 | 64,906           | 11,176           |
| Traveling, conveyance and vehicles running  |      | 75,776           | 24,277           |
| Security services   |      | 29,719           | 15,207           |
| Others  |      | 23,646           | 15,366           |
|   |      | <u>2,095,782</u> | <u>1,221,423</u> |
| <b>28.1 Auditors' remuneration</b>  |      |                  |                  |
| Audit fee   |      | 1,215            | 650              |
| Review fee  |      | 350              | 325              |
| Special certifications and sundry advisory<br>services including fee for branch audit |      | 3,515            | 1,415            |
| Tax services  |      | -                | 275              |
| Out-of-pocket expenses  |      | 135              | 50               |
|   |      | <u>5,215</u>     | <u>2,715</u>     |
| <b>29. OTHER CHARGES</b>  |      |                  |                  |
| Penalties imposed by the State Bank of Pakistan                                       |      | <u>2,133</u>     | <u>2,587</u>     |
| <b>30. TAXATION</b>   |      |                  |                  |
| For the year  |      |                  |                  |
| Current   |      | (124,341)        | (33,422)         |
| Prior   |      | -                | -                |
| Deferred  |      | 258,834          | 129,367          |
|   |      | <u>134,493</u>   | <u>95,945</u>    |

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## 30.1 Relationship between tax expense and accounting profit

The relationship between tax expense and accounting profit of the Group has not been presented in these financial statements as the total income of the Group attracts minimum tax under section 113 of the Income Tax Ordinance, 2001.

|   | 2007             | 2006           |
|---|------------------|----------------|
| <b>31. BASIC / DILUTED (LOSS) / EARNINGS PER SHARE</b>                          |                  |                |
| (Loss) / profit attributable to shareholders of the holding company (Rs. '000') | <u>(203,565)</u> | <u>125,937</u> |
| Weighted average number of shares outstanding during the year (000)             | <u>1,107,013</u> | <u>572,059</u> |
| (Loss) / Earnings per share - basic and diluted (Rupee)                         | <u>(0.18)</u>    | <u>0.22</u>    |

|  | 2007              | 2006             |
|--|-------------------|------------------|
|  | (Rupees '000')    |                  |
| <b>32. CASH AND CASH EQUIVALENTS</b>       |                   |                  |
| Cash and balances with treasury banks      | 10,330,072        | 2,928,404        |
| Balances with other banks net of provision | <u>2,309,386</u>  | <u>1,362,497</u> |
|  | <u>12,639,458</u> | <u>4,290,901</u> |

|   | (Numbers)    |              |
|---|--------------|--------------|
| <b>33. STAFF STRENGTH</b>                         |              |              |
| Permanent   | 3,373        | 912          |
| Temporary / on contractual basis                  | 337          | 4            |
| Daily wages                                       | 6            | -            |
| Others  | 8            | -            |
| Group's own staff strength at the end of the year | <u>3,724</u> | <u>916</u>   |
| Outsourced  | <u>1,887</u> | <u>716</u>   |
| Total staff strength                              | <u>5,611</u> | <u>1,632</u> |

## 34. DEFINED BENEFIT PLAN

**34.1** The benefits under the gratuity scheme are payable on retirement at the age of 60 years or earlier cessation of services in lump sum. The benefit is equal to one month's last drawn basic salary of each year of confirmed service, subject to a minimum qualifying period of service as defined under the schemes.

### 34.2 Principal actuarial assumptions

The actuarial valuation is carried out periodically. The actuarial valuation was carried out for the year ended December 31, 2007 using "Projected Unit Credit Method". The main assumptions used for actuarial valuation are as follows:

|                                       | 2007        | 2006 | Sources of assumptions              |
|---------------------------------------|-------------|------|-------------------------------------|
|                                       | (Per Annum) |      |                                     |
| Discount rate                         | 10%         | 10%  | Yield on PIBs and high quality TFCs |
| Expected rate of increase in salaries | 9%          | 9%   | Market trend                        |

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|   | 2007            | 2006          |
|---|-----------------|---------------|
|   | (Rupees '000')  |               |
| <b>34.3 Reconciliation of payable to defined benefit plan</b> |                 |               |
| Present value of defined benefit obligations                  | 33,919          | 22,109        |
| Fair value of any plan assets                                 | -               | -             |
| Unrecognised prior service cost                               | 3,261           | 4,892         |
| Net actuarial gains not recognized                            | 7,326           | 5,858         |
|   | <u>44,506</u>   | <u>32,859</u> |
| Assumed on amalgamation                                       | (76,634)        | -             |
| Net liability in balance sheet                                | <u>(32,128)</u> | <u>32,859</u> |
| <b>34.4 Movement in payable to defined benefit plan</b>       |                 |               |
| Opening balance   | 32,859          | 23,482        |
| Charge for the year   | 11,647          | 9,377         |
| Payment to the out going members                              | -               | -             |
|   | <u>44,506</u>   | <u>32,859</u> |
| Assumed on acquisition  | (76,634)        | -             |
| Closing balance   | <u>(32,128)</u> | <u>32,859</u> |
| <b>34.5 Charge for defined benefit plan</b>                   |                 |               |
| Current service cost  | 10,808          | 9,357         |
| Interest cost   | 2,751           | 1,651         |
| Expected return on plan assets                                | -               | -             |
| Recognition of actuarial gains and losses                     | (281)           | -             |
| Past service cost   | -               | -             |
| Amortisation of prior service cost                            | (1,631)         | (1,631)       |
| Cost for the year   | <u>11,647</u>   | <u>9,377</u>  |

## 35. DEFINED CONTRIBUTION PLAN

The Group has established a provident fund scheme administered by the Board of Trustees for all permanent employees. Equal monthly contributions are made both by the Group and employees to the fund @ 10% of basic salary.

## 36. COMPENSATION OF DIRECTORS AND EXECUTIVES

|   | President / Chief Executive |               | Directors    |              | Executives     |                |
|---|-----------------------------|---------------|--------------|--------------|----------------|----------------|
|   | 2007                        | 2006          | 2007         | 2006         | 2007           | 2006           |
|   | -----Rupees '000'-----      |               |              |              |                |                |
| Fees                                      | 375                         | -             | 2,492        | 2,622        | -              | -              |
| Managerial remuneration                   | 25,897                      | 12,452        | -            | -            | 173,693        | 106,245        |
| Charge for defined benefit plan           | 832                         | 346           | -            | -            | 11,647         | 3,432          |
| Contribution to defined contribution plan | 967                         | 1,214         | -            | -            | 15,008         | 8,993          |
| Rent and house maintenance                | 3,387                       | 5,120         | -            | -            | 59,830         | 37,186         |
| Utilities                                 | 967                         | 484           | -            | -            | 17,094         | 10,625         |
| Others                                    | 1,049                       | 2,552         | 82           | -            | 76,560         | 36,970         |
|   | <u>33,474</u>               | <u>22,168</u> | <u>2,574</u> | <u>2,622</u> | <u>353,832</u> | <u>203,451</u> |
| Number of persons                         | <u>2</u>                    | <u>1</u>      | <u>12</u>    | <u>8</u>     | <u>139</u>     | <u>92</u>      |

President and other executives are also provided with free use of the Group's maintained cars.

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## 37. FAIR VALUE OF FINANCIAL INSTRUMENTS

### 37.1 On-balance sheet financial instruments

|   | 2007                       |                    | 2006              |                   |
|---|----------------------------|--------------------|-------------------|-------------------|
|   | Book value                 | Fair value         | Book value        | Fair value        |
|   | <----- Rupees '000' -----> |                    |                   |                   |
| <b>Assets</b>                                       |                            |                    |                   |                   |
| Cash and balances with treasury banks               | 10,330,072                 | 10,330,072         | 2,928,404         | 2,928,404         |
| Balances with other banks                           | 2,309,386                  | 2,309,386          | 1,362,497         | 1,362,497         |
| Lendings to financial institutions                  | 4,753,113                  | 4,753,113          | 2,600,000         | 2,600,000         |
| Investments   | 38,601,627                 | 38,601,627         | 6,564,036         | 6,564,036         |
| Advances  | 82,160,074                 | 82,160,074         | 31,052,169        | 31,052,169        |
| Other assets  | 3,481,945                  | 3,481,945          | 811,940           | 811,940           |
|   | <u>141,636,217</u>         | <u>141,636,217</u> | <u>45,319,046</u> | <u>45,319,046</u> |
| <b>Liabilities</b>                                  |                            |                    |                   |                   |
| Bills payable                                       | 2,110,211                  | 2,110,211          | 215,769           | 215,769           |
| Borrowings  | 16,669,412                 | 16,669,412         | 9,164,121         | 9,164,121         |
| Deposits and other accounts                         | 116,523,928                | 116,523,928        | 30,566,540        | 30,566,540        |
| Sub-ordinated loans                                 | -                          | -                  | -                 | -                 |
| Liabilities against assets subject to finance lease | 7,176                      | 7,176              | -                 | -                 |
| Other liabilities                                   | 4,201,490                  | 4,201,490          | 382,712           | 382,712           |
|   | <u>139,512,217</u>         | <u>139,512,217</u> | <u>40,329,142</u> | <u>40,329,142</u> |
| <b>Off-balance sheet financial instruments</b>      |                            |                    |                   |                   |
| Forward purchase of foreign exchange                | <u>18,548,465</u>          | <u>18,548,465</u>  | <u>6,042,476</u>  | <u>6,042,476</u>  |
| Forward sale of foreign exchange                    | <u>14,766,871</u>          | <u>14,766,871</u>  | <u>5,387,175</u>  | <u>5,387,175</u>  |

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

All quoted investments have been stated at their market value. All unquoted investments have been stated at lower of cost or realizable value, being their estimated fair values.

