



# **Habib Metropolitan Bank**

(Subsidiary of Habib Bank AG Zurich)

## **CONSOLIDATED ACCOUNTS**

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Habib Metropolitan Bank Limited (the Bank) and its subsidiary companies (together referred to as the Group) as at December 31, 2007 and the related consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement together with the notes forming part thereof for the year then ended. These consolidated financial statements include unaudited certified returns from the branches, except for fourteen branchers, which have been audited by us. We have also expressed separate opinion on the financial statements of the Bank. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

- a) The financial statements of the Habib Metropolitan Trade Services Limited - a subsidiary for the year ended December 31, 2007 are unaudited. Hence, total assets of Rs. 2,055 thousand and net profit of Rs. 402 thousand have been incorporated in these consolidated financial statements by the management using the unaudited financial statements.

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 consolidated financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, except for any adjustment that may have been required due to the matter expressed in paragraph (a) above, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2007 and the results of its operations, its changes in equity and cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Karachi: March 3, 2008

**FORD RHODES SIDAT HYDER & CO.**  
Chartered Accountants

**CONSOLIDATED BALANCE SHEET**  
AS AT DECEMBER 31, 2007

|   | Note | 2007               | 2006        |
|---|------|--------------------|-------------|
|   |      | Rupees in '000     |             |
| <b>ASSETS</b>                                       |      |                    |             |
| Cash and balances with treasury banks               | 8    | <b>10,201,545</b>  | 11,348,162  |
| Balances with other banks                           | 9    | <b>3,691,183</b>   | 6,296,564   |
| Lendings to financial institutions                  | 10   | <b>3,989,249</b>   | 5,447,110   |
| Investments   | 11   | <b>61,735,716</b>  | 39,555,490  |
| Advances  | 12   | <b>89,826,806</b>  | 83,324,059  |
| Operating fixed assets                              | 13   | <b>1,294,486</b>   | 649,122     |
| Deferred tax assets                                 |      | —                  | —           |
| Other assets  | 14   | <b>2,128,703</b>   | 2,049,556   |
|   |      | <b>172,867,688</b> | 148,670,063 |
| <b>LIABILITIES</b>                                  |      |                    |             |
| Bills payable                                       | 15   | <b>3,210,041</b>   | 1,619,796   |
| Borrowings  | 16   | <b>29,991,633</b>  | 29,518,458  |
| Deposits and other accounts                         | 17   | <b>121,066,389</b> | 102,492,633 |
| Sub-ordinated loans                                 |      | —                  | —           |
| Liabilities against assets subject to finance lease |      | —                  | —           |
| Deferred tax liabilities                            | 18   | <b>60,874</b>      | 176,803     |
| Other liabilities                                   | 19   | <b>5,018,843</b>   | 3,992,947   |
|   |      | <b>159,347,780</b> | 137,800,637 |
| <b>NET ASSETS</b>                                   |      | <b>13,519,908</b>  | 10,869,426  |
| <b>REPRESENTED BY</b>                               |      |                    |             |
| Share capital                                       | 20   | <b>5,018,350</b>   | 3,005,000   |
| Reserves  |      | <b>6,383,936</b>   | 5,824,936   |
| Unappropriated profit                               |      | <b>2,061,674</b>   | 1,836,616   |
|   |      | <b>13,463,960</b>  | 10,666,552  |
| Surplus on revaluation of assets - net of tax       | 21   | <b>55,948</b>      | 202,874     |
|   |      | <b>13,519,908</b>  | 10,869,426  |
| <b>CONTINGENCIES AND COMMITMENTS</b>                | 22   |                    |             |

The annexed notes 1 to 45 and annexures I & II form an integral part of these financial statements.

**MUHAMMAD H. HABIB**  
Chairman

**KASSIM PAREKH**  
President & Chief Executive

**BASHIR ALI MOHAMMAD**  
Director

**ANWAR H. JAPANWALA**  
Director

## CONSOLIDATED PROFIT & LOSS ACCOUNT

AS AT DECEMBER 31, 2007

|   | Note   | 2007               | 2006        |
|---|--------|--------------------|-------------|
|   |        | Rupees in '000     |             |
| <b>Mark-up / Return / Interest earned</b>   | 24     | <b>11,983,551</b>  | 7,289,123   |
| <b>Mark-up / Return / Interest expensed</b>   | 25     | <b>(8,259,184)</b> | (4,416,477) |
| Net Mark-up / Interest Income   |        | <b>3,724,367</b>   | 2,872,646   |
| Provision against non-performing loans and advances                                 | 12.4   | <b>434,740</b>     | 108,092     |
| Provision for diminution in the value of investments                                | 11.3   | <b>7,344</b>       | —           |
| Bad debts written off directly  | 12.7.1 | <b>76</b>          | 289         |
|   |        | <b>(442,160)</b>   | (108,381)   |
| Net Mark-up / interest income after provisions                                      |        | <b>3,282,207</b>   | 2,764,265   |
| <b>Non mark-up / interest income</b>  |        |                    |             |
| Fee, commission and brokerage income  |        | <b>997,687</b>     | 583,427     |
| Dividend income   |        | <b>33,211</b>      | 41,524      |
| Income from dealing in foreign currencies   |        | <b>1,153,845</b>   | 673,263     |
| Gain on sale/redemption of securities   | 26     | <b>822,388</b>     | 198,083     |
| Unrealized Gain/(Loss) on revaluation of investments classified as held-for-trading |        | <b>—</b>           | —           |
| Other income  | 27     | <b>169,516</b>     | 234,936     |
| Total non mark-up / interest income   |        | <b>3,176,647</b>   | 1,731,233   |
|   |        | <b>6,458,854</b>   | 4,495,498   |
| <b>Non mark-up / interest expenses</b>  |        |                    |             |
| Administrative expenses   | 28     | <b>2,254,018</b>   | 1,349,930   |
| Other provisions / write offs   |        | <b>—</b>           | —           |
| Other charges   | 29     | <b>456</b>         | 1,177       |
| Total non mark-up / interest expenses   |        | <b>(2,254,474)</b> | (1,351,107) |
|   |        | <b>4,204,380</b>   | 3,144,391   |
| Extraordinary / unusual items   |        | <b>—</b>           | —           |
| <b>Profit before taxation</b>   |        | <b>4,204,380</b>   | 3,144,391   |
| Taxation - Current  |        | <b>1,279,080</b>   | 1,040,279   |
| - Prior years   |        | <b>174,000</b>     | 33,448      |
| - Deferred  |        | <b>(46,108)</b>    | (26,539)    |
|   | 30     | <b>(1,406,972)</b> | (1,047,188) |
| <b>Profit after taxation</b>  |        | <b>2,797,408</b>   | 2,097,203   |
| Unappropriated profit brought forward   |        | <b>1,836,616</b>   | 1,278,413   |
| Profit available for appropriation  |        | <b>4,634,024</b>   | 3,375,616   |
|   |        |                    | (Restated)  |
| <b>Basic earnings per share - (Rupees)</b>  | 31     | <b>5.57</b>        | 4.92        |
| <b>Diluted earnings per share - (Rupees)</b>  | 31     | <b>5.57</b>        | 4.92        |

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Director

**ANWAR H. JAPANWALA**  
Director

**CONSOLIDATED CASH FLOW STATEMENT**  
FOR THE YEAR ENDED DECEMBER 31, 2007

|  | Note | 2007<br>Rupees in '000 | 2006                |
|--|------|------------------------|---------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                 |      |                        |                     |
| Profit before taxation                                     |      | 4,204,380              | 3,144,391           |
| Less: Dividend income                                      |      | (33,211)               | (41,524)            |
|  |      | <u>4,171,169</u>       | <u>3,102,867</u>    |
| <b>Adjustments</b>   |      |                        |                     |
| Depreciation   | 13.2 | 60,837                 | 50,625              |
| Provision against non-performing loans and advances        | 12.4 | 434,740                | 108,092             |
| Provision for diminution in the value of investments       | 11.3 | 7,344                  | —                   |
| Gain on sale of fixed assets                               | 27   | (6,137)                | (4,958)             |
|  |      | <u>496,784</u>         | <u>153,759</u>      |
|  |      | <b>4,667,953</b>       | <b>3,256,626</b>    |
| <b>(Increase) / decrease in operating assets</b>           |      |                        |                     |
| Lendings to financial institutions                         |      | 1,457,861              | 15,472              |
| Advances   |      | (6,937,487)            | (40,106,423)        |
| Other assets (excluding advance taxation)                  |      | (79,147)               | (959,082)           |
|  |      | <u>(5,558,773)</u>     | <u>(41,050,033)</u> |
| <b>Increase in operating liabilities</b>                   |      |                        |                     |
| Bills payable  |      | 1,590,245              | 573,746             |
| Borrowings from financial institutions                     |      | 227,674                | 15,093,355          |
| Deposits and other accounts                                |      | 18,573,756             | 45,779,767          |
| Other liabilities (excluding current taxation)             |      | 938,823                | 1,984,434           |
|  |      | <u>21,330,498</u>      | <u>63,431,302</u>   |
|  |      | <b>20,439,678</b>      | <b>25,637,895</b>   |
| Income tax paid  |      | (1,366,003)            | (438,144)           |
| <b>Net cash flow from operating activities</b>             |      | <b>19,073,675</b>      | <b>25,199,751</b>   |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                 |      |                        |                     |
| Net investments in available-for-sale securities           |      | (21,304,318)           | (19,032,099)        |
| Net investments in held-to-maturity securities             |      | (1,100,000)            | 1,788,078           |
| Dividend received  |      | 33,211                 | 41,524              |
| Investments in operating fixed assets                      |      | (712,489)              | (99,729)            |
| Sale proceeds of operating fixed assets                    |      | 12,425                 | 6,200               |
| <b>Net cash used in investing activities</b>               |      | <b>(23,071,171)</b>    | <b>(17,296,026)</b> |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                 |      |                        |                     |
| Issue of share capital                                     |      | —                      | 3,475,985           |
| Dividend paid  |      | (4)                    | (9)                 |
| <b>Net cash (used in)/inflow from financing activities</b> |      | <b>(4)</b>             | <b>3,475,976</b>    |
| <b>Decrease/(increase) in cash and cash equivalents</b>    |      | <b>(3,997,500)</b>     | <b>11,379,701</b>   |
| Cash and cash equivalents at beginning of the year         |      | 17,306,630             | 5,926,929           |
| <b>Cash and cash equivalents at end of the year</b>        | 32   | <b>13,309,130</b>      | <b>17,306,630</b>   |

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Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED DECEMBER 31, 2007

|   | Share Capital    | Share premium    | Statutory Reserve | Special Reserve | Revenue Reserve  | Un-appropriated profit | Total             |
|---|------------------|------------------|-------------------|-----------------|------------------|------------------------|-------------------|
|   | Rupees in '000   |                  |                   |                 |                  |                        |                   |
| <b>Balance as at December 31, 2005</b>                                    | 1,560,000        | –                | 1,114,590         | 240,361         | 900,000          | 1,278,413              | 5,093,364         |
| Issue of share capital upon amalgamation                                  | 925,000          | 2,550,985        | –                 | –               | –                | –                      | 3,475,985         |
| Issue of bonus shares in the ratio of 1 share for every 3 shares held     | 520,000          | –                | –                 | –               | –                | (520,000)              | –                 |
| Profit after taxation   | –                | –                | –                 | –               | –                | 2,097,203              | 2,097,203         |
| Transfer to statutory reserve   | –                | –                | 419,000           | –               | –                | (419,000)              | –                 |
| Transfer to revenue reserve   | –                | –                | –                 | –               | 600,000          | (600,000)              | –                 |
| <b>Balance as at December 31, 2006</b>                                    | 3,005,000        | 2,550,985        | 1,533,590         | 240,361         | 1,500,000        | 1,836,616              | 10,666,552        |
| Issue of bonus shares in the ratio of 67 shares for every 100 shares held | 2,013,350        | –                | –                 | –               | –                | (2,013,350)            | –                 |
| Profit after taxation   | –                | –                | –                 | –               | –                | 2,797,408              | 2,797,408         |
| Transfer to statutory reserve   | –                | –                | 559,000           | –               | –                | (559,000)              | –                 |
| <b>Balance as at December 31, 2007</b>                                    | <b>5,018,350</b> | <b>2,550,985</b> | <b>2,092,590</b>  | <b>240,361</b>  | <b>1,500,000</b> | <b>2,061,674</b>       | <b>13,463,960</b> |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED DECEMBER 31, 2007

**1. STATUS AND NATURE OF BUSINESS**

- 1.1 The Group comprises of:
- **Holding company**  
Habib Metropolitan Bank Limited
  - **Subsidiary companies**  
Habib Metropolitan Trade Services Limited  
Habib Metropolitan Financial Services Limited

Here-in-after referred to as "the Group" is engaged in providing Commercial Banking and Trade advising services.