Fair values of loans and advances cannot be determined with reasonable accuracy due to absence of current and active market. Loans and advances are repriced frequently on market rates and are reduced for an impairment against non-performing advances deter.

Fair values of all other assets and liabilities including long term deposits cannot be calculated with sufficient accuracy as active market does not exist for these instruments. In the opinion of the management, fair value of these assets and liabilities.



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## 38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

|   | Corporate<br>Finance | Trading &<br>Sales | Retail<br>Banking | Commercial<br>Banking | Payment &<br>Settlement | Agency<br>Services | Assets<br>Management | Retail<br>Brokerage | Others   |
|---|----------------------|--------------------|-------------------|-----------------------|-------------------------|--------------------|----------------------|---------------------|----------|
|   | Rupees '000'         |                    |                   |                       |                         |                    |                      |                     |          |
| <b>2007</b>   |                      |                    |                   |                       |                         |                    |                      |                     |          |
| Total income  | 668                  | 4,842,229          | 6,953,484         | 3,497,904             | 246,957                 | -                  | -                    | -                   | 26,384   |
| Total expenses                                      | (756)                | (4,520,971)        | (7,468,883)       | (3,513,353)           | (279,761)               | -                  | -                    | -                   | (29,889) |
| Net (loss)/ profit before tax                       | (88)                 | 321,258            | (515,399)         | (15,449)              | (32,804)                | -                  | -                    | -                   | (3,505)  |
| Segment Assets (Gross)                              | -                    | 68,161,258         | 138,166,553       | 87,645,551            | -                       | -                  | -                    | -                   | -        |
| Segment Non Performing Loans                        | -                    | -                  | 375,429           | 12,876,887            | -                       | -                  | -                    | -                   | -        |
| Segment Provision<br>(including general provisions) | -                    | -                  | (840,006)         | (9,586,256)           | -                       | -                  | -                    | -                   | -        |
| Segment Assets (Net)                                | -                    | 68,161,258         | 137,326,547       | 78,059,295            | -                       | -                  | -                    | -                   | -        |
| Segment Liabilities                                 | -                    | 59,353,526         | 119,581,341       | 67,972,548            | -                       | -                  | -                    | -                   | -        |
| Segment Return on net<br>assets (ROA) (%)           | -                    | 0.47%              | -0.38%            | -0.02%                | -                       | -                  | -                    | -                   | -        |
| Segment Cost of funds (%)                           | -                    | 9.71%              | 7.63%             | 9.71%                 | -                       | -                  | -                    | -                   | -        |

The respective segment assets and liabilities incorporate funding gaps and excess funding between segments, with appropriate transfer pricing.

### 2006

|   |         |             |             |             |           |   |   |   |          |
|---|---------|-------------|-------------|-------------|-----------|---|---|---|----------|
| Total income  | 1,830   | 1,364,685   | 3,494,827   | 2,038,416   | 134,725   | - | - | - | 42,841   |
| Total expenses                                      | (1,798) | (1,361,561) | (3,480,144) | (2,037,467) | (132,355) | - | - | - | (42,089) |
| Net income before tax                               | 32      | 3,125       | 14,684      | 950         | 2,370     | - | - | - | 752      |
| Segment Assets (Gross)                              | -       | 13,838,321  | 32,044,215  | 25,172,211  | -         | - | - | - | -        |
| Segment Non Performing Loans                        | -       | -           | 211,383     | 812,485     | -         | - | - | - | -        |
| Segment Provision<br>(including general provisions) | -       | -           | 345,103     | 477,579     | -         | - | - | - | -        |
| Segment Assets (Net)                                | -       | 13,838,321  | 31,699,112  | 24,694,632  | -         | - | - | - | -        |
| Segment Liabilities                                 | -       | 12,984,782  | 29,743,931  | 23,171,574  | -         | - | - | - | -        |
| Segment Return on net<br>assets (ROA) (%)           | -       | 0.023%      | 0.046%      | 0.004%      | -         | - | - | - | -        |
| Segment Cost of funds (%)                           | -       | 9.8%        | 8.5%        | 9.8%        | -         | - | - | - | -        |

The respective segment assets and liabilities incorporate funding gaps and excess funding between segments, with appropriate transfer pricing.

## 39. RELATED PARTY TRANSACTIONS

The Group has related party relationship with its holding company, associated undertaking, employee benefit plans and its directors and executive officers.

Transactions with related parties are executed on the same terms as those prevailing at the time for comparable transactions with unrelated parties.

The detail of transactions with related parties, apart from compensation to executives as disclosed in note 36, is given below:

|  | 2007           | 2006   |
|--|----------------|--------|
|  | (Rupees '000') |        |
| <b>Transactions</b>                                |                |        |
| Profit paid to provident fund                      | 2,037          | 1,441  |
| Profit paid on deposits of associated undertakings | 6,672          | 3,535  |
| Contribution to provident fund                     | 33,305         | 21,104 |
| Consultancy charges paid to associated undertaking | 14,394         | 850    |
| Brokerage paid to associated undertaking           | 1,610          | 1,982  |
| Insurance premium paid                             | 103,820        | -      |
| Insurance commission earned                        | 820            | -      |
| Remuneration for investment advisory services      | 192,671        | -      |

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|  | Note | 2007<br>(Rupees '000') | 2006    |
|--|------|------------------------|---------|
| <b>Balances</b>  |      |                        |         |
| Brokerage payable to associated undertaking                                    |      | 51                     | 59      |
| Deposits of provident fund   | 39.1 | 82,851                 | 29,752  |
| Deposits of holding company - Bugis Investments<br>(Mauritius) Pte. Limited    | 39.2 | 43,089                 | 16,469  |
| Deposits of associated undertaking - NAFA                                      | 39.3 | 9,725                  | 149,555 |
| Deposits of associated undertaking - Global Securities                         | 39.4 | 4,675                  | 2,092   |
| Deposit of associated undertaking - PICIC Insurance Limited                    |      | 24,305                 | -       |
| Payable to directors   |      | 5,016                  | -       |
| Payable of associated undertaking - NAFA                                       |      | 18,000                 | -       |
| Insurance premium payable - PICIC Insurance Limited                            |      | 717                    | -       |
| Receivable from Holding Company - Fullerton Financial<br>Holdings Pte. Limited |      | 133                    | -       |
| Receivable from associated undertaking - PICIC Energy Fund                     |      | 7,000                  | -       |
| Receivable from associated undertaking - PICIC Stocks Fund                     |      | 1,096                  | -       |
| Receivable from associated undertaking - PICIC Debt Fund                       |      | 1,000                  | -       |
| Investment in associated undertaking - NAFA                                    |      | 67,500                 | 67,500  |
| Investment in associated undertaking - NAFA Cash Fund                          |      | 200,000                | 200,000 |
| Advance for purchase of NAFA Stock Market Fund                                 |      | -                      | 75,000  |
| Advance for purchase of NAFA Multi Asset Fund                                  |      | -                      | 75,000  |
| Investment in associated undertaking - NAFA Stock Market Fund                  |      | 75,000                 | -       |
| Investment in associated undertaking - NAFA Multi Asset Fund                   |      | 75,000                 | -       |
| Investment in associated undertaking - NAFA Islamic Stock Fund                 |      | 75,000                 | -       |
| Investment in associated undertaking - NAFA Islamic Multi<br>Asset Fund        |      | 75,000                 | -       |

## 39.1 Deposits of Provident Fund

|                             |          |          |
|-----------------------------|----------|----------|
| Opening balance             | 29,752   | 32,836   |
| Deposits during the year    | 69,510   | 46,051   |
|                             | 99,262   | 78,887   |
| Withdrawals during the year | (16,411) | (49,135) |
| Closing balance             | 82,851   | 29,752   |

## 39.2 Deposits of Holding Company - Bugis Investments (Mauritius) Pte. Limited

|                             |             |        |
|-----------------------------|-------------|--------|
| Opening balance             | 16,469      | 16,149 |
| Deposits during the year    | 3,609,975   | -      |
| Exchange difference         | 293         | 320    |
|                             | 3,626,737   | 16,469 |
| Withdrawals during the year | (3,583,648) | -      |
| Closing balance             | 43,089      | 16,469 |

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## 39.3 Deposits of Associated undertaking - NAFA

|                             | 2007           | 2006        |
|-----------------------------|----------------|-------------|
|                             | (Rupees '000') |             |
| Opening balance             | 149,555        | 79,671      |
| Deposits during the year    | 1,550,288      | 1,256,787   |
|                             | 1,699,843      | 1,336,458   |
| Withdrawals during the year | (1,690,118)    | (1,186,903) |
| Closing balance             | 9,725          | 149,555     |

## 39.4 Deposits of Associated Undertaking - Global Securities

|                             |           |          |
|-----------------------------|-----------|----------|
| Opening balance             | 2,092     | 3,213    |
| Deposits during the year    | 360,140   | 57,313   |
|                             | 362,232   | 60,526   |
| Withdrawals during the year | (357,557) | (58,434) |
| Closing balance             | 4,675     | 2,092    |

## 40. CAPITAL ADEQUACY

To support its Capital Adequacy Ratio the Group undertook the issue of Rs.4.0 Billion unsecured subordinated debt. Pre IPO proceeds were received before the year end, however, the State Bank approval was not in place as at the Balance Sheet date. Subsequently, the State Bank has approved the issue, therefore, Pre IPO and the IPO totaling Rs.4.0 Billion will substantially be eligible for Tier II Capital. Additionally, the computation of the valuation of the intangible embedded in Goodwill, which is expected to be completed in next few weeks, will also enhance Tier I capital of the Group and consequently will also increase the eligibility for Tier II Capital in respect of TFCs issue.

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

|   | 2007           | 2006      |
|---|----------------|-----------|
|   | (Rupees '000') |           |
| <b>Regulatory Capital Base</b>                                    |                |           |
| <b>Tier I Capital</b>   |                |           |
| Shareholders Capital/Assigned Capital                             | 36,044,145     | 3,361,522 |
| Reserves  | 719,810        | 719,810   |
| Unappropriated profits (Net of Losses)                            | 8,903          | 298,376   |
|   | 36,772,858     | 4,379,708 |
| Less: Adjustments   | 26,970,807     | 47,833    |
| <b>Total Tier I Capital</b>                                       | 9,802,051      | 4,331,875 |
| <b>Tier II Capital</b>  |                |           |
| Subordinated Debt (upto 50% of total Tier I Capital)              | -              | -         |
| General Provisions subject to 1.25% of Total Risk Weighted Assets | 346,272        | 212,498   |
| Revaluation Reserve (upto 50%)                                    | -              | -         |
| <b>Total Tier II Capital</b>                                      | 346,272        | 212,498   |
| <b>Eligible Tier III Capital</b>                                  | -              | -         |
| <b>Total Regulatory Capital</b>                                   | 10,148,323     | 4,544,373 |

(a)

## Risk-Weighted Exposures

|                              | 2007                         |                     | 2006       |                     |
|------------------------------|------------------------------|---------------------|------------|---------------------|
|                              | Book Value                   | Risk Adjusted Value | Book Value | Risk Adjusted Value |
|                              | < ----- Rupees '000' ----- > |                     |            |                     |
| <b>Credit Risk</b>           |                              |                     |            |                     |
| Balance Sheet Items:         |                              |                     |            |                     |
| Cash and other liquid Assets | 12,639,458                   | 461,877             | 4,290,901  | 272,500             |
| Money at call                | 4,753,113                    | 1,998,113           | 2,600,000  | 1,850,000           |
| Investments                  | 37,742,546                   | 9,908,804           | 6,564,036  | 857,908             |
| Loans and Advances           | 77,826,315                   | 63,129,974          | 28,491,918 | 26,535,568          |
| Fixed Assets                 | 4,663,584                    | 4,663,584           | 622,216    | 622,216             |
| Goodwill                     | 26,837,635                   | -                   | -          | -                   |
| Other Assets                 | 6,927,026                    | 6,865,142           | 1,299,521  | 1,207,809           |
|                              | 171,389,677                  | 87,027,494          | 43,868,592 | 31,346,001          |

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|  | 2007                       |                     | 2006              |                     |
|--|----------------------------|---------------------|-------------------|---------------------|
|  | Book Value                 | Risk Adjusted Value | Book Value        | Risk Adjusted Value |
|  | <----- Rupees '000' -----> |                     |                   |                     |
| Off Balance Sheet items                          |                            |                     |                   |                     |
| Loan Repayment Guarantees                        | 3,287,395                  | 3,287,395           | 3,527,668         | 3,527,668           |
| Purchase and Resale Agreements                   | -                          | -                   | -                 | -                   |
| Performance Bonds etc                            | 3,700,543                  | 1,802,952           | 863,778           | 351,231             |
| Revolving underwriting Commitments               |                            |                     |                   |                     |
| Stand By Letters of Credit                       | 12,808,233                 | 6,404,116           | 7,255,243         | 3,627,621           |
| Outstanding Foreign Exchange Contracts           |                            |                     |                   |                     |
| both purchase and sale                           | 15,758,038                 | 55,372              | 6,042,476         | 77,530              |
| others   | 11,585,826                 | 173,797             | 5,387,175         | 29,047              |
|  | <u>47,140,035</u>          | <u>11,723,632</u>   | <u>23,076,340</u> | <u>7,613,097</u>    |
| Credit risk-weighted exposures                   |                            | <u>98,751,126</u>   |                   | <u>38,959,098</u>   |
| <b>Market Risk</b>                               |                            |                     |                   |                     |
| General market risk                              |                            | 55,073              |                   | 13,497              |
| Specific market Risk                             |                            | 55,073              |                   | -                   |
| Capital charge to foreign exchange risk          |                            | 7,434               |                   | -                   |
| Market risk-weighted exposures                   |                            | <u>1,469,744</u>    |                   | <u>168,713</u>      |
| <b>Total Risk-Weighted exposures</b>             | (b)                        | <u>100,220,870</u>  |                   | <u>39,127,811</u>   |
| <b>Capital Adequacy Ratio [ (a) / (b) x 100]</b> |                            | <u>10.13%</u>       |                   | <u>11.61%</u>       |

## 41. RISK MANAGEMENT

The acceptance and management of financial risk is inherent to banking business activities. It involves identification, measurement, monitoring and controlling risks to ensure that: -

- Group's risk exposure is within the limits established by board of directors.
- Risk taking decisions are in line with the business strategy and objectives set by board of directors.
- The expected payoffs compensate the risks taken
- Risk taking decisions are explicit and clear.
- Sufficient capital as buffer is available to take risk.

The Group is primarily subject to credit risk, market risk, liquidity risk and operational risk. The policies and procedures for managing these risks are outlined below. The Group has designed and implemented a framework of controls to identify, monitor and manage these risks.

### 41.1 Credit Risk

The Group has established an appropriate credit risk environment which is operating under a sound credit-granting process; maintaining an appropriate credit administration, measurement and monitoring process and ensuring adequate controls.

Credit approval process is followed by all businesses in the bank. Initial credit approvals and extensions are only approved by Credit Committee established at various levels (a credit committee has minimum of three members). Further, in order to measure credit risk, an indigenously developed rating system is followed which has served the Group well in the past. This rating system is being fine tuned to address Basel II requirements and is under testing.

The Group manages credit risk through:

- Accurate detailed information about the borrower, cash flows, production, service and operation of the company.
- Insights into the major factors influencing customer attrition and product cancellation.
- Credit and collections treated as a highly people-intensive business.
- Establishment of acceptable risk levels.