- 1.2 Habib Metropolitan Bank Limited (the Bank) was incorporated in Pakistan on August 3, 1992 as a public limited company, under the Companies Ordinance, 1984 and is engaged in commercial banking and related services. Its shares are listed on all stock exchanges in Pakistan. The registered office of the Bank is situated at Spencer's Building, I.I Chundrigar Road, Karachi. The Bank operates 100 (2006: 82) branches including 4 (2006: 4) Islamic banking branches in Pakistan. The Bank is a subsidiary of Habib Bank AG Zurich (the holding company) which is incorporated in Switzerland.

- 1.3 Brief profile of the subsidiaries is as follows:

| <b>Name of company</b>                        | <b>Percentage of shareholding</b> | <b>Date of incorporation</b> | <b>Nature of business</b>                        | <b>Country of incorporation</b> |
|---|-----------------------------------|------------------------------|--|---------------------------------|
| Habib Metropolitan Trade Services Limited     | 100                               | July 27 2005                 | Trade related services                           | Hong Kong                       |
| Habib Metropolitan Financial Services Limited | 100                               | October 17, 2007             | Brokerage company (not yet commenced operations) | Pakistan                        |

- 1.4 During the year ended December 31, 2006, the shareholders of the Bank approved a " Scheme of Amalgamation" of the Habib Bank AG Zurich - Pakistan operations (HBZ) with and into the Bank. The said amalgamation was accounted for with effect from October 26, 2006. Accordingly, corresponding figures except for the balance sheet figures as reported in the consolidated financial statements represent the results of Metropolitan Bank Limited for 12 months, Habib Metropolitan Trade Services Limited for 12 months and HBZ for 67 days.

**2. BASIS OF PRESENTATION AND CONSOLIDATION**

These consolidated financial statements have been prepared in conformity with the format of financial statements prescribed by the State Bank of Pakistan (SBP) vide BSD Circular No. 04, dated February 17, 2006.

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

These consolidated financial statements comprise financial statements of the Bank and its subsidiary companies. The financial statements of the subsidiary companies have been prepared for the same reporting year as the Bank using consistent accounting policies. Intra-group balances and transactions have been eliminated.

### **3. STATEMENT OF COMPLIANCE**

These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the SBP. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by the SECP and the SBP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives shall prevail.

The SBP vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for Banking companies till further instructions. 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 requirement of various circulars issued by the SBP.

During 2005, the SECP notified the IFAS -1 "Murabaha" issued by the ICAP relating to accounting for murabaha transactions which is effective for financial periods beginning on or after January 1, 2006. The standard has not been adopted by the Group pending certain modifications in the Group's accounting system and processes that are imperative for effective implementation of the said standard. However, the management considers that the effect of the adoption of the standard would not be material to the Bank's financial statements.

### **4. BASIS OF MEASUREMENT**

These consolidated financial statements have been prepared under the historical cost convention except that certain investments are stated at market value and derivative financial instruments have been marked to market and are carried at fair value.

### **5. SIGNIFICANT ACCOUNTING POLICIES**

#### **5.1 Cash and cash equivalents**

These include cash and balances with treasury and other banks less over drawn nostro and local bank accounts.

#### **5.2 Repurchase/resale agreements**

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

**Sale under repurchase obligation**

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repo agreement.

**Purchase under resale obligation**

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet. Amounts paid under these obligations are included in reverse repurchase agreement lendings. The difference between purchase and resale price is accrued as income over the term of the reverse repos agreement.

**5.3 Investments**

Investments are classified as follows:

**Held-for-trading**

These are securities, which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.

**Held-to-maturity**

These are securities with fixed or determinable payments and fixed maturities that are held with the intention and ability to hold to maturity.

**Available-for-sale**

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

Investments (other than held-for-trading) are initially recognized at fair value which includes transaction cost associated with the investment. Investments classified as held-for-trading are initially recognized at fair value, and transaction costs are expensed in the profit and loss account.

Quoted securities, other than those classified as held-to-maturity, are carried at market value. Unquoted securities are valued at cost less impairment losses, if any.

Surplus / (deficit) arising on revaluation of quoted securities which are classified as available-for-sale is taken to a separate account which is 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. The unrealized surplus / (deficit) arising on revaluation of quoted securities which are classified as held-for-trading is taken to the profit and loss account. Held-to-maturity securities are carried at amortised cost.

Provision for diminution in the values of securities (except Bonds, Participation Term Certificates and Term Finance Certificates) is made for permanent impairment, if any, in their value. Provision against Bonds, Participation Term Certificates and Term Finance Certificates is made as per the aging criteria prescribed by the Prudential Regulations issued by the SBP.

Profit and loss on sale of investments is included in income currently.

Premium or discount on debt securities classified as available-for-sale and held-to-maturity is amortised using effective interest method and taken to the profit and loss account.

**5.4 Trade date accounting**

All regular way purchases and sales of investments are recognised on the trade date, i.e. the date the Group commits to purchase/sell the investments. Regular way purchases and sales

of equity investments require delivery of securities within 2 days after the transaction date as required by stock exchange regulations.

## **5.5 Advances including net investment in finance lease**

### **Loans and advances**

These are stated net of provisions against bad and doubtful accounts. The provision is made in accordance with the Prudential Regulations issued by the SBP and it is charged to profit and loss account. The Group also maintains general provision in addition to the requirements of the prudential Regulations on the basis of management's assessment of credit risk characteristics such as nature of credit, collateral type, industry sector and other relevant factors. Advances are written-off when there are no realistic prospects of recovery.

### **Finance lease receivables**

Lease where the Group transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance lease. A receivable is recognized at an amount equal to the present value of the lease payments. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

## **5.6 Operating fixed assets**

### **Tangible**

These are stated at cost less accumulated depreciation and impairment, if any, except for land and capital work-in-progress which are stated at cost.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset at the rates specified in note 13.2. Depreciation on additions during the year is charged from the date of addition. In case of disposals during the year, the depreciation is charged uptill the date of disposal.

Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Normal repairs and maintenance are charged to the profit and loss account as and when incurred.

The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

An item of fixed asset is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal.

Gain and loss on disposal of assets is included in income currently.

### **Intangible**

These are stated at cost less accumulated amortization and impairment, if any. Intangible assets are amortized from the month when the assets are available for use, using the straight line method, whereby the cost of the intangible asset is amortized over its estimated useful life over which economic benefits are expected to flow to the Group. The useful life and amortization method is reviewed and adjusted, if appropriate, at each balance sheet date.

### **Impairment**

The carrying amount of assets is reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If each indication exists, and when the carrying value exceeds the estimated recoverable amount, assets are written down to the recoverable amount. The resulting impairment loss is taken to the profit and loss account currently.

**5.7 Financial instruments**

Financial assets and financial liabilities are recognized at the time when the Group becomes a party to the contractual provision of the instrument. Financial assets are de-recognized when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognized when obligation specific in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognized in the profit and loss account of the current period.

**Derivatives**

Derivative financial instruments are initially recognized at their fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivative financial instruments are carried as asset when fair value is positive and liabilities when fair value is negative. Any change in the value of derivative financial instruments is taken to the profit and loss account.

**Off Setting**

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

**5.8 Provisions**

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

Provisions for guarantee claims and other off balance sheet obligations are recognized when intimated and reasonable certainty exists for the Group to settle the obligation. Expected recoveries are recognized by debiting the customers' account. Charge to profit and loss account is stated net off expected recoveries.

**5.9 Taxation****Current**

Provision for current taxation is based on taxable income for the year at the current rates of taxation after taking into consideration available tax credits and rebates, if any. The charge for the current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalized during the year.

**Deferred**

Deferred tax is recognised using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using 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 the future taxable profit will be available and credits 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 also recognises deferred tax asset / liability on deficit / surplus on revaluation of assets which is adjusted against the related deficit / surplus in accordance with the requirements of IAS 12 "Income Taxes".

#### **5.10 Employees' benefits**

##### **Defined benefit plan**

The Group operates an approved funded gratuity scheme for all its permanent employees. Retirement benefits are payable to the members of the scheme on completion of prescribed qualifying period of service under the scheme. Contributions are made in accordance with the actuarial recommendation. The actuarial valuation is carried out annually using "Projected Unit Credit Method". The actuarial gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

##### **Defined contribution plan**

The Group operates a recognised provident fund scheme for all its regular employees, which is administered by the Board of Trustees. Contribution is made by the Group and its employees, to the fund at the rate of 10% of basic salary.

##### **Employees' compensated absences**

Employees' entitlement to annual leave is recognized when they accrue to employees. A provision is made for estimated liability for annual leaves as a result of services rendered by the employee against unavailed leaves, as per term of service contract, up to balance sheet date.

#### **5.11 Revenue recognition**

Mark-up / interest / return on advances and investments is recognised on accrual basis, except for income which is required to be suspended in compliance with Prudential Regulations issued by the SBP.

Income from dealing in foreign currencies is recognised on accrual basis.

Other fee, commission and brokerage except income from letter of guarantee is accounted for on receipt basis. Income from letter of guarantee is recognized of accrual basis.

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

#### **5.12 Foreign currencies**

The financial statements are presented in Pakistani Rupees, which is the Group's functional and presentation currency.

Foreign currency transactions are translated into local currency at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. Forward exchange contracts are revalued using forward exchange rates applicable to their respective remaining maturities. Exchange gains or losses are included in income currently.

### 5.13 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing product 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 segment reporting format have been determined and prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 04, dated February 17, 2006.

### 5.14 Transactions with related parties

Transactions with related parties are entered into at arm's length prices using the comparable uncontrolled price method.

### 5.15 Dividend and appropriations

Dividends and other appropriation to reserves (excluding statutory reserve) declared subsequent to balance sheet date are considered as non-adjusting event and are recorded in the financial statements when declared.

### 5.16 Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period / year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no convertible dilutive potential ordinary shares in issue at December 31, 2007.