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## 41.1.1 Segmental Information

### 41.1.1.1 Segments by class of business

|  | 2007              |               |                    |               |                               |               |
|--|-------------------|---------------|--------------------|---------------|-------------------------------|---------------|
|  | Advances (Gross)  |               | Deposits           |               | Contingencies and Commitments |               |
|  | (Rupees '000')    | Percent       | (Rupees '000')     | Percent       | (Rupees '000')                | Percent       |
| Agriculture, Forestry, Hunting and Fishing | 309,085           | 0.33          | 737,669            | 0.63          | 23,950                        | 0.04          |
| Mining and Quarrying                       | 821,532           | 0.89          | 765,056            | 0.66          | 17,670                        | 0.03          |
| Textile                                    | 26,143,819        | 28.24         | 1,910,907          | 1.64          | 7,012,797                     | 12.55         |
| Chemical and Pharmaceuticals               | 3,089,302         | 3.35          | 2,828,641          | 2.43          | 861,652                       | 1.54          |
| Cement, Glass and Ceramics                 | 3,006,577         | 3.25          | 101,846            | 0.09          | 1,499,643                     | 2.68          |
| Sugar                                      | 4,767,384         | 5.15          | 523,100            | 0.45          | 65,502                        | 0.12          |
| Footwear and Leather garments              | 737,940           | 0.80          | 244,476            | 0.21          | 129,148                       | 0.23          |
| Automobile and transportation equipment    | 1,590,324         | 1.72          | 273,050            | 0.23          | 825,593                       | 1.48          |
| Electronics and electrical appliances      | 1,399,994         | 1.51          | 144,645            | 0.12          | 488,045                       | 0.87          |
| Construction                               | 1,420,295         | 1.53          | 1,959,267          | 1.68          | 96,413                        | 0.17          |
| Power (electricity), Gas, Water, Sanitary  | 919,277           | 0.99          | 381,414            | 0.33          | 3,616,511                     | 6.48          |
| Wholesale and Retail Trade                 | 8,331,103         | 9.00          | 3,424,672          | 2.94          | 3,692,534                     | 6.61          |
| Exports/Imports                            | 5,001,725         | 5.40          | 548,345            | 0.47          | 1,447,294                     | 2.59          |
| Transport, Storage and Communication       | 1,975,936         | 2.13          | 3,727,695          | 3.20          | 4,295,196                     | 7.69          |
| Non profit organization/Trust              | 82                | 0.00          | 4,667,189          | 4.01          | 22,804,596                    | 40.82         |
| Insurance                                  | 8,128             | 0.01          | 50,561             | 0.04          | -                             | 0.00          |
| Paper and printing                         | 124,531           | 0.13          | -                  | 0.00          | -                             | 0.00          |
| Food and Beverages                         | 54,456            | 0.06          | -                  | 0.00          | -                             | 0.00          |
| Engineering                                | 53,966            | 0.06          | -                  | 0.00          | 19,692                        | 0.04          |
| Financial                                  | 66,830            | 0.07          | 4,235,553          | 3.63          | 42,054                        | 0.08          |
| Services                                   | 3,297,159         | 3.56          | 6,526,227          | 5.60          | 28,863                        | 0.05          |
| Individuals                                | 18,760,638        | 20.26         | 40,651,468         | 34.89         | 4,422,939                     | 7.92          |
| Others                                     | 10,706,253        | 11.56         | 42,822,147         | 36.75         | 4,474,021                     | 8.01          |
|  | <b>92,586,336</b> | <b>100.00</b> | <b>116,523,928</b> | <b>100.00</b> | <b>55,864,113</b>             | <b>100.00</b> |

|  | 2006              |               |                   |               |                               |               |
|--|-------------------|---------------|-------------------|---------------|-------------------------------|---------------|
|  | Advances (Gross)  |               | Deposits          |               | Contingencies and Commitments |               |
|  | (Rupees '000')    | Percent       | (Rupees '000')    | Percent       | (Rupees '000')                | Percent       |
| Agriculture, Forestry, Hunting and Fishing | 161,656           | 0.51          | 107,811           | 0.35          | 800                           | 0.01          |
| Mining and Quarrying                       | 14,433            | 0.05          | 4,723             | 0.02          | -                             | -             |
| Textile                                    | 11,139,201        | 34.95         | 881,421           | 2.88          | 2,434,708                     | 20.32         |
| Chemical and Pharmaceuticals               | 113,631           | 0.36          | 683,192           | 2.24          | 172,583                       | 1.44          |
| Cement                                     | 649,578           | 2.04          | 99,700            | 0.33          | 563,314                       | 4.70          |
| Sugar                                      | 386,321           | 1.21          | 9,534             | 0.03          | 210,599                       | 1.76          |
| Footwear and Leather garments              | 153,651           | 0.48          | 15,984            | 0.05          | 59,862                        | 0.50          |
| Automobile and transportation equipment    | 303,868           | 0.95          | 61,262            | 0.20          | 142,731                       | 1.19          |
| Electronics and electrical appliances      | 876,026           | 2.75          | 373,517           | 1.22          | 423,704                       | 3.54          |
| Construction                               | 224,656           | 0.70          | 199,857           | 0.65          | 161,299                       | 1.35          |
| Power (electricity), Gas, Water, Sanitary  | 237,709           | 0.75          | -                 | -             | 11,100                        | 0.09          |
| Wholesale and Retail Trade                 | 1,525,871         | 4.77          | 607,516           | 1.99          | 830,302                       | 6.93          |
| Exports/Imports                            | 1,912,547         | 6.00          | -                 | -             | 1,777,928                     | 14.84         |
| Transport, Storage and Communication       | 435,100           | 1.37          | 1,733,757         | 5.67          | 3,035,301                     | 25.33         |
| Non profit organization/Trust              | -                 | -             | 3,330,883         | 10.90         | -                             | -             |
| Financial                                  | 696               | 0.00          | 3,084,820         | 10.09         | -                             | -             |
| Services                                   | 687,350           | 2.16          | -                 | -             | 230,581                       | 1.92          |
| Individuals                                | 6,362,513         | 19.96         | 12,292,930        | 40.22         | -                             | -             |
| Others                                     | 6,690,044         | 20.99         | 7,079,633         | 23.16         | 1,926,936                     | 16.08         |
|  | <b>31,874,851</b> | <b>100.00</b> | <b>30,566,540</b> | <b>100.00</b> | <b>11,981,748</b>             | <b>100.00</b> |



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|                                     | 2006                         |                          |                        |                                  |
|-------------------------------------|------------------------------|--------------------------|------------------------|----------------------------------|
|                                     | Profit before<br>taxation    | Total assets<br>employed | Net assets<br>employed | Contingencies and<br>commitments |
|                                     | < ----- Rupees '000' ----- > |                          |                        |                                  |
| Pakistan                            | 29,992                       | 46,428,843               | 4,331,875              | 11,981,748                       |
| Asia Pacific (including South Asia) | -                            | -                        | -                      | -                                |
| Europe                              | -                            | -                        | -                      | -                                |
| United States of America and Canada | -                            | -                        | -                      | -                                |
| Middle East                         | -                            | -                        | -                      | -                                |
| Others                              | -                            | -                        | -                      | -                                |
|                                     | 29,992                       | 46,428,843               | 4,331,875              | 11,981,748                       |

## 41.2 Market Risk

Market risk is primarily composed of price risk and arises out of treasury trading and investment activities. It is the risk that the value of on and off-balance sheet positions of the Group will be adversely affected by movements in market rates or prices.

The Group recognizes that it may be exposed to market risk in a variety of ways. Market risk exposure may be explicit in portfolio of securities / equities and foreign currencies that are actively traded. Conversely it may be implicit such as interest rate.

### 41.2.1 Foreign Exchange Risk

Foreign exchange risk is the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. It refers to the impact of adverse movement in currency exchange rates on the value of open foreign currency positions. The Group is also exposed to interest rate risk, which arises from the maturity mismatching of foreign currency positions. Even in cases where spot and forward positions in individual currencies are balanced, the maturity pattern of forward transactions may produce mismatches. As a result, the Group may suffer losses due to changes in discounts of the currencies concerned. In the foreign exchange business, the Group might also face the risk of default of the counter parties or settlement risk. While such type of risk crystallization does not cause principal loss, Group may have to undertake fresh transactions in the cash/spot market for replacing the failed transactions. Thus, the Group may incur replacement cost, which depends upon the currency rate movements. The bank might also face another risk called time-zone risk, which arises out of time lags in settlement of one currency in one center and the settlement of another currency in another time zone. Foreign exchange transactions with counter parties situated outside Pakistan also involve sovereign or country risk.

The Group has set the following objectives for managing the inherent risk on foreign currency exposures:

- Maximize profitability with minimum risk by keeping the exposure at desirable levels in view of strict compliance of regulatory/ international standards and the bank's internal guidelines.
- Manage appropriate maturity mismatch gaps.
- Identify warning and stress zones for mismatch gaps.
- Usage of different tools to manage the inherent risk of product and market, such as compliance of credit limit, monitoring of foreign exchange exposure limit, review of mark to market portfolio and safe settlement, etc.
- The SBP has defined each bank's foreign exchange net open position exposure as 15% of its paid-up capital with a maximum cap of Rs 1,500 million. This serves the purpose of ensuring that banks stay within reasonable boundaries of exposure. This limit is termed as Foreign Exchange Exposure Limit. (FEEL).
- At the Group, dealers are required not to exceed the limit set i.e. they may not oversell / overbuy beyond these limits.