## 6. ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The estimates, judgments and associated assumptions used in the preparation of the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates, judgments and associated assumptions are reviewed on an ongoing basis. Revision to the accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The changes in estimates made during the year and their impact on the financial statements are disclosed in notes 11.4, 12.6 and 13.2.1. The estimates, judgments and associated assumptions that have significant effect on the financial statements are as follows:

|  | <b>Note</b> |
|--|-------------|
| Classification of investments                      | 5.3 & 11    |
| Provision against non-performing advances          | 5.5 & 12    |
| Useful lives of assets and methods of depreciation | 5.6 & 13    |
| Deferred taxation                                  | 5.9 & 18    |
| Defined benefit plan                               | 5.10 & 34   |

## 7. ACCOUNTING STANDARDS 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.

| Standard or Interpretation   | Effective date (accounting period beginning on or after) |
|--|--|
| IAS 1 Presentation of Financial Statements (Revised)   | January 01, 2009   |
| IAS 23 Borrowings Costs (Revised)  | January 01, 2009   |
| IAS 27 Consolidated and Separate Financial Statements (Revised)                                  | January 01, 2009   |
| IAS 41 Agriculture   | July 01, 2007  |
| 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   |
| IFAS 2 Ijara   | July 01, 2007  |

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

In addition to the above, the following new standards have been issued by the IASB but have not yet been adopted by the ICAP 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                 |

|  | Note | 2007              | 2006       |
|--|------|-------------------|------------|
| Rupees in '000                                   |      |                   |            |
| <b>8. CASH AND BALANCES WITH TREASURY BANKS</b>  |      |                   |            |
| In hand  |      |                   |            |
| - local currency                                 |      | <b>1,490,460</b>  | 1,289,737  |
| - foreign currencies                             |      | <b>343,772</b>    | 264,890    |
| National Prize Bonds                             |      | <b>8,506</b>      | 5,336      |
|  |      | <b>1,842,738</b>  | 1,559,963  |
| With State Bank of Pakistan in                   |      |                   |            |
| - local currency current accounts                | 8.1  | <b>7,202,615</b>  | 7,493,738  |
| - foreign currency current account               | 8.2  | <b>44,038</b>     | 67,364     |
| - foreign currency deposit account               |      |                   |            |
| - cash reserve account - non - remunerative      | 8.3  | <b>542,500</b>    | 548,190    |
| - special cash reserve account - remunerative    | 8.3  | <b>542,500</b>    | 1,644,570  |
|  |      | <b>8,331,653</b>  | 9,753,862  |
| With National Bank of Pakistan in local currency |      |                   |            |
| current accounts                                 |      | <b>27,154</b>     | 34,337     |
|  |      | <b>10,201,545</b> | 11,348,162 |

**8.1** These accounts are maintained to comply with the requirements of the SBP and include cash reserve account of Rs. 512,880 thousand (2006: Rs. 522,786 thousand) in respect of the Islamic banking branches of the Bank.

**8.2** Represents US Dollar collection/settlement account with the SBP.

**8.3** Represents mandatory reserves maintained with the SBP. The special cash reserve account carries mark-up rate of 4.24% (2006 : 4.35%) per annum.

|                                     | Note      | 2007             | 2006      |
|-------------------------------------|-----------|------------------|-----------|
|                                     |           | Rupees in '000   |           |
| <b>9. BALANCES WITH OTHER BANKS</b> |           |                  |           |
| In Pakistan                         |           |                  |           |
| - Current accounts                  |           | <b>279,288</b>   | 273,586   |
| - Deposit accounts                  | 9.1       | <b>808,251</b>   | 964,672   |
|                                     |           | <b>1,087,539</b> | 1,238,258 |
| Outside Pakistan                    |           |                  |           |
| - Current accounts                  | 9.3       | <b>1,236,443</b> | 1,357,967 |
| - Deposit accounts                  | 9.2 & 9.3 | <b>1,367,201</b> | 3,700,339 |
|                                     |           | <b>2,603,644</b> | 5,058,306 |
|                                     |           | <b>3,691,183</b> | 6,296,564 |

**9.1** These carry mark-up rates ranging between 3.75% to 9% (2006: 3.25% to 8.5%) per annum.

**9.2** These carry mark-up rates ranging between 3.75% to 5.87% (2006: 3.25% to 5.05%) per annum.

**9.3** Include balances in current and deposit accounts of Rs.90,953 thousand (2006: Rs.17,649 thousand) and Rs.1,184,785 thousand (2006: Rs.3,145,997 thousand) respectively with the holding company.

## 10. LENDINGS TO FINANCIAL INSTITUTIONS

|  |      |                  |           |
|--|------|------------------|-----------|
| Call money lendings                          | 10.2 | <b>2,000,000</b> | 3,150,000 |
| Repurchase agreement lendings (Reverse Repo) | 10.3 | <b>1,989,249</b> | 2,031,883 |
| Other placements                             |      | -                | 265,227   |
|  |      | <b>3,989,249</b> | 5,447,110 |

### 10.1 Particulars of Lendings

|                       |                  |           |
|-----------------------|------------------|-----------|
| In local currency     | <b>3,989,249</b> | 5,447,110 |
| In foreign currencies | -                | -         |
|                       | <b>3,989,249</b> | 5,447,110 |

**10.2** Represent lendings to banks and carry mark-up rates ranging from 9.5% to 9.7% (2006 : 9.7% to 10.7%) per annum, with maturities upto March 2008.

### 10.3 Securities held as collateral against lendings to financial institutions (Reverse Repo)

|                           | Note   | 2007             |                             |                  | 2006         |                             |           |
|---------------------------|--------|------------------|-----------------------------|------------------|--------------|-----------------------------|-----------|
|                           |        | Held by Bank     | Further given as collateral | Total            | Held by Bank | Further given as collateral | Total     |
| Rupees in'000             |        |                  |                             |                  |              |                             |           |
| Market Treasury Bills     | 10.3.1 | <b>1,451,749</b> | -                           | <b>1,451,749</b> | 1,690,133    | -                           | 1,690,133 |
| Pakistan Investment Bonds | 10.3.2 | <b>500,000</b>   | -                           | <b>500,000</b>   | 200,000      | -                           | 200,000   |
| Term Finance Certificates | 10.3.3 | <b>37,500</b>    | -                           | <b>37,500</b>    | 141,750      | -                           | 141,750   |
|                           |        | <b>1,989,249</b> | -                           | <b>1,989,249</b> | 2,031,883    | -                           | 2,031,883 |

**10.3.1** Market Treasury Bills have been purchased under resale agreements at rates ranging from 9.25% to 9.75% (2006: 8.81% to 9%) per annum, with maturities upto January 2008.

**10.3.2** Pakistan Investment Bonds have been purchased under resale agreements at a rate of 9.5% (2006: 9.1%) per annum, with maturities upto March 2008.

**10.3.3** Term Finance Certificates have been purchased under resale agreements at a rate of 10.6% (2006:11.5% to 11.8%) per annum, with maturities upto March 2008.

**10.4** Market value of the securities under repurchase agreement lendings amounted to Rs.2,029,391 thousand (2006: Rs.2,053,375 thousand).

## 11. INVESTMENTS

|   | Note | 2007              |                     |                   | 2006              |                     |                   |
|---|------|-------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
|   |      | Held by Bank      | Given as collateral | Total             | Held by Bank      | Given as collateral | Total             |
|   |      |                   |                     |                   |                   |                     | Rupees in'000     |
| <b>11.1 Investments by types</b>  | 11.5 |                   |                     |                   |                   |                     |                   |
| <b>Available-for-sale securities</b>                                      |      |                   |                     |                   |                   |                     |                   |
| Market Treasury Bills   |      | 26,470,917        | 11,266,204          | 37,737,121        | 13,757,882        | 6,322,593           | 20,080,475        |
| Pakistan Investment Bonds   |      | 7,000,014         | 2,492,491           | 9,492,505         | 5,296,716         | 4,282,172           | 9,578,888         |
| Ordinary Shares of listed companies                                       |      | 70,405            | —                   | 70,405            | 104,448           | —                   | 104,448           |
| Ordinary Shares of un-listed companies                                    |      | 88,101            | —                   | 88,101            | 88,101            | —                   | 88,101            |
| Preference Shares of listed companies                                     |      | 40,000            | —                   | 40,000            | 40,000            | —                   | 40,000            |
| Preference Shares of unlisted companies                                   |      | 25,000            | —                   | 25,000            | 25,000            | —                   | 25,000            |
| Term Finance Certificates   |      | 1,738,964         | —                   | 1,738,964         | 1,874,139         | —                   | 1,874,139         |
| Sukuk Bonds   |      | 1,075,000         | —                   | 1,075,000         | 525,000           | —                   | 525,000           |
| Open ended mutual funds   |      | 6,659,830         | —                   | 6,659,830         | 3,309,591         | —                   | 3,309,591         |
| Close ended mutual funds  |      | 179,848           | —                   | 179,848           | 176,814           | —                   | 176,814           |
|   |      | <u>43,348,079</u> | <u>13,758,695</u>   | <u>57,106,774</u> | <u>25,197,691</u> | <u>10,604,765</u>   | <u>35,802,456</u> |
| <b>Held-to-maturity securities</b>  |      |                   |                     |                   |                   |                     |                   |
| Certificate of Investments  |      | 4,550,000         | —                   | 4,550,000         | 3,450,000         | —                   | 3,450,000         |
| <b>Investments at cost</b>  |      | <u>47,898,079</u> | <u>13,758,695</u>   | <u>61,656,774</u> | <u>28,647,691</u> | <u>10,604,765</u>   | <u>39,252,456</u> |
| <b>Provision for diminution in the value of investments</b>               | 11.3 | (7,344)           | —                   | (7,344)           | —                 | —                   | —                 |
|   |      | <u>47,890,735</u> | <u>13,758,695</u>   | <u>61,649,430</u> | <u>28,647,691</u> | <u>10,604,765</u>   | <u>39,252,456</u> |
| <b>Surplus/(deficit) on revaluation of available-for-sale investments</b> | 21   | 89,254            | (2,968)             | 86,286            | 120,679           | 182,355             | 303,034           |
| <b>Investments at market value</b>  |      | <u>47,979,989</u> | <u>13,755,727</u>   | <u>61,735,716</u> | <u>28,768,370</u> | <u>10,787,120</u>   | <u>39,555,490</u> |