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- Foreign exchange mis-match position / gap analysis is monitored between purchase & sale of currencies in buckets of maturities:

Up to 1 month,  
Over 1 to 3 months,  
Over 3 to 6 months  
Over 6 to 12 months

|                      | <b>2007</b>              |                    |                                |                                      |
|----------------------|--------------------------|--------------------|--------------------------------|--------------------------------------|
|                      | <b>Assets</b>            | <b>Liabilities</b> | <b>Off Balance sheet items</b> | <b>Net foreign currency exposure</b> |
|                      | ----- Rupees '000' ----- |                    |                                |                                      |
| Pakistan Rupee       | 172,061,083              | 133,685,810        | (2,871,744)                    | 35,503,529                           |
| United States Dollar | 3,844,755                | 4,934,929          | 1,756,334                      | 666,160                              |
| Great Britain Pound  | 223,221                  | 775,689            | 1,032,434                      | 479,966                              |
| Euro                 | 292,307                  | 199,147            | (123,869)                      | (30,709)                             |
| Japanese Yen         | 145,917                  | 347,097            | 206,843                        | 5,663                                |
| Swiss Franc          | 4,133                    | 152                | -                              | 3,981                                |
| Others               | 11,102                   | 8                  | 2                              | 11,096                               |
|                      | <u>176,582,518</u>       | <u>139,942,832</u> | <u>-</u>                       | <u>36,639,686</u>                    |

|                      | <b>2006</b>              |                    |                                |                                      |
|----------------------|--------------------------|--------------------|--------------------------------|--------------------------------------|
|                      | <b>Assets</b>            | <b>Liabilities</b> | <b>Off Balance sheet items</b> | <b>Net foreign currency exposure</b> |
|                      | ----- Rupees '000' ----- |                    |                                |                                      |
| Pakistan Rupee       | 43,031,601               | 39,437,240         | 568,805                        | 4,163,166                            |
| United States Dollar | 3,041,957                | 2,149,415          | (834,321)                      | 58,221                               |
| Great Britain Pound  | 41,503                   | 313,266            | 307,396                        | 35,633                               |
| Euro                 | 288,872                  | 196,887            | (38,894)                       | 53,091                               |
| Japanese Yen         | 7,733                    | -                  | (2,986)                        | 4,747                                |
| Swiss Franc          | 1,978                    | 152                | -                              | 1,826                                |
| Others               | 15,199                   | 8                  | -                              | 15,191                               |
|                      | <u>46,428,843</u>        | <u>42,096,968</u>  | <u>-</u>                       | <u>4,331,875</u>                     |

## 41.2.2 Equity Price Risk

It is the risk to earnings or capital that results from adverse changes in the value of equity related portfolios of the Group. Price risk associated with equities could be systematic or unsystematic. The former refers to sensitivity of portfolio's value to changes in overall level of equity prices, while the later is associated with price volatility that is determined by firm specific characteristics.

The Group conducts stress testing analysis over the equity portfolio, by anticipating changes/ shocks of -5%, -10% and -20% on the current price of shares within a portfolio, thereby, monitoring the effects of the predicted changes in the structure of shares portfolio on the Capital Adequacy Ratio (CAR).



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## 41.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

| Effective Yield/Interest rate   | 2007                |                     |                    |                     |                         |                    |                   |                   |                    |                    |  |
|---|---------------------|---------------------|--------------------|---------------------|-------------------------|--------------------|-------------------|-------------------|--------------------|--------------------|--|
|   | Total               | Upto 1 Month        | Over 1 to 3 Months | Over 3 to 6 Months  | Over 6 Months to 1 Year | Over 1 to 2 Years  | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years     | Non-interest bearing financial instruments |
|   | Rupees '000' →      |                     |                    |                     |                         |                    |                   |                   |                    |                    |  |
| <b>On-balance sheet financial instruments</b>   |                     |                     |                    |                     |                         |                    |                   |                   |                    |                    |  |
| <b>Assets</b>   |                     |                     |                    |                     |                         |                    |                   |                   |                    |                    |  |
| Cash and balances with treasury banks   | 10,330,072          | 385,105             | -                  | -                   | -                       | -                  | -                 | -                 | -                  | -                  | 9,944,967                                  |
| Balances with other banks   | 2,309,386           | 508,146             | 500,000            | -                   | -                       | -                  | -                 | -                 | -                  | -                  | 1,301,240                                  |
| Lending to financial institutions   | 4,753,113           | 4,153,113           | 600,000            | -                   | -                       | -                  | -                 | -                 | -                  | -                  | -  |
| Investments   | 38,601,627          | 6,137,570           | 11,221,879         | 2,622,041           | 2,506,154               | 27,258             | 9,439             | 2,888,170         | 5,065,520          | 395,049            | 7,728,547                                  |
| Advances  | 82,160,074          | 2,949,720           | 10,126,440         | 43,403,961          | 3,631,223               | 5,991,547          | 5,498,984         | 6,564,744         | 1,676,362          | 606,783            | 1,710,310                                  |
| Other assets  | 3,481,945           | -                   | -                  | -                   | -                       | -                  | -                 | -                 | -                  | -                  | 3,481,945                                  |
|   | 141,636,217         | 14,133,654          | 22,448,319         | 46,026,002          | 6,137,377               | 6,018,805          | 5,508,423         | 9,452,914         | 6,741,882          | 1,001,832          | 24,167,009                                 |
| <b>Liabilities</b>  |                     |                     |                    |                     |                         |                    |                   |                   |                    |                    |  |
| Bills payable   | 2,110,211           | -                   | -                  | -                   | -                       | -                  | -                 | -                 | -                  | -                  | 2,110,211                                  |
| Borrowings  | 16,669,412          | 6,255,249           | 3,429,353          | 4,208,879           | 130,996                 | 400,089            | 572,307           | 642,978           | 865,440            | -                  | 164,121                                    |
| Deposits and other accounts   | 116,523,928         | 25,915,860          | 21,716,830         | 34,306,831          | 8,244,723               | 924,584            | 1,747,399         | 2,246,801         | 46,102             | -                  | 20,774,798                                 |
| Liabilities against assets subject to finance lease   | 7,176               | 233                 | 474                | 868                 | 1,350                   | 4,251              | -                 | -                 | -                  | -                  | -  |
| Other liabilities   | 4,201,490           | -                   | -                  | -                   | -                       | -                  | -                 | -                 | -                  | -                  | 4,201,490                                  |
|   | 139,512,217         | 32,171,342          | 25,146,657         | 39,116,578          | 8,377,069               | 1,328,924          | 2,319,706         | 2,889,779         | 911,542            | -                  | 27,250,620                                 |
| <b>On-balance sheet gap</b>   | <b>2,124,000</b>    | <b>(18,037,688)</b> | <b>(2,698,338)</b> | <b>6,909,424</b>    | <b>(2,239,692)</b>      | <b>4,689,881</b>   | <b>3,188,717</b>  | <b>6,563,135</b>  | <b>5,830,340</b>   | <b>1,001,832</b>   | <b>(3,083,611)</b>                         |
| <b>Off-balance sheet financial instruments</b>  |                     |                     |                    |                     |                         |                    |                   |                   |                    |                    |  |
| Forward Lending<br>(including call lending, repurchase agreement lending, commitments to extend credit, etc.) | 1,090,095           | 1,090,095           | -                  | -                   | -                       | -                  | -                 | -                 | -                  | -                  | -  |
| Foreign exchange contracts - purchase   | 18,548,465          | 14,669,863          | 2,220,113          | 1,658,489           | -                       | -                  | -                 | -                 | -                  | -                  | -  |
| Forward borrowings<br>(including call borrowing, repurchase agreement borrowing, etc.)                        | -                   | -                   | -                  | -                   | -                       | -                  | -                 | -                 | -                  | -                  | -  |
| Foreign exchange contracts - sale   | (14,766,871)        | (11,254,872)        | (3,511,999)        | -                   | -                       | -                  | -                 | -                 | -                  | -                  | -  |
| <b>Off-balance sheet gap</b>  | <b>4,871,689</b>    | <b>4,505,086</b>    | <b>(1,291,886)</b> | <b>1,658,489</b>    | <b>-</b>                | <b>-</b>           | <b>-</b>          | <b>-</b>          | <b>-</b>           | <b>-</b>           | <b>-</b>                                   |
| <b>Total Yield/Interest Risk Sensitivity Gap</b>  | <b>(13,532,602)</b> | <b>(3,990,224)</b>  | <b>(8,567,913)</b> | <b>(2,239,692)</b>  | <b>4,689,881</b>        | <b>3,188,717</b>   | <b>6,563,135</b>  | <b>5,830,340</b>  | <b>1,001,832</b>   | <b>(3,083,611)</b> | <b>6,995,689</b>                           |
| <b>Cumulative Yield/Interest Risk Sensitivity Gap</b>   | <b>(13,532,602)</b> | <b>(17,522,826)</b> | <b>(8,954,913)</b> | <b>(11,194,605)</b> | <b>(6,504,724)</b>      | <b>(3,316,007)</b> | <b>3,247,128</b>  | <b>9,077,468</b>  | <b>10,079,300</b>  | <b>6,995,689</b>   | <b>6,995,689</b>                           |