|   | Note | 2007              | 2006              |
|---|------|-------------------|-------------------|
|   |      | Rupees in '000    |                   |
| <b>11.2 Investments by segments</b>   | 11.5 |                   |                   |
| <b>Federal Government Securities</b>  |      |                   |                   |
| - Market Treasury Bills   |      | 37,737,121        | 20,080,475        |
| - Pakistan Investment Bonds   |      | 9,492,505         | 9,578,888         |
|   |      | <u>47,229,626</u> | <u>29,659,363</u> |
| <b>Fully Paid Up Ordinary Shares</b>  |      |                   |                   |
| - Listed Companies  |      | 70,405            | 104,448           |
| - Unlisted Companies  |      | 88,101            | 88,101            |
|   |      | <u>158,506</u>    | <u>192,549</u>    |
| <b>Fully Paid Up Preference Shares</b>                                      |      |                   |                   |
| - Listed Companies  |      | 40,000            | 40,000            |
| - Unlisted Companies  |      | 25,000            | 25,000            |
|   |      | <u>65,000</u>     | <u>65,000</u>     |
| <b>Term Finance Certificates, Bonds and Participation Term Certificates</b> |      |                   |                   |
| - Listed Term Finance Certificates  |      | 1,264,640         | 1,044,542         |
| - Unlisted Term Finance Certificates  |      | 474,324           | 829,597           |
| - Sukuk Bonds   |      | 1,075,000         | 525,000           |
| - Certificate of Investments  |      | 4,550,000         | 3,450,000         |
|   |      | <u>7,363,964</u>  | <u>5,849,139</u>  |
| <b>Mutual Funds</b>   |      |                   |                   |
| - Open ended mutual funds   |      | 6,659,830         | 3,309,591         |
| - Close ended mutual funds  |      | 179,848           | 176,814           |
|   |      | <u>6,839,678</u>  | <u>3,486,405</u>  |
| <b>Investments at cost</b>  |      | <u>61,656,774</u> | <u>39,252,456</u> |
| <b>Provision for diminution in the value of investments</b>                 |      | <u>(7,344)</u>    | <u>-</u>          |
| <b>Investments - net of provisions</b>                                      |      | <u>61,649,430</u> | <u>39,252,456</u> |
| <b>Surplus on revaluation of available-for-sale investments</b>             |      | <u>86,286</u>     | <u>303,034</u>    |
| <b>Investments at market value</b>  |      | <u>61,735,716</u> | <u>39,555,490</u> |
| <b>11.3 Particulars of provision against unlisted shares</b>                |      |                   |                   |
| - Charge for the year   |      | 7,344             | -                 |
| - Closing balance   |      | 7,344             | -                 |
|   |      | <u>7,344</u>      | <u>-</u>          |
| <b>11.3.1 Particulars of provision in respect of type and segment</b>       |      |                   |                   |
| <b>Available-for-sale securities</b>  |      |                   |                   |
| - Unlisted companies (Ordinary shares)                                      |      | 7,344             | -                 |
|   |      | <u>7,344</u>      | <u>-</u>          |

**11.4** During the year, the Group has changed the method of amortization of premium / discount arising on purchase of securities classified as available-for-sale and held-to-maturity from straight line to effective yield method in line with industry practice. However, the above change in accounting estimate has not resulted in any material effect on these financial statements.

**11.5** Information relating to investments in Federal Government Securities, ordinary and preference shares / certificates of listed and unlisted companies / mutual funds, Term Finance Certificates, Bonds and Participation Term Certificates required to be disclosed as part of the financial statements under the SBP's BSD Circular No. 4, dated February 17, 2006, is given in Annexure I.

| 12. ADVANCES  | Note | 2007               | 2006       |
|---|------|--------------------|------------|
|   |      | Rupees in '000     |            |
| Loans, cash credits, running finances, etc.                         |      |                    |            |
| In Pakistan   |      | <b>70,318,994</b>  | 66,804,583 |
| Outside Pakistan  |      | —                  | —          |
|   |      | <b>70,318,994</b>  | 66,804,583 |
| Net investment in finance leases                                    |      |                    |            |
| In Pakistan   | 12.2 | <b>2,180,889</b>   | 1,950,224  |
| Outside Pakistan  |      | —                  | —          |
|   |      | <b>2,180,889</b>   | 1,950,224  |
| Bills discounted and purchased<br>(excluding Market treasury bills) |      |                    |            |
| Payable in Pakistan   |      | <b>4,570,152</b>   | 4,007,200  |
| Payable outside Pakistan  |      | <b>13,974,026</b>  | 11,380,087 |
|   |      | <b>18,544,178</b>  | 15,387,287 |
| Advances – gross  |      | <b>91,044,061</b>  | 84,142,094 |
| Provision against non-performing advances                           |      |                    |            |
| - specific  |      | <b>(700,981)</b>   | (304,575)  |
| - general   |      | <b>(516,274)</b>   | (513,460)  |
|   | 12.4 | <b>(1,217,255)</b> | (818,035)  |
| Advances – net of provisions  |      | <b>89,826,806</b>  | 83,324,059 |
| <b>12.1 Particulars of advances – gross</b>                         |      |                    |            |
| <b>12.1.1</b> In local currency                                     |      | <b>74,308,938</b>  | 73,651,888 |
| In foreign currencies   |      | <b>16,735,123</b>  | 10,490,206 |
|   |      | <b>91,044,061</b>  | 84,142,094 |
| <b>12.1.2</b> Short term (for upto one year)                        |      | <b>81,184,185</b>  | 67,343,199 |
| Long term (for over one year)                                       |      | <b>9,859,876</b>   | 16,798,895 |
|   |      | <b>91,044,061</b>  | 84,142,094 |

**12.2 Net investment in finance leases**

|   | 2007                          |  |                       |           | 2006                          |  |                       |           |
|---|-------------------------------|--|-----------------------|-----------|-------------------------------|--|-----------------------|-----------|
|   | Not later<br>than one<br>year | Later than<br>one & less<br>than five<br>years | Over<br>five<br>years | Total     | Not later<br>than one<br>year | Later than<br>one & less<br>than five<br>years | Over<br>five<br>years | Total     |
|   | Rupees in '000                |  |                       |           |                               |  |                       |           |
| Lease rentals receivable                | 1,048,023                     | 1,334,995                                      | —                     | 2,383,018 | 295,759                       | 1,761,783                                      | —                     | 2,057,542 |
| Residual value                          | 22,078                        | 82,181   | —                     | 104,259   | 1,893                         | 129,442  | —                     | 131,335   |
| Minimum lease payments                  | 1,070,101                     | 1,417,176                                      | —                     | 2,487,277 | 297,652                       | 1,891,225                                      | —                     | 2,188,877 |
| Financial charges for future periods    | (130,487)                     | (175,901)                                      | —                     | (306,388) | (33,965)                      | (204,688)                                      | —                     | (238,653) |
| Present value of minimum lease payments | 939,614                       | 1,241,275                                      | —                     | 2,180,889 | 263,687                       | 1,686,537                                      | —                     | 1,950,224 |

**12.3** Advances include Rs. 804,247 thousand (2006: Rs.443,248 thousand) which have been placed under non-performing status as detailed below:

| Category of Classification | 2007                |          |                |                    |          |                |                 |          |                |
|----------------------------|---------------------|----------|----------------|--------------------|----------|----------------|-----------------|----------|----------------|
|                            | Classified Advances |          |                | Provision required |          |                | Provision held* |          |                |
|                            | Domestic            | Overseas | Total          | Domestic           | Overseas | Total          | Domestic        | Overseas | Total          |
|                            | Rupees in '000      |          |                |                    |          |                |                 |          |                |
| Substandard                | 3,042               | –        | 3,042          | 761                | –        | 761            | 761             | –        | 761            |
| Doubtful                   | 125,835             | –        | 125,835        | 62,917             | –        | 62,917         | 62,917          | –        | 62,917         |
| Loss                       | 675,370             | –        | 675,370        | 637,303            | –        | 637,303        | 637,303         | –        | 637,303        |
|                            | <u>804,247</u>      | <u>–</u> | <u>804,247</u> | <u>700,981</u>     | <u>–</u> | <u>700,981</u> | <u>700,981</u>  | <u>–</u> | <u>700,981</u> |

\* Adjusted for liquid assets held in hand and realizable without recourse to a court of law.

**12.4 Particulars of provision against non-performing advances:**

|                               | 2007           |                |                  | 2006           |                |                |
|-------------------------------|----------------|----------------|------------------|----------------|----------------|----------------|
|                               | Specific       | General        | Total            | Specific       | General        | Total          |
|                               | Rupees in '000 |                |                  |                |                |                |
| Opening balance               | 304,575        | 513,460        | 818,035          | 78,328         | 442,111        | 520,439        |
| Transferred upon amalgamation | –              | –              | –                | 188,659        | 4,329          | 192,988        |
| Charge for the year           | 472,218        | 3,994          | 476,212          | 55,560         | 67,020         | 122,580        |
| Reversals                     | (40,292)       | (1,180)        | (41,472)         | (14,488)       | –              | (14,488)       |
| Net charge for the year       | 431,926        | (2,814)        | 434,740          | 41,072         | 67,020         | 108,092        |
| Amount written off            | (35,520)       | –              | (35,520)         | (3,484)        | –              | (3,484)        |
| Closing balance               | <u>700,981</u> | <u>516,274</u> | <u>1,217,255</u> | <u>304,575</u> | <u>513,460</u> | <u>818,035</u> |

**12.4.1** The general provision includes provision made against consumer portfolio in accordance with the Prudential Regulations issued by SBP at 1.5% of fully secured and at 5% of the unsecured consumer portfolio.

**12.5 Particulars of provision against non-performing advances:**

|                       | 2007           |                |                  | 2006           |                |                |
|-----------------------|----------------|----------------|------------------|----------------|----------------|----------------|
|                       | Specific       | General        | Total            | Specific       | General        | Total          |
|                       | Rupees in '000 |                |                  |                |                |                |
| In local Currency     | 700,981        | 516,274        | 1,217,255        | 304,575        | 513,460        | 818,035        |
| In foreign Currencies | –              | –              | –                | –              | –              | –              |
|                       | <u>700,981</u> | <u>516,274</u> | <u>1,217,255</u> | <u>304,575</u> | <u>513,460</u> | <u>818,035</u> |

**12.6** During the year the SBP vide BSD Circular No. 07, dated October 12, 2007, has amended Prudential Regulations in respect of provisioning against non-performing advances. The revised regulations that are effective from December 31, 2007, prohibit consideration of forced sale value of collateral (other than liquid securities) held by the Group in determining the amount of provision against non-performing advances except in case of housing finance. Accordingly, the above change in regulation has resulted in additional provisioning of Rs.117,756 thousand against non-performing advances and a consequent decrease in profit after taxation by Rs.76,541 thousand.

Further, the time period for classifying personal loans under consumer financing as "loss" has been reduced from 1 year to 180 days. This change has no material effect on these financial statements.

|  | Note | 2007                 | 2006         |
|--|------|----------------------|--------------|
|  |      | Rupees in '000       |              |
| <b>12.7 Particulars of write offs:</b>       |      |                      |              |
| 12.7.1 Against provisions                    |      | <b>35,520</b>        | 3,484        |
| Directly charged to profit and loss account  |      | <b>76</b>            | 289          |
|  |      | <u><b>35,596</b></u> | <u>3,773</u> |
| 12.7.2 Write offs of Rs. 500,000/- and above |      | <b>35,427</b>        | 3,484        |
| Write offs of below Rs. 500,000/-            |      | <b>169</b>           | 289          |
|  |      | <u><b>35,596</b></u> | <u>3,773</u> |

### 12.8 Details of loan write-offs of Rs. 500,000/- and above

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of Rs. 500,000/- or above allowed to the persons during the year ended December 31, 2007 is enclosed as Annexure II.

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

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

|                               |                       |                |
|-------------------------------|-----------------------|----------------|
| Opening balance               | <b>471,301</b>        | 146,574        |
| Transferred upon amalgamation |                       | 274,912        |
| Loans granted during the year | <b>206,993</b>        | 104,979        |
| Repayments                    | <b>(192,263)</b>      | (55,164)       |
| Closing balance               | <u><b>486,031</b></u> | <u>471,301</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

|                               |                       |                |
|-------------------------------|-----------------------|----------------|
| Opening balance               | <b>410,678</b>        | 69,759         |
| Transferred upon amalgamation | -                     | 303,396        |
| Loans granted during the year | <b>15,415,463</b>     | 2,910,396      |
| Repayments                    | <b>(15,072,517)</b>   | (2,872,873)    |
| Closing balance               | <u><b>753,624</b></u> | <u>410,678</u> |

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

|  |          |          |
|--|----------|----------|
|  | <u>-</u> | <u>-</u> |
|--|----------|----------|

### 13. OPERATING FIXED ASSETS

|                          |      |                         |                |
|--------------------------|------|-------------------------|----------------|
| Capital work-in-progress | 13.1 | <b>14,180</b>           | 32,658         |
| Property and equipment   | 13.2 | <b>1,280,306</b>        | 616,464        |
|                          |      | <u><b>1,294,486</b></u> | <u>649,122</u> |

13.1 Represents advance paid against purchase of property for own use.

## 13.2 Property and equipment

|  | COST                  |                             |                         | DEPRECIATION          |                                  |                         | BOOK VALUE              | Rate of depreciation % |
|--|-----------------------|-----------------------------|-------------------------|-----------------------|----------------------------------|-------------------------|-------------------------|------------------------|
|  | As at January 1, 2007 | Additions/ (deletions)      | As at December 31, 2007 | As at January 1, 2007 | Charge for the year/ (deletions) | As at December 31, 2007 | As at December 31, 2007 |                        |
|  | Rupees in '000        |                             |                         |                       |                                  |                         |                         |                        |
| Leasehold land                                     | 30,178                | –                           | 30,178                  | –                     | –                                | –                       | 30,178                  | –                      |
| Buildings/office premises                          | 763,153               | 367,616                     | 1,130,769               | 253,856               | 24,812                           | 278,668                 | 852,101                 | 4                      |
| Furniture, fixtures, office and computer equipment | 110,049               | 124,606<br>(4,219)          | 230,436                 | 75,141                | 21,032<br>(3,084)                | 93,089                  | 137,347                 | 15 & 25                |
| Vehicles   | 7,276                 | 8,250<br>(6,169)            | 9,357                   | 4,222                 | 1,007<br>(1,016)                 | 4,213                   | 5,144                   | 20                     |
| Leasehold improvements                             | 68,631                | 230,495                     | 299,126                 | 29,604                | 13,986                           | 43,590                  | 255,536                 | 20                     |
| <b>2007</b>  | <b>979,287</b>        | <b>730,967<br/>(10,388)</b> | <b>1,699,866</b>        | <b>362,823</b>        | <b>60,837<br/>(4,100)</b>        | <b>419,560</b>          | <b>1,280,306</b>        |                        |

|  | COST                  |                            |                           |                         | DEPRECIATION          |                            |                                  | BOOK VALUE              | Rate of depreciation % |                         |
|--|-----------------------|----------------------------|---------------------------|-------------------------|-----------------------|----------------------------|----------------------------------|-------------------------|------------------------|-------------------------|
|  | As at January 1, 2006 | Acquired upon Amalgamation | Additions/ (deletions)    | As at December 31, 2006 | As at January 1, 2006 | Acquired upon Amalgamation | Charge for the year/ (deletions) | As at December 31, 2006 |                        | As at December 31, 2006 |
|  | Rupees in '000        |                            |                           |                         |                       |                            |                                  |                         |                        |                         |
| Leasehold land                                     | 7,488                 | 22,690                     | –                         | 30,178                  | –                     | –                          | –                                | –                       | 30,178                 | –                       |
| Building/office premises                           | 596,598               | 108,805                    | 57,750                    | 763,153                 | 196,694               | 12,729                     | 44,433                           | 253,856                 | 509,297                | 10                      |
| Furniture, fixtures, office and computer equipment | 56,139                | 45,989                     | 7,997<br>(58)             | 110,067                 | 45,882                | 24,980                     | 4,314<br>(35)                    | 75,141                  | 34,926                 | 10 & 20                 |
| Vehicles   | 3,459                 | 4,261                      | 1,324<br>(1,768)          | 7,276                   | 2,561                 | 1,759                      | 451<br>(549)                     | 4,222                   | 3,054                  | 20                      |
| Leasehold improvements                             | 5,801                 | 62,812                     | –                         | 68,613                  | 5,426                 | 22,751                     | 1,427                            | 29,604                  | 39,009                 | 10                      |
| <b>2006</b>  | <b>669,485</b>        | <b>244,557</b>             | <b>67,071<br/>(1,826)</b> | <b>979,287</b>          | <b>250,563</b>        | <b>62,219</b>              | <b>50,625<br/>(584)</b>          | <b>362,823</b>          | <b>616,464</b>         |                         |

**13.2.1** During the year, the Group has reviewed the accounting estimates relating to the useful lives of assets as follows:

- Buildings/ Office premises are now depreciated on straight line basis, whereas previously, they were depreciated using diminishing balance method;
- Depreciation rates on certain classes of fixed assets have been revised. The assets are now depreciated at the rates stated in note 13.2 above.

Had the Bank not changed the above accounting estimates, the depreciation charge for the year would have increased by Rs.27,745 thousand and profit before taxation would have decreased by the same amount.

**13.2.2** As per the management's estimates, the fair value of properties is Rs 1,778,000 thousand. The fair value of other fixed assets is not considered to be materially different from the carrying value.

**13.2.3** The cost of fully depreciated assets still in use is Rs.57,152 thousand (2006: Rs.51,522 thousand).

**13.2.4** Details of fixed assets deleted with original cost or book value in excess of Rs. 1,000 thousand or Rs. 250 thousand - respectively ( whichever is less):

| Particulars  | Cost             | Book Value       | Sales proceed    | Mode of disposal     | Particulars of Purchaser  |
|--|------------------|------------------|------------------|----------------------|---|
| Furniture, fixtures, office and computer equipment | 686,850          | 292,183          | 292,183          | As per negotiation   | Hassan Nasim, Abu Tufail, Amir Khan, Nusrat Hussain Zaidi ( Ex- employee) |
| Vehicles   | 895,465          | 805,836          | 879,000          | Insurance claim      | EFU General Insurance Limited   |
|  | 690,009          | 681,313          | 738,360          | As per Bank's policy | Muhammad Raza (Employee)  |
|  | 895,125          | 507,523          | 469,941          | As per Bank's policy | Muhammad Amin Tejani (Employee)   |
|  | 469,476          | 463,559          | 692,213          | As per Bank's policy | Abdul Razzak Jabbar (Employee)  |
|  | 449,108          | 443,448          | 615,300          | As per Bank's policy | Muhammad Hussain (Employee)   |
|  | 407,103          | 401,972          | 483,000          | As per Bank's policy | Ahmed Batavia (Employee)  |
|  | 338,527          | 337,971          | 350,000          | As per Bank's policy | Abdul Sami (Employee)   |
|  | 320,140          | 318,561          | 400,000          | As per Bank's policy | Muhammad Shakeel (Employee)   |
|  | <u>4,464,953</u> | <u>3,960,183</u> | <u>4,627,814</u> |                      |   |

**13.2.5** No fixed assets were sold to the Chief Executive and directors of the Bank during the year.

**13.3 Intangible assets**

The cost of fully amortised intangible assets (computer software) still in use is Rs. 27,875 thousand (2006: Rs. 27,875 thousand).

|   | Note | 2007<br>Rupees in '000   | 2006              |
|---|------|--------------------------|-------------------|
| <b>14. OTHER ASSETS</b>   |      |                          |                   |
| Income / mark-up accrued in local currency  |      | <b>1,607,423</b>         | 1,569,527         |
| Income / mark-up accrued in foreign currencies  |      | <b>74,655</b>            | 48,701            |
| Receivable from defined benefit plan  | 34   | <b>5,548</b>             | 30,150            |
| Advances, deposits and other prepayments  | 14.1 | <b>290,682</b>           | 243,957           |
| Due from the SBP against encashment of Government Securities  |      | <b>45,727</b>            | 24,364            |
| Stationery and stamps on hand   |      | <b>27,555</b>            | 18,731            |
| Unrealized gain on forward exchange contracts   |      | -                        | 44,116            |
| Membership of Karachi Stock Exchange (Guarantee) Limited  |      | <b>34,750</b>            | 34,750            |
| Others  |      | <b>42,363</b>            | 35,260            |
|   |      | <u><b>2,128,703</b></u>  | <u>2,049,556</u>  |
| <b>14.1</b> Include advance against Pre-IPO of Dawood Takaful Limited of Rs. 35,000 thousand (2006: Nil). |      |                          |                   |
| <b>15. BILLS PAYABLE</b>  |      |                          |                   |
| In Pakistan   |      | <u><b>3,210,041</b></u>  | <u>1,619,796</u>  |
| <b>16. BORROWINGS</b>   |      |                          |                   |
| In Pakistan   |      | <b>29,362,736</b>        | 29,191,912        |
| Outside Pakistan  |      | <b>628,897</b>           | 326,546           |
|   |      | <u><b>29,991,633</b></u> | <u>29,518,458</u> |
| <b>16.1 Particulars of borrowings with respect of currencies</b>  |      |                          |                   |
| In local currency   |      | <b>29,362,736</b>        | 29,191,912        |
| In foreign currency   |      | <b>628,897</b>           | 326,546           |
|   |      | <u><b>29,991,633</b></u> | <u>29,518,458</u> |

| 16.2 Details of borrowings                       | Note   | 2007<br>Rupees in '000 | 2006       |
|--|--------|------------------------|------------|
| <b>Secured</b>                                   |        |                        |            |
| Borrowings from the SBP                          |        |                        |            |
| - export refinance scheme                        |        | <b>12,397,762</b>      | 17,232,480 |
| - long term financing - export oriented projects |        | <b>2,137,979</b>       | 1,394,383  |
|  | 16.2.1 | <b>14,535,741</b>      | 18,626,863 |
| Repurchase agreement borrowings                  | 16.2.2 | <b>13,758,695</b>      | 10,451,899 |
|  |        | <b>28,294,436</b>      | 29,078,762 |
| <b>Unsecured</b>                                 |        |                        |            |
| Call borrowings                                  | 16.2.3 | <b>1,113,600</b>       | 101,600    |
| Overdrawn nostro accounts                        |        | <b>566,897</b>         | 326,546    |
| Overdrawn local bank accounts                    |        | <b>16,700</b>          | 11,550     |
|  |        | <b>1,697,197</b>       | 439,696    |
|  |        | <b>29,991,633</b>      | 29,518,458 |

**16.2.1** These carry mark-up rate of 7.50% (2006: 7.50%) per annum which is payable quarterly or upon maturity of loans, whichever is earlier.

**16.2.2** These have been borrowed from financial institutions and are secured against Government Securities and carry mark-up rates ranging between 9.1% to 10% (2006: 8.75% to 9%) per annum, with maturities upto May 2008.