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|   | Effective Yield/ Interest rate | Total      | Exposed to Yield/ Interest risk |                    |                    |                         |                   |                   |                   | Non-interest bearing financial instruments |                    |                |
|---|--------------------------------|------------|---------------------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--|--------------------|----------------|
|   |                                |            | Upto 1 Month                    | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years |  | Over 5 to 10 Years | Above 10 Years |
| Rupees '000   |                                |            |                                 |                    |                    |                         |                   |                   |                   |  |                    |                |
| <b>On-balance sheet financial instruments</b>   |                                |            |                                 |                    |                    |                         |                   |                   |                   |  |                    |                |
| <b>Assets</b>   |                                |            |                                 |                    |                    |                         |                   |                   |                   |  |                    |                |
| Cash and balances with treasury banks   | 4.35%                          | 2,928,404  | 354,496                         | -                  | -                  | -                       | -                 | -                 | -                 | -  | -                  | 2,573,908      |
| Balances with other banks   | 12.25%                         | 1,362,497  | 200,000                         | 900,000            | -                  | -                       | -                 | -                 | -                 | -  | -                  | 262,497        |
| Lending to financial institutions   | 11.06%                         | 2,600,000  | 700,000                         | 1,900,000          | -                  | -                       | -                 | -                 | -                 | -  | -                  | -              |
| Investments   | 9.09%                          | 6,564,036  | 164,928                         | 199,030            | -                  | 5,107,131               | 73,027            | 73,138            | 2,042             | 504,974                                    | -                  | 439,766        |
| Advances  | 12.68%                         | 31,052,169 | 11,878,226                      | 5,452,900          | 5,606,055          | 1,480,575               | 2,388,516         | 1,745,520         | 2,190,317         | 158,571                                    | 151,489            | -              |
| Other assets  | 10.49%                         | 811,940    | 45,699                          | -                  | -                  | -                       | 2,461,543         | 1,968,658         | 2,192,359         | 663,545                                    | 151,489            | 616,241        |
|   |                                | 45,319,046 | 13,343,349                      | 8,451,930          | 5,606,055          | 6,587,706               | 2,461,543         | 1,968,658         | 2,192,359         | 663,545                                    | 151,489            | 3,892,412      |
| <b>Liabilities</b>  |                                |            |                                 |                    |                    |                         |                   |                   |                   |  |                    |                |
| Bills payable   | -                              | 215,769    | -                               | -                  | -                  | -                       | -                 | -                 | -                 | -  | -                  | 215,769        |
| Borrowings  | 7.64%                          | 9,164,121  | 3,450,508                       | 2,805,434          | 2,771,590          | 9,142                   | 18,284            | 18,284            | 36,568            | 54,311                                     | -                  | -              |
| Deposits and other accounts   | 9.95%                          | 30,566,540 | 9,620,876                       | 5,799,261          | 1,554,736          | 1,577,642               | 2,035,800         | 2,228,000         | 3,769,594         | -  | -                  | 3,980,631      |
| Liabilities against assets subject to finance lease   | -                              | -          | -                               | -                  | -                  | -                       | -                 | -                 | -                 | -  | -                  | -              |
| Other liabilities   | -                              | -          | -                               | -                  | -                  | -                       | -                 | -                 | -                 | -  | -                  | -              |
|   |                                | 382,712    | -                               | -                  | -                  | -                       | -                 | -                 | -                 | -  | -                  | 382,712        |
|   |                                | 40,329,142 | 13,071,384                      | 8,604,695          | 4,326,326          | 1,586,784               | 2,054,084         | 2,246,284         | 3,806,162         | 54,311                                     | -                  | 4,579,112      |
| <b>On-balance sheet gap</b>   |                                | 4,989,904  | 271,965                         | (152,765)          | 1,279,729          | 5,000,922               | 407,459           | (277,626)         | (1,613,803)       | 609,234                                    | 151,489            | (686,700)      |
| <b>Off-balance sheet financial instruments</b>  |                                |            |                                 |                    |                    |                         |                   |                   |                   |  |                    |                |
| Forward Lending<br>(including call lending, repurchase agreement lending, commitments to extend credit, etc.) |                                | -          | -                               | -                  | -                  | -                       | -                 | -                 | -                 | -  | -                  | -              |
| Forward borrowings<br>(including call borrowing, repurchase agreement borrowing, etc.)                        |                                | -          | -                               | -                  | -                  | -                       | -                 | -                 | -                 | -  | -                  | -              |
| <b>Off-balance sheet gap</b>  |                                | -          | -                               | -                  | -                  | -                       | -                 | -                 | -                 | -  | -                  | -              |
| <b>Total Yield/Interest Risk Sensitivity Gap</b>  |                                | 271,965    | (152,765)                       | 1,279,729          | 5,000,922          | 407,459                 | (277,626)         | (1,613,803)       | 609,234           | 151,489                                    | (686,700)          |                |
| <b>Cumulative Yield/Interest Risk Sensitivity Gap</b>   |                                | 271,965    | 119,200                         | 1,398,929          | 6,399,851          | 6,807,310               | 6,529,684         | 4,915,881         | 5,525,115         | 5,676,604                                  | 4,989,904          |                |

### 41.3 Liquidity Risk

Liquidity risk is the risk caused, among others, by the inability of the Group to settle liabilities at due date. The liquidity risk policy is formulated keeping in view SBP's guidelines on risk management, Basel standards and best market.

- Maintaining solvency of the Group at all times (measuring and limiting liquidity risk)
- Ensure and manage market access to funding (diversify funding, asset liquidation)
- Optimize balance sheet structure (long term funding profile).



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| Total   | 2006             |                    |                    |                         |                   |                    |                    |                    |                |          |   |
|---|------------------|--------------------|--------------------|-------------------------|-------------------|--------------------|--------------------|--------------------|----------------|----------|---|
|   | Upto 1 Month     | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years  | Over 3 to 5 Years  | Over 5 to 10 Years | Above 10 Years |          |   |
|   | Rupees '000'     |                    |                    |                         |                   |                    |                    |                    |                |          |   |
| <b>Assets</b>                                       |                  |                    |                    |                         |                   |                    |                    |                    |                |          |   |
| Cash and balances with treasury banks               | 2,928,404        | -                  | -                  | -                       | -                 | -                  | -                  | -                  | -              | -        | - |
| Balances with other banks                           | 1,362,497        | 600,001            | -                  | -                       | -                 | -                  | -                  | -                  | -              | -        | - |
| Lending to financial institutions                   | 2,600,000        | 1,900,000          | -                  | -                       | -                 | -                  | -                  | -                  | -              | -        | - |
| Investments   | 6,534,036        | 151,994            | 199,030            | 5,107,130               | 73,027            | 131,371            | 366,509            | 504,975            | -              | -        |   |
| Advances  | 31,052,169       | 11,878,226         | 5,606,055          | 1,480,575               | 2,388,516         | 1,745,520          | 2,190,317          | 158,571            | 151,489        | -        |   |
| Operating fixed assets                              | 622,216          | 223                | 1,600              | 5,428                   | 38,651            | 105,231            | 412,183            | 38,605             | 20,269         | -        |   |
| Deferred tax assets                                 | 127,158          | 25,971             | 9,966              | 18,840                  | 30,291            | 17,264             | 16,835             | 801                | 421            | -        |   |
| Other assets  | 1,202,363        | 823,529            | 19,293             | 7,903                   | 63,715            | 208,149            | 69,295             | -                  | -              | -        |   |
|   | 46,428,843       | 17,270,843         | 5,636,914          | 6,619,876               | 2,594,200         | 2,207,535          | 3,055,139          | 702,952            | 172,179        | -        |   |
| <b>Liabilities</b>                                  |                  |                    |                    |                         |                   |                    |                    |                    |                |          |   |
| Bills payable                                       | 215,769          | -                  | -                  | -                       | -                 | -                  | -                  | -                  | -              | -        |   |
| Borrowings  | 9,164,121        | 2,805,434          | 2,771,590          | 9,142                   | 18,292            | 18,283             | 36,568             | 54,304             | -              | -        |   |
| Deposits and other accounts                         | 30,566,540       | 6,178,261          | 1,933,736          | 1,956,642               | 2,702,800         | 2,896,000          | 4,437,769          | -                  | -              | -        |   |
| Sub-ordinated loans                                 | -                | -                  | -                  | -                       | -                 | -                  | -                  | -                  | -              | -        |   |
| Liabilities against assets subject to finance lease | -                | -                  | -                  | -                       | -                 | -                  | -                  | -                  | -              | -        |   |
| Deferred tax liabilities                            | -                | -                  | -                  | -                       | -                 | -                  | -                  | -                  | -              | -        |   |
| Other liabilities                                   | 2,150,538        | 142,812            | 86,665             | 168,707                 | 399,459           | 322,908            | 192,021            | 32,859             | -              | -        |   |
|   | 42,096,968       | 14,932,716         | 4,791,991          | 2,134,491               | 3,120,551         | 3,237,191          | 4,666,358          | 87,163             | 172,179        | -        |   |
| <b>Net assets</b>                                   | <b>4,331,875</b> | <b>(957,302)</b>   | <b>844,923</b>     | <b>4,485,385</b>        | <b>(526,351)</b>  | <b>(1,029,656)</b> | <b>(1,611,219)</b> | <b>615,789</b>     | <b>172,179</b> | <b>-</b> |   |
| Share capital                                       | 3,361,522        | -                  | -                  | -                       | -                 | -                  | -                  | -                  | -              | -        |   |
| Reserves  | 719,810          | -                  | -                  | -                       | -                 | -                  | -                  | -                  | -              | -        |   |
| Unappropriated profit                               | 298,376          | -                  | -                  | -                       | -                 | -                  | -                  | -                  | -              | -        |   |
| Deficit on revaluation of assets                    | 4,379,708        | -                  | -                  | -                       | -                 | -                  | -                  | -                  | -              | -        |   |
|   | (47,833)         | -                  | -                  | -                       | -                 | -                  | -                  | -                  | -              | -        |   |
|   | 4,331,875        | -                  | -                  | -                       | -                 | -                  | -                  | -                  | -              | -        |   |