**16.2.3** These have been borrowed from commercial banks and carry mark-up rates ranging from 2% to 9.95% (2006: 2% to 9.5% ) per annum, with maturities upto January 2008

## 17. DEPOSITS AND OTHER ACCOUNTS

### Customers

|                                     |                    |            |
|-------------------------------------|--------------------|------------|
| Fixed deposits                      | <b>54,812,561</b>  | 48,511,732 |
| Savings deposits                    | <b>28,326,985</b>  | 21,718,834 |
| Current accounts - non-remunerative | <b>33,326,607</b>  | 23,491,942 |
| Others                              | <b>1,185,870</b>   | 868,231    |
|                                     | <b>117,652,023</b> | 94,590,739 |

### Financial institutions

|                           |                    |             |
|---------------------------|--------------------|-------------|
| Remunerative deposits     | <b>3,209,976</b>   | 7,803,210   |
| Non-remunerative deposits | <b>204,390</b>     | 98,684      |
|                           | <b>3,414,366</b>   | 7,901,894   |
|                           | <b>121,066,389</b> | 102,492,633 |

### 17.1 Particulars of deposits

|                       |                    |             |
|-----------------------|--------------------|-------------|
| In local currency     | <b>110,200,532</b> | 91,532,993  |
| In foreign currencies | <b>10,865,857</b>  | 10,959,640  |
|                       | <b>121,066,389</b> | 102,492,633 |

|  | Note | 2007             | 2006      |
|--|------|------------------|-----------|
|  |      | Rupees in '000   |           |
| <b>18. DEFERRED TAX LIABILITIES</b>        |      |                  |           |
| Deferred tax credits arising due to:       |      |                  |           |
| Surplus on revaluation of securities       |      | <b>30,338</b>    | 100,160   |
| Net investment in finance lease            |      | <b>260,132</b>   | 170,396   |
| Accelerated depreciation                   |      | <b>196,443</b>   | 12,848    |
|  |      | <b>486,913</b>   | 283,404   |
| Deferred tax debits arising in respect of: |      |                  |           |
| Provision for non-performing advances      |      | <b>(426,039)</b> | (106,601) |
|  |      | <b>60,874</b>    | 176,803   |

**18.1** During the year, the Seventh Schedule to the Income Tax Ordinance, 2001 (the Schedule) has been introduced for taxation of banks in Pakistan. Rules of the Schedule inter alia provide that all provision for classified advances and off balance sheet items created under the SBP's Prudential Regulations except for the provisions falling under the category of "sub-standard" will be allowed as claimed in the financial statements. The Schedule is applicable for the year ending December 31, 2008. Currently, provisions for classified advances and off balance sheet items are allowed as deduction if they fulfill the criteria set out in section 29 of the Income Tax Ordinance, 2001. The Schedule, however does not contain any transitory provisions with respect to reclaim or allowability of provisions made before the applicability of the Schedule which have either been voluntarily added back or disallowed by tax authorities in the past. The matter of introduction of such transitory provisions has been taken up with Federal Board of Revenue by Pakistan Banks Association and based on discussions to date the Bank's management is confident that such provisions will be enacted in the Schedule. Accordingly, the deferred tax calculation assumes that the Bank would be able to get the benefit of the assets so recognized on such provisions that have not been allowed as a deduction for tax purposes in the past.

#### **19. OTHER LIABILITIES**

|   |    |                  |           |
|---|----|------------------|-----------|
| Mark-up / return / interest payable in local currency     |    | <b>3,008,904</b> | 2,367,453 |
| Mark-up / return / interest payable in foreign currencies |    | <b>57,882</b>    | 24,790    |
| Unearned commission and income on bills discounted        |    | <b>78,594</b>    | 125,629   |
| Accrued expenses  |    | <b>198,282</b>   | 146,407   |
| Current taxation (provisions less payments)               | 30 | <b>838,938</b>   | 751,761   |
| Unclaimed dividends                                       |    | <b>373</b>       | 377       |
| Branch adjustment account                                 |    | <b>42</b>        | 1,367     |
| Unrealized loss on forward exchange contracts             |    | <b>14,658</b>    | -         |
| Excise duty payable                                       |    | <b>4,795</b>     | 2,142     |
| Locker deposits   |    | <b>185,709</b>   | 159,383   |
| Advance against diminishing musharaka                     |    | <b>103,194</b>   | -         |
| Advance rental for ijara                                  |    | <b>53,494</b>    | -         |
| Security deposits against leases/ ijara                   |    | <b>359,036</b>   | 338,219   |
| Sundry creditors  |    | <b>99,100</b>    | 65,647    |
| Others  |    | <b>15,842</b>    | 9,772     |
|   |    | <b>5,018,843</b> | 3,992,947 |

## 20. SHARE CAPITAL

### 20.1 Authorised capital

| 2007               | 2006        |                                 | 2007             | 2006      |
|--------------------|-------------|---------------------------------|------------------|-----------|
| Number of shares   |             |                                 | Rupees in '000   |           |
| <b>600,000,000</b> | 600,000,000 | Ordinary shares of Rs 10/- each | <b>6,000,000</b> | 6,000,000 |

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

#### Ordinary shares of Rs 10/- each

|                    |             |                            |                  |           |
|--------------------|-------------|----------------------------|------------------|-----------|
| <b>30,000,000</b>  | 30,000,000  | - issued for cash          | <b>300,000</b>   | 300,000   |
| <b>92,500,000</b>  | 92,500,000  | - issued upon amalgamation | <b>925,000</b>   | 925,000   |
| <b>379,335,000</b> | 178,000,000 | - issued as bonus shares   | <b>3,793,350</b> | 1,780,000 |
| <b>501,835,000</b> | 300,500,000 |                            | <b>5,018,350</b> | 3,005,000 |

20.3 As of the balance sheet date, Habib Bank AG Zurich – Switzerland (the holding company) held 255,936 thousand (2006: 153,255 thousand) Ordinary shares of Rs.10/- each (51 % holding).

## 21. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX

Available-for-sale securities :

|                           |                 |          |
|---------------------------|-----------------|----------|
| Market Treasury Bills     | <b>(20,352)</b> | (18,327) |
| Pakistan Investment Bonds | <b>16,464</b>   | 282,236  |
| Term finance certificates | <b>22,070</b>   | 22,261   |
| Listed Shares             | <b>4,172</b>    | (10,297) |
| Mutual Funds              | <b>63,932</b>   | 27,161   |

|                                |                 |           |
|--------------------------------|-----------------|-----------|
|                                | <b>86,286</b>   | 303,034   |
| Related deferred tax liability | <b>(30,338)</b> | (100,160) |
|                                | <b>55,948</b>   | 202,874   |

## 22. CONTINGENCIES AND COMMITMENTS

### 22.1 Direct credit substitutes

Includes bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities

|  |               |        |
|--|---------------|--------|
|  | <b>12,435</b> | 14,969 |
|--|---------------|--------|

### 22.2 Transaction-related contingent liabilities

Includes performance bonds, bid bonds, warranties, advance payment guarantees and shipping guarantees related to particular transactions.

|  |                  |           |
|--|------------------|-----------|
| i) Government  | <b>7,437,940</b> | 5,991,347 |
| ii) Banking companies and other financial institutions | <b>121,190</b>   | 173,654   |
| iii) Others  | <b>2,165,057</b> | 1,517,038 |
|  | <b>9,724,187</b> | 7,682,039 |

### 22.3 Trade-related contingent liabilities

|                   |                   |            |
|-------------------|-------------------|------------|
| Letter of credits | <b>34,103,602</b> | 23,867,267 |
| Acceptances       | <b>10,287,128</b> | 10,455,474 |

### 22.4 Commitments in respect of forward lendings

|                                       |          |         |
|---------------------------------------|----------|---------|
| Forward repurchase agreement lendings | <b>-</b> | 688,200 |
|---------------------------------------|----------|---------|

### 22.5 Commitments in respect of forward exchange contracts

|          |                   |            |
|----------|-------------------|------------|
| Purchase | <b>17,048,483</b> | 10,993,202 |
| Sale     | <b>26,389,801</b> | 20,109,135 |

|  | 2007                  | 2006           |
|--|-----------------------|----------------|
|  | Rupees in '000        |                |
| <b>22.6 Commitments in respect of operating leases</b> |                       |                |
| Not later than one year                                | <b>28,073</b>         | 181,260        |
| Later than one year and not later than five years      | <b>346,117</b>        | 313,785        |
| Later than five years                                  | -                     | 9,816          |
|  | <u><b>374,190</b></u> | <u>504,861</u> |

The Group has entered into non-cancelable operating lease agreements with a Modaraba which has been duly approved by the Religious Board as Ijara transaction. The monthly rental installments are spread over a period of 58 months. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

|   |                      |                      |
|---|----------------------|----------------------|
| <b>22.7 Commitments for the acquisition of operating fixed assets</b> | <u><b>24,562</b></u> | <u><b>66,562</b></u> |
|---|----------------------|----------------------|

### 23. DERIVATIVE FINANCIAL INSTRUMENTS

The Group deals in derivative financial instruments namely forward foreign exchange contracts and swaps with the principle view of hedging the risks arising from its trade business.

As per the Group's policy, these contracts are reported on their fair value at the balance sheet date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Unrealized gains and losses on these contracts are recorded on the balance sheet under "other assets/other liabilities".

These products are offered to the Group's customers to protect from unfavorable movements in foreign currencies. Such contracts are entered with only those obligors whose credit worthiness has been assessed as per the Group's credit/risk assessment framework. The Group effectively hedges such exposures in the inter-bank foreign exchange market.

In the above contracts, both parties must fulfill their contractual obligations at the time of settlement. These contracts are primarily based on the imports/exports, market expectations, economic/political circumstances and the Group's inflow/outflow position.

These positions are reviewed on a regular basis by the Group's Asset and Liability Committee (ALCO).

### 24. MARK-UP / RETURN / INTEREST EARNED

|   |                          |                  |
|---|--------------------------|------------------|
| On loans and advances to:                       |                          |                  |
| Customers                                       | <b>6,513,996</b>         | 4,020,959        |
| Financial institutions                          | <b>80,487</b>            | 74,824           |
|   | <u><b>6,594,483</b></u>  | <u>4,095,783</u> |
| On investments in:                              |                          |                  |
| Available-for-sale securities                   | <b>3,958,661</b>         | 2,159,776        |
| Held-to-maturity securities                     | <b>339,958</b>           | 322,067          |
|   | <u><b>4,298,619</b></u>  | <u>2,481,843</u> |
| On deposits with financial institutions         | <b>584,859</b>           | 279,450          |
| On securities purchased under resale agreements | <b>505,590</b>           | 432,047          |
|   | <u><b>11,983,551</b></u> | <u>7,289,123</u> |