Current and saving deposits of the bank are assumed to mature in the future on the basis of historical trends.

## 41.4 Operational Risk Management

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of technology, processes, infrastructure, personnel and other risks having an operational risk impact. The Group seeks to ensure that key operational risk are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The key objectives of Operational Risk measurement and management include:

- Ensuring continued solvency of the Group through capital adequacy and enhanced understanding and management of significant operational risk exposures.
- Ensuring that customer impact is minimized through proactive and focused risk management practices.
- Ensuring senior management attention on significant operational risk exposure areas and mitigating risks is prioritized focused and adequate.
- Ensuring that staff is sufficiently incentivised to perform their risk management roles & responsibilities diligently.

The Group's Integrated Risk Management Committee (IRMC) has the responsibility to supervise and direct the management of operational risks and key operational risk exposures. IRMC is also responsible for ensuring that adequate and appropriate policies and procedures are in place for the identification, assessment, monitoring, control and reporting of operational risks.

### Operational Risk Program and Tools

Line management needs information to enable it to analyze operational risks, implement mitigating measures and determine the effectiveness of these mitigating measures. The bank has implemented, or is in the process of implementing a number of programmes and tools to support line management.

#### - Compliance and Regulatory Risk Management (Regulatory Self-Assessment Framework)

A structured approach has been adopted which helps line management to identify and assess risk of non-compliance with regulatory requirements as well as internal policies. The Group has implemented a comprehensive Compliance Risk Management Framework whereby self-assessment is undertaken by each business / support unit to mitigate the risk of regulatory non-compliance.

The Group is also in the process of adopting an approach to indicate possible changes in the operational risk profile through Key Risk Indicators (KRI). KRIs allow for a trend analysis over time and trigger actions if required.

#### - Loss Event Database

A database that allows for systematic registration of operational risk. It is mandatory for Business Units to report losses above Rs. 50,000/- threshold into the database. This helps senior management in their analysis of operational risk. This is one of the criteria for qualifying for Standardized Approach under Basel II and will form the basis for calculating economic capital and regulatory capital in future.

#### - Key Operational Risk Control

The Group has also adopted a framework (Heat Map) - a tool that takes stock of significant operational risks faced by each unit of the bank and plots them on an impact/probability chart. These individual charts are then combined into one comprehensive chart, envisaging key risks faced by the whole Group. The chart accompanies, action plans, with target dates and responsible persons, for risks identified. This chart is discussed at IRMC meetings to monitor progress made to manage / mitigate risks identified.

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## 42. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on March 06, 2008 by the Board of Directors of the Group.

## 43. RECLASSIFICATION

Comparative figures of investment amounting to Rs.30 million has been reclassified from investments to Other Assets, being pre-IPO advance for purchase of Term Finance Certificates.

Comparative figures of markup / return / interest earned on loans and advances from customer amounting to Rs.25.914 million has been reclassified in other income being rebate income.

## 44. GENERAL

Figures have been rounded off to the nearest thousand rupees.

**Khawaja Iqbal Hassan**  
President / Chief Executive

**Francis A. Rozario**  
Chairman / Director

**Syed Aamir Zahidi**  
Director

**Thomas Patrick Sodano**  
Director

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## Statement showing written-off loans or any other financial relief of five hundred thousand rupees or above provided during the year ended December 31, 2007

Annexure I  
(Rupees '000')

| S.No | Name & Address of borrower  | Name of individual/ partners/ directors |                 | Fathers' / Husband's<br>Name | Outstanding liabilities Before Adjustments |                    |        | Interest/ Markup<br>written off | Other<br>Financial<br>Relief |
|------|---|---|-----------------|------------------------------|--|--------------------|--------|---------------------------------|------------------------------|
|      |   | Name                                    | NIC No.         |                              | Principal                                  | Accrued<br>Mark up | Others |                                 |                              |
| 1    | M HUSSAIN SOLANGI<br>FLAT# 15 BLOCK# L 7 STEEL TOWN NEAR<br>CHARMAN HOUSE         | M HUSSAIN SOLANGI                       | 42501-8821002-9 | GHULAM RASOL                 | 1,099                                      | 124                | -      | 1,223                           | 1,223                        |
| 2    | MUHAMMAD BOTA BHATTI<br>FLAT# F-55 RABIA CITY BLOCK 18<br>GULISTAN E JOHAR        | MUHAMMAD BOTA<br>BHATTI                 | 42201-2166118-9 | JALLAL UDDIN BHATTI          | 1,088                                      | 135                | -      | 1,223                           | 1,223                        |
| 3    | ARSHAD MEHMOOD<br>FLAT# A-16 RUFAL HIGHT PHASE 1 BLOCK#<br>17 GULISTAN-E-JOHAR    | ARSHAD MEHMOOD                          | 42201-5088711-3 | MUHAMMAD AENNAYAT            | 1,085                                      | 108                | -      | 1,192                           | 1,192                        |
| 4    | FAISAL ALI RAZA<br>FLAT# D-9 BLOCK# 17 NOMAN GRAND<br>CITY GULISTAN-E-JOHAR       | FAISAL ALI RAZA                         | 42201-4536512-9 | HAMID RAZA                   | 1,069                                      | 106                | -      | 1,174                           | 1,174                        |
| 5    | MASOOD IRFAN<br>HOUSE# R-131 SECTOR# 15A/3 BUFFER<br>ZONE                         | MASOOD IRFAN                            | 42101-3395747-5 | M IRFAN KHAN                 | 1,069                                      | 93                 | -      | 1,162                           | 1,162                        |
| 6    | SHEIKH RIZWAN HAIDER CHAWALA<br>12-1 FAZLIA COLONY ICHRA                          | SHEIKH RIZWAN HAIDER<br>CHAWALA         | 42201-8228746-7 | SH SHABEER HUSSAIN<br>CHAWLA | 915  | 95                 | -      | 1,011                           | 1,011                        |
| 7    | MUHAMMAD IRFAN<br>BILLY'S HEIGHT BLOCK# 3 FLAT# 601<br>BLOCK# 18 GULISTAN-E-JOHAR | MUHAMMAD IRFAN                          | 42301-0674312-1 | ISHAQ                        | 786  | 108                | -      | 894                             | 894                          |
| 8    | MOHAMMAD IRFAN<br>BILLY'S HEIGHT BLOCK# 3 FLAT# 601<br>BLOCK# 18 GULISTAN-E-JOHAR | MOHAMMAD IRFAN                          | 42301-0674312-1 | ISHAQ                        | 782  | 96                 | -      | 878                             | 878                          |
| 9    | ROOHI FARZANA<br>FLAT# A-4 GOSIA TARECE PLOT# 206<br>SHARFABAD                    | ROOHI FARZANA                           | 35202-2598696-2 | RASHID                       | 782  | 78                 | -      | 860                             | 860                          |
| 10   | ZUBAIR AHMED MALIK<br>FLAT# A-4 GOSIA TARECE PLOT# 206<br>SHARFABAD               | ZUBAIR AHMED MALIK                      | 42201-0828668-9 | ABDUL MANNAN MALIK           | 782  | 78                 | -      | 860                             | 860                          |
| 11   | SHAFIQ HUSSAIN SHAH<br>A-1280 NAZIMABAD NO4 MUJAHID<br>COLONY                     | SHAFIQ HUSSAIN SHAH                     | 42301-0788570-7 | PIR AFZAL SHAH               | 770  | 68                 | -      | 838                             | 838                          |
| 12   | SHEHZAD ALI<br>119-D ST#1 GHAZI ROAD AL FAISAL<br>TOWN                            | SHEHZAD ALI                             | 35201-6787190-3 | MUHAMMAD SHARIF<br>BHATTI    | 764  | 84                 | -      | 849                             | 849                          |
| 13   | REHMAN WAHEED<br>H#2, ST#1, ALI STREET JAMOWALA NEW<br>SAMANABAD                  | REHMAN WAHEED                           | 35202-2767399-5 | MUHAMMAD WAHEED              | 764  | 76                 | -      | 840                             | 840                          |
| 14   | MUHAMMAD SHAFIQUE<br>H#6 ST#8 MOHALLA SHAHEEN PARK<br>MASKEEN PURA NABI PURA LAH  | MUHAMMAD SHAFIQUE                       | 35201-9120339-1 | MUHAMMAD RAFIQUE             | 764  | 67                 | -      | 831                             | 831                          |
| 15   | MUHAMMAD BILAL RASHEED  | MUHAMMAD BILAL<br>RASHEED               | 35202-0107913-3 | MUHAMMAD RASHEED<br>CH       | 755  | 66                 | -      | 821                             | 821                          |
|      |   |   |                 |                              | 13,274                                     | 1,382              | -      | 14,656                          | 14,656                       |
|      |   |   |                 |                              | 13,274                                     | 1,382              | -      | 13,274                          | 1,382                        |