### 25. MARK-UP / RETURN / INTEREST EXPENSED

|   |                         |                  |
|---|-------------------------|------------------|
| Deposits                                    | <b>7,413,879</b>        | 3,616,283        |
| Securities sold under repurchase agreements | <b>790,108</b>          | 779,722          |
| Other borrowings                            | <b>55,197</b>           | 20,472           |
|   | <u><b>8,259,184</b></u> | <u>4,416,477</u> |

|  | Note  | 2007             | 2006             |
|--|---|------------------|------------------|
|  |   | Rupees in '000   |                  |
| <b>26. GAIN / (LOSS) ON SALE/REDEMPTION OF SECURITIES</b>    |   |                  |                  |
| Pakistan Investment Bonds                                    |   | 209,469          | –                |
| Market Treasury Bills  |   | (132)            | (5,181)          |
| Shares-Listed companies                                      |   | 8,236            | 27,074           |
| Mutual Funds   |   | 604,815          | 176,190          |
|  |   | <u>822,388</u>   | <u>198,083</u>   |
| <b>27. OTHER INCOME</b>                                      |   |                  |                  |
| Gain on sale of fixed assets                                 |   | 6,137            | 4,958            |
| Recovery of expenses from customers                          | 27.1  | 101,766          | 63,489           |
| Exchange gain  |   | –                | 142,699          |
| Others   | 27.2  | 61,613           | 23,790           |
|  |   | <u>169,516</u>   | <u>234,936</u>   |
| <b>27.1</b>  | Includes courier, telex, postage and other charges from customers.  |                  |                  |
| <b>27.2</b>  | Includes income from various general banking services such as cheque book charges, cheque return charges, cheque handling charges, rent of lockers etc. |                  |                  |
| <b>28. ADMINISTRATIVE EXPENSES</b>                           |   |                  |                  |
| Salaries, allowances, etc.                                   |   | 946,375          | 448,682          |
| Contract staff   |   | 46,223           | 24,951           |
| Charge/(reversal) for defined benefit plan                   | 34  | 24,602           | (4,916)          |
| Contribution to defined contribution plan                    |   | 39,700           | 17,236           |
| Non-executive directors' fees, allowances and other expenses |   | 210              | 510              |
| Brokerage and commission                                     |   | 46,991           | 27,322           |
| Rent, taxes, insurance, electricity, etc.                    |   | 306,984          | 154,743          |
| Legal and professional charges                               |   | 25,971           | 22,296           |
| Communications   |   | 92,896           | 61,859           |
| Repairs and maintenance                                      |   | 69,261           | 109,739          |
| Rentals of operating leases                                  |   | 190,756          | 104,153          |
| Stationery and printing                                      |   | 59,951           | 49,069           |
| Management fee   | 40  | 82,601           | –                |
| Advertisement and publicity                                  |   | 30,637           | 39,087           |
| Donations  | 28.1  | 20,260           | 19,351           |
| Auditors' remuneration                                       | 28.2  | 3,410            | 5,044            |
| Depreciation   | 13.2  | 60,837           | 50,625           |
| Security charges   |   | 35,299           | 20,107           |
| Travelling and conveyance                                    |   | 27,316           | 13,611           |
| Computer software maintenance                                |   | 35,614           | 32,261           |
| Motor car running  |   | 11,892           | 37,800           |
| Cartage, handling and freight charges                        |   | 18,825           | 13,407           |
| Others   |   | 77,407           | 102,993          |
|  |   | <u>2,254,018</u> | <u>1,349,930</u> |

**28.1** Details of the donations given in excess of Rupees 100,000/- are given below :

| <b>DONEE</b>   | <b>2007</b>    | <b>2006</b> |
|--|----------------|-------------|
|  | Rupees in '000 |             |
| Abbas Alamdar Hostel   | 884            | 295         |
| Abdul Sattar Edhi Foundation                                       | 250            | 200         |
| Academy of Quranic studies   | 120            | 30          |
| Al Sayyeda Benevolent Trust  | 960            | 774         |
| Anjuman Behbood-e-Samat-e-Atfal                                    | 250            | 250         |
| Bantva Memon Jamat   | 175            | 100         |
| Bantva Memon Rahat Committee                                       | 175            | 100         |
| Children Foundation Trust  | 1,000          | -           |
| Cooperation for Advancement Rehabilitation and Education           | -              | 150         |
| Ebrahim Ali Bhai Charitable Trust                                  | -              | 500         |
| Habib Medical Trust  | 960            | 774         |
| Habib Poor Fund  | 960            | 774         |
| Jahandad Society for Community Development                         | -              | 250         |
| Khoja (Pirhai)Shia Isna Asheri Jamat (Fatimiyah Education Network) | 250            | 100         |
| Lahore University of Management Sciences                           | 250            | 250         |
| Madarsa Jafria   | 183            | 167         |
| Marie Adelaide Leprosy Centre                                      | 250            | 100         |
| Memon Educational Board  | 350            | 250         |
| Pakistan Human Development Fund                                    | -              | 250         |
| Pakistan Memon Educational & Welfare Society                       | 600            | 500         |
| Pakistan Memon Women Educational Society                           | 350            | 300         |
| Presidents Relief Fund for Earthquake Victims - 2005               | -              | 5,000       |
| Rahmatbai Habib Food & Clothing Trust                              | 960            | 774         |
| Rahmatbai Habib Widow & Orphans Trust                              | 960            | 774         |
| Safina-e-Ahleibait (Jamia Masjid & Imam Bargah)                    | 186            | 174         |
| Shaukat Khanum Memorial Trust                                      | 250            | 250         |
| Society for Welfare of Patient of SIUT                             | 300            | 250         |
| Tabba Heart Institute  | 750            | -           |
| The Citizens Foundation  | 5,738          | 3,620       |
| The Kidney Centre  | 250            | 250         |
| The Layton Rehmatulla Benevolent Trust                             | 250            | 250         |

**28.2 Auditors' remuneration**

|   |              |              |
|---|--------------|--------------|
| Audit fee   | 1,200        | 1,200        |
| Review of half yearly financial statements                | 300          | 300          |
| Special audit certifications and sundry advisory services | 461          | 2,459        |
| Tax services  | 1,123        | 725          |
| Out-of-pocket expenses                                    | 326          | 360          |
|   | <u>3,410</u> | <u>5,044</u> |

**29. OTHER CHARGES**

|   |            |              |
|---|------------|--------------|
| Penalties imposed by the State Bank of Pakistan | <u>456</u> | <u>1,177</u> |
|---|------------|--------------|

|                     | Note | 2007             | 2006      |
|---------------------|------|------------------|-----------|
|                     |      | Rupees in '000   |           |
| <b>30. TAXATION</b> |      |                  |           |
| - Current           |      | <b>1,279,080</b> | 1,040,279 |
| - Prior years       |      | <b>174,000</b>   | 33,448    |
| - Deferred          |      | <b>(46,108)</b>  | (26,539)  |
|                     | 30.2 | <b>1,406,972</b> | 1,047,188 |

**30.1** Income tax assessments of the Group have been finalised upto the assessment tax year 2006 (corresponding to the accounting year ended December 31, 2005). The Group has filed income tax return for the tax year 2007, (corresponding to the accounting year ended December 31, 2006) and the same is deemed to be assessed in terms of section 120 of the Income Tax Ordinance, 2001.

### 30.2 Relationship between tax expense and accounting profit

|   |  |                  |           |
|---|--|------------------|-----------|
| Profit before tax   |  | <b>4,204,380</b> | 3,144,391 |
| Tax at the applicable rate of 35% (2006: 35%)   |  | <b>1,471,533</b> | 1,100,537 |
| Tax effect of income not subject to tax   |  | <b>(115,286)</b> | (64,421)  |
| Tax effect of income taxed at reduced rate  |  | <b>(6,323)</b>   | (12,457)  |
| Tax effect of (income)/expenses that are not deductible in determining taxable income |  | <b>(70,844)</b>  | 16,620    |
| Tax effect of temporary differences   |  | <b>(46,108)</b>  | (26,539)  |
| Tax effect for prior years  |  | <b>174,000</b>   | 33,448    |
| Tax charge for the year   |  | <b>1,406,972</b> | 1,047,188 |

### 31. BASIC AND DILUTED EARNINGS PER SHARE

(Restated)

|   |      |                  |           |
|---|------|------------------|-----------|
| Profit after taxation                               |      | <b>2,797,408</b> | 2,097,203 |
| Weighted average number of ordinary shares (in'000) | 31.1 | <b>501,835</b>   | 426,335   |
| Basic and diluted earnings per share (Rupees)       |      | <b>5.57</b>      | 4.92      |

**31.1** The weighted average number of shares for 2006 have been adjusted for the effect of bonus shares issued during the year.

### 32. CASH AND CASH EQUIVALENTS

|                                       |      |                   |            |
|---------------------------------------|------|-------------------|------------|
| Cash and balances with treasury banks | 8    | <b>10,201,545</b> | 11,348,162 |
| Balances with other banks             | 9    | <b>3,691,183</b>  | 6,296,564  |
| Overdrawn nostro account              | 16.2 | <b>(566,897)</b>  | (326,546)  |
| Overdrawn local banks account         | 16.2 | <b>(16,700)</b>   | (11,550)   |
|                                       |      | <b>13,309,131</b> | 17,306,630 |

|  |  | 2007         | 2006  |
|--|--|--------------|-------|
|  |  | Number       |       |
| <b>33. STAFF STRENGTH</b>                        |  |              |       |
| Permanent  |  | <b>1,395</b> | 1,278 |
| Temporary/on contractual basis                   |  | <b>404</b>   | 283   |
| Bank's own Staff Strength at the end of the year |  | <b>1,799</b> | 1,561 |
| Outsourced                                       |  | <b>501</b>   | 402   |
| Total Staff Strength                             |  | <b>2,300</b> | 1,963 |

### 34. DEFINED BENEFIT PLAN

#### General description

The benefits under the funded gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service. The benefit is equal to one month's last basic salary drawn for each year of eligible service subject to a maximum of 24 months last drawn basic salary. The minimum qualifying period for eligibility under the plan is five years of continuous service.

#### Principal actuarial assumptions

The actuarial valuation was carried out on December 31, 2007 using "Projected Unit Credit Actuarial Cost Method". The main assumptions used for actuarial valuation were as follows:

|  | 2007 | 2006 |
|--|------|------|
| Discount rate – percent (per annum)                          | 10   | 10   |
| Expected rate of return on plan assets – percent (per annum) | 10   | 10   |
| Long term rate of salary increase – percent (per annum)      | 10   | 10   |

#### Reconciliation of receivable from defined benefit plan

|   | 2007           | 2006          |
|---|----------------|---------------|
|   | Rupees in '000 |               |
| Fair value of plan assets                   | 189,481        | 187,976       |
| Present value of defined benefit obligation | (240,826)      | (165,137)     |
| Unrecognised actuarial loss                 | 58,120         | 9,153         |
| Unrecognised past service cost              | (1,227)        | (1,842)       |
|   | <u>5,548</u>   | <u>30,150</u> |

#### Movement in receivable from defined benefit plan

|                                |                |                 |
|--------------------------------|----------------|-----------------|
| Opening balance                | (30,150)       | –               |
| Charge/(Reversal) for the year | 24,602         | (4,916)         |
| Transferred upon amalgamation  | –              | (25,234)        |
| Closing balance                | <u>(5,548)</u> | <u>(30,150)</u> |

#### Charge for defined benefit plan

|                                |               |                |
|--------------------------------|---------------|----------------|
| Current service cost           | 27,500        | 7,333          |
| Interest cost                  | 16,514        | 6,232          |
| Expected return on plan assets | (18,798)      | (5,989)        |
| Transferred on amalgamation    | –             | 7,911          |
| Negative past service cost     | (614)         | (20,403)       |
|                                | <u>24,602</u> | <u>(4,916)</u> |

#### Movement in fair value of plan assets

|                                  |                |                |
|----------------------------------|----------------|----------------|
| Opening balance                  | 187,976        | 59,894         |
| Expected return on plan assets   | 18,798         | 5,989          |
| Actuarial (loss)/gain recognized | (7,650)        | 6,514          |
| Benefits paid                    | (9,643)        | (4,003)        |
| Transferred upon amalgamation    | –              | 119,582        |
| Closing balance                  | <u>189,481</u> | <u>187,976</u> |

|  | 2007           | 2006     |
|--|----------------|----------|
|  | Rupees in '000 |          |
| <b>Movement in present value of defined benefit obligation</b> |                |          |
| Opening balance  | 165,137        | 62,317   |
| Current service cost   | 27,500         | 7,334    |
| Interest cost  | 16,514         | 6,232    |
| Actuarial loss recognized                                      | 41,318         | 13,243   |
| Benefits paid  | (9,643)        | (4,003)  |
| Transferred upon amalgamation                                  | –              | 102,259  |
| Negative past service cost                                     | –              | (22,245) |
|  | <b>240,826</b> | 165,137  |

|                                       |                 |          |
|---------------------------------------|-----------------|----------|
| <b>Annual actuarial (loss)/gain</b>   |                 |          |
| Experience (loss) on obligation       | (41,318)        | (13,243) |
| Experience (loss)/gain on plan assets | (7,650)         | 6,514    |
|                                       | <b>(48,968)</b> | (6,729)  |
| <b>Actual return on plan assets</b>   |                 |          |
|                                       | <b>11,148</b>   | 18,484   |

| <b>Historical Information</b>               | 2007            | 2006      | 2005     |
|---|-----------------|-----------|----------|
|   | Rupees in '000  |           |          |
| Fair value of plan assets                   | 189,481         | 187,976   | 59,894   |
| Present value of defined benefit obligation | (240,826)       | (165,137) | (62,317) |
| Surplus/(deficit)                           | <b>(51,345)</b> | 22,839    | (2,423)  |