# Pattern of Shareholding as at December 31, 2007

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| Number of Shareholders | Shareholdings |               | Shares held   | Percentage |
|------------------------|---------------|---------------|---------------|------------|
|                        | From          | To            |               |            |
| 886                    | 1             | 100           | 40,039        | 0.00       |
| 1906                   | 101           | 500           | 745,539       | 0.03       |
| 2075                   | 501           | 1,000         | 1,972,063     | 0.09       |
| 3999                   | 1,001         | 5,000         | 11,926,279    | 0.54       |
| 1451                   | 5,001         | 10,000        | 11,464,232    | 0.52       |
| 1465                   | 10,001        | 50,000        | 33,460,449    | 1.52       |
| 255                    | 50,001        | 100,000       | 18,733,832    | 0.85       |
| 126                    | 100,001       | 200,000       | 18,344,917    | 0.83       |
| 57                     | 200,001       | 300,000       | 14,424,151    | 0.66       |
| 28                     | 300,001       | 400,000       | 9,496,422     | 0.43       |
| 22                     | 400,001       | 500,000       | 9,923,508     | 0.45       |
| 16                     | 500,001       | 600,000       | 8,968,704     | 0.41       |
| 14                     | 600,001       | 700,000       | 9,281,062     | 0.42       |
| 6                      | 700,001       | 800,000       | 4,604,199     | 0.21       |
| 1                      | 800,001       | 900,000       | 900,000       | 0.04       |
| 9                      | 900,001       | 1,000,000     | 8,841,974     | 0.40       |
| 29                     | 1,000,001     | 5,000,000     | 64,604,401    | 2.93       |
| 6                      | 5,000,001     | 10,000,000    | 43,655,433    | 1.98       |
| 1                      | 10,000,001    | 15,000,000    | 12,806,815    | 0.58       |
| 2                      | 15,000,001    | 20,000,000    | 35,967,209    | 1.63       |
| 1                      | 20,000,001    | 25,000,000    | 24,578,800    | 1.12       |
| 1                      | 25,000,001    | 30,000,000    | 26,447,675    | 1.20       |
| 1                      | 30,000,001    | 50,000,000    | 34,697,286    | 1.58       |
| 1                      | 50,000,001    | 1,800,000,000 | 1,795,911,770 | 81.57      |
| 12,358                 |               |               | 2,201,796,759 | 100.00     |



## Categories of Shareholders as at December 31, 2007

| Particulars  | Number of Shareholders | Shares held          | Percentage    |
|--|------------------------|----------------------|---------------|
| Directors, Chief Executive Officer, and their spouse and minor children                | 1                      | 16,083,935           | 0.73          |
| Associated Companies, undertakings and related parties                                 | 2                      | 1,820,490,570        | 82.68         |
| NIT, ICP & IDBP/ICP  | 3                      | 34,742,074           | 1.58          |
| Banks, Development Financial Institutions, Non Banking Financial Institutions          | 25                     | 14,517,004           | 0.66          |
| Insurance Companies  | 13                     | 13,893,692           | 0.63          |
| Modarabas and Mutual Funds   | 20                     | 5,005,539            | 0.23          |
| Public Sector Companies & Corporations   | 2                      | 3,900,620            | 0.17          |
| Foreign Companies  | 45                     | 2,416,297            | 0.11          |
| Shareholders holding 10% or more (excluding Bugis Investments (Mauritius) Pte Limited) | -                      | -                    | -             |
| General Public (including local & foreign individual)                                  | 12,009                 | 228,131,084          | 10.36         |
| Others   | 238                    | 62,615,944           | 2.84          |
| <b>TOTAL</b>   | <b>12,358</b>          | <b>2,201,796,759</b> | <b>100.00</b> |

# Details of Pattern of Shareholding as at December 31, 2007

| Category | Categories of Shareholders  | Number of Shareholders | Number of Shares held                        | Percentage |
|----------|---|------------------------|--|------------|
| 1        | <b>Associated Companies, undertakings and related parties</b><br>Bugis Investments (Mauritius) Pte Ltd<br>M/s. IFIC Bank Limited  | 2                      | 1,820,490,570<br>1,795,911,770<br>24,578,800 | 82.67      |
| 2        | <b>NIT &amp; ICP</b><br>National Bank of Pakistan, Trustee Deptt.<br>Investment Corporation of Pakistan<br>IDBP/ICP   | 3                      | 34,742,074<br>34,697,286<br>6,838<br>37,950  | 1.58       |
| 3        | <b>Directors, CEO and their spouses and minor children</b><br>Mr. Francis Andrew Rozario<br>Mr. Tan Soo Nan<br>Mr. Phua Kok Kim<br>Mr. Thomas Patrick Sodano<br>Mr. Mahmudul Huq Bhuiyan<br>Mr. Willie Wai Kong Chan<br>Syed Aamir Zahidi<br>Khawaja Iqbal Hassan | 1                      | 16,083,935<br>16,083,935                     | 0.73       |
| 4        | <b>Executives</b>   | -                      | -  | -          |
| 5        | <b>Public Sector Companies and Corporations</b>   | 2                      | 3,900,620                                    | 0.18       |
| 6        | <b>Foreign Companies</b>  | 45                     | 2,416,297                                    | 0.11       |
| 7        | <b>Banks, Development Financial Institutions, Non-banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds</b>   | 58                     | 33,416,235                                   | 1.52       |
| 8        | <b>General Public (including local &amp; foreign individual)</b>  | 12,009                 | 228,131,084                                  | 10.36      |
| 9        | <b>Others</b>   | 238                    | 62,615,944                                   | 2.84       |
|          | <b>Total</b>  | 12,358                 | 2,201,796,759                                | 100.00     |

## Proxy Form

I/We \_\_\_\_\_ S/o,D/o,W/o \_\_\_\_\_  
of \_\_\_\_\_  
(full address) being a member of NIB Bank Limited and holder of shares as per  
Registered Folio No. \_\_\_\_\_ and / or CDC Participant I.D. No. \_\_\_\_\_  
and Account No. \_\_\_\_\_ do hereby appoint \_\_\_\_\_  
of \_\_\_\_\_  
(full address) or failing him/her \_\_\_\_\_  
of \_\_\_\_\_  
(full address) as my/our proxy to attend, speak and vote for me/us and on my/our  
behalf at the Annual General Meeting of NIB Bank Limited scheduled to be held on  
Friday, 28<sup>th</sup> March 2008 at 03:00 p.m. at Moosa G. Desai Auditorium, Institute of  
Chartered Accountants of Pakistan (ICAP), Chartered Accountants Avenue, Clifton,  
Karachi and at any adjournment thereof.

As witness my / our hand this \_\_\_\_\_ day of \_\_\_\_\_ 2008.

Witnesses :

1. \_\_\_\_\_  
Name :  
CNIC No.:  
Address :

Signature of Member(s)  
on Rs. 5/- Revenue Stamp

2. \_\_\_\_\_  
Name:  
CNIC No.:  
Address :

**NOTE:** A member entitled to attend a General Meeting is entitled to appoint a proxy to attend and vote instead of him / her. No person shall act as proxy (except for a Corporation) unless he / she is entitled to be present and vote in his / her own right.

Proxies, in order to be valid, must be complete in all respect and be received at the Registered Office of the Bank not later than 48 hours before the meeting.