### 35. DEFINED CONTRIBUTION PLAN

The general description of the plan is included in note 5.10

### 36. COMPENSATION OF DIRECTORS AND EXECUTIVES

|   | <b>President &amp; Chief Executive</b> |       | <b>Directors</b> |       | <b>Executives</b> |        |
|---|--|-------|------------------|-------|-------------------|--------|
|   | 2007                                   | 2006  | 2007             | 2006  | 2007              | 2006   |
|   | Rupees in '000                         |       |                  |       |                   |        |
| Fees                                      | –                                      | –     | 210              | 510   | –                 | –      |
| Managerial Remuneration                   | 2,839                                  | 2,470 | –                | –     | 318,172           | 43,910 |
| Charge for defined benefit plan           | 226                                    | 206   | –                | –     | 12,011            | 2,531  |
| Contribution to defined contribution plan | 284                                    | 247   | –                | –     | 14,797            | 3,109  |
| Rent and house maintenance                | 1,637                                  | 1,471 | –                | –     | –                 | 19,759 |
| Utilities                                 | 150                                    | 119   | 450              | 264   | –                 | 4,144  |
| Bonus                                     | 734                                    | 823   | –                | –     | 47,398            | 14,690 |
| Others                                    | 1,928                                  | 1,622 | 1,719            | 1,818 | –                 | –      |
|   | <b>7,798</b>                           | 6,958 | <b>2,379</b>     | 2,592 | <b>392,378</b>    | 88,143 |
| Number of persons                         | <b>1</b>                               | 1     | <b>7</b>         | 7     | <b>226</b>        | 55     |

The Chief Executive, Executive Director and certain executives are provided with free use of car and household equipment in accordance with their terms of employment.

### 37. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of investments in Federal Government Securities is based on PKRV rates (Reuters Page) and open ended mutual fund is based on Net Asset Value of the funds. Fair value of listed securities is based on their market prices. Fair value of unquoted equity instruments is determined on the basis of break-up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, fixed term deposits, other assets and other liabilities cannot be calculated with sufficient reliability due to absence of current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.5.

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

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

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

|                                  | Trade &<br>Sales | Retail<br>Banking | Commercial<br>Banking |
|----------------------------------|------------------|-------------------|-----------------------|
|                                  | Rupees in '000   |                   |                       |
| <b>2007</b>                      |                  |                   |                       |
| Total income*                    | 5,387,878        | 3,943,930         | 102,208,177           |
| Total expenses*                  | 4,592,174        | 3,319,401         | 7,424,030             |
| Net income                       | 795,704          | 624,529           | 2,784,147             |
| Segment assets (gross)           | 66,217,524       | 1,084,275         | 106,339,707           |
| Segment non performing loans     | –                | 2,986             | 801,261               |
| Segment provision required       | –                | 1,369             | 699,612               |
| Segment liabilities              | 14,924,219       | 55,401,880        | 89,718,260            |
| Segment return on net assets (%) | 8.14             | 7.12              | 9.60                  |
| Segment cost of funds (%)        | 6.93             | 5.99              | 6.98                  |
| <b>2006</b>                      |                  |                   |                       |
| Total income*                    | 3,362,282        | 1,618,421         | 6,006,923             |
| Total expenses*                  | 2,519,710        | 1,089,778         | 4,233,747             |
| Net income                       | 842,572          | 528,643           | 1,773,176             |
| Segment assets (gross)           | 46,928,812       | 871,570           | 102,172,588           |
| Segment non performing loans     | –                | 15,806            | 427,442               |
| Segment provision required       | –                | 2,439             | 302,136               |
| Segment liabilities              | 10,564,288       | 36,129,045        | 91,411,525            |
| Segment return on net assets (%) | 7.32             | 4.48              | 5.40                  |
| Segment cost of funds (%)        | 5.49             | 3.02              | 4.14                  |

\* Includes inter-segment revenues and expenses

### 39. TRUST ACTIVITIES

The Bank acts as a Trustee of the Metro Bank Pakistan Sovereign Fund (the Fund). As of December 31, 2007, Net Asset Value of the Fund was Rs. 824,331 thousand (2006: Rs. 1,315,000 thousand)

#### 40. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Bank comprise of the holding company, subsidiaries, entities with common directorships, directors and their close family members, staff retirement benefit funds, key executives and major shareholders of the Bank.

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

| <u>Balance outstanding at year end</u>                | Note | 2007<br>Rupees in '000 | 2006      |
|---|------|------------------------|-----------|
| <b>Holding company</b>                                |      |                        |           |
| Bank balances   |      | 1,275,738              | 3,163,646 |
| Management fee payable                                |      | 82,601                 | -         |
| <b>Entities with common directorships</b>             |      |                        |           |
| Deposits  |      | 3,645,792              | 802,934   |
| Advances  |      | 753,624                | 410,678   |
| Trade related contingent liabilities                  |      | 1,769,635              | 1,835,648 |
| <b>Key Management Personnel</b>                       |      |                        |           |
| Deposits  |      | 15,384                 | 14,072    |
| Advances  |      | 16,828                 | 24,278    |
| <b>Transactions for the year</b>                      |      |                        |           |
| <b>Holding company</b>                                |      |                        |           |
| Management fee for technical and consultancy services | 28   | 82,601                 | -         |
| <b>Entities with common directorships</b>             |      |                        |           |
| Mark-up/interest earned                               |      | 184,991                | 7,465     |
| Mark-up/interest expensed                             |      | 467,100                | 165,533   |
| Commission/bank charges recovered                     |      | 8,145                  | 2,934     |
| Insurance premium paid                                |      | 1,369                  | 1,517     |
| Rent income   |      | 658                    | 666       |
| <b>Key Management Personnel</b>                       |      |                        |           |
| Mark-up/interest earned                               |      | 709                    | 478       |
| Mark-up/interest expensed                             |      | 361                    | 763       |
| Salaries, allowances, etc                             |      | 55,881                 | 26,220    |
| Directors' fee  |      | 210                    | 510       |
| <b>Retirement benefit plan</b>                        |      |                        |           |
| Contribution to defined benefit plan                  |      | 1,117                  | 933       |
| Contribution to defined contribution plan             |      | 1,519                  | 897       |

#### 41. CAPITAL ADEQUACY

The objectives of the Bank's capital management are to ensure that the Bank complies with the regulatory capital requirement and maintain healthy capital ratios in order to support its business and maximise shareholder value.

The SBP through its BSD Circular No. 6 dated October 28, 2006 requires the minimum paid-up-capital (net of losses) for Banks / Development Finance Institutions to be raised to Rs. 6 billion by the year ending December 31, 2009. The raise is to be achieved in a phased manner requiring Rs. 4 billion paid up capital (net of losses) by the end of the financial year 2007. The paid-up-capital of the Bank for the year ended December 31, 2007 stood at Rs. 5,018,350 thousand and is in compliance with the SBP requirement for the said year. In addition, the banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 8% of the risk weighted exposure of the banks. The Bank's CAR as at December 31, 2007 was 12.51%.

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

|  | 2007              | 2006              |
|--|-------------------|-------------------|
|  | Rupees in '000    |                   |
| <b>Regulatory Capital Base</b>                                   |                   |                   |
| <b>Tier I Capital</b>  |                   |                   |
| Shareholders Capital   | 5,018,350         | 3,005,000         |
| Balance in share premium account                                 | 2,550,985         | 2,550,985         |
| Reserves   | 3,832,951         | 3,273,951         |
| Un-appropriated profits  | 2,061,674         | 1,835,302         |
| Investment in Subsidiaries                                       | (80)              | (79)              |
|  | <b>13,463,880</b> | <b>10,665,159</b> |
| <b>Tier II Capital</b>   |                   |                   |
| General provision subject to 1.25% of total risk weighted assets | 516,274           | 513,460           |
| <b>Eligible Tier III Capital</b>                                 |                   |                   |
|  | -                 | -                 |
| <b>Total Regulatory Capital</b> (a)                              | <b>13,980,154</b> | <b>11,178,619</b> |

**Risk Weighted Exposures**

|  | 2007               |                     | 2006               |                     |
|--|--------------------|---------------------|--------------------|---------------------|
|  | Book Value         | Risk Adjusted Value | Book Value         | Risk Adjusted Value |
|  | Rupees in '000     |                     |                    |                     |
| <b>Credit Risk</b>                       |                    |                     |                    |                     |
| Balance Sheet items:                     |                    |                     |                    |                     |
| Cash and other liquid assets             | 13,892,728         | 743,667             | 17,644,726         | 1,266,180           |
| Money at call                            | 2,000,000          | 400,000             | 3,415,227          | 683,045             |
| Investments                              | 63,760,439         | 13,418,645          | 41,587,452         | 8,919,938           |
| Loans and advances                       | 87,367,852         | 70,502,550          | 79,530,383         | 62,638,805          |
| Fixed assets                             | 1,294,486          | 1,294,486           | 649,122            | 649,122             |
| Other assets                             | 772,108            | 532,312             | 891,994            | 601,829             |
|  | <b>169,087,613</b> | <b>86,891,660</b>   | <b>143,718,904</b> | <b>74,758,919</b>   |
| Off Balance Sheet Items:                 |                    |                     |                    |                     |
| Loan repayment guarantees                | 12,435             | 12,435              | 14,969             | 14,969              |
| Performance bonds etc.                   | 8,444,182          | 4,172,474           | 7,066,995          | 3,520,799           |
| Stand by letters of credit               | 43,531,034         | 20,298,802          | 33,792,048         | 15,596,986          |
| Outstanding foreign exchange contracts   |                    |                     |                    |                     |
| -Purchase                                | 17,048,482         | 226,936             | 10,993,202         | 114,436             |
| -Sale                                    | 26,389,801         | 139,672             | 20,109,135         | 105,665             |
|  | <b>95,425,934</b>  | <b>24,850,319</b>   | <b>71,976,349</b>  | <b>19,352,855</b>   |
| Credit risk-weighted exposures           | <b>264,513,547</b> | <b>111,741,979</b>  | <b>215,695,253</b> | <b>94,111,774</b>   |
| <b>Market Risk</b>                       |                    |                     |                    |                     |
| General market risk                      | 301,945            | 24,156              | 90,930             | 7,274               |
| Specific market risk                     | -                  | -                   | -                  | -                   |
| Market risk weighted exposures           | <b>301,945</b>     | <b>24,156</b>       | <b>90,930</b>      | <b>7,274</b>        |
| <b>Total risk-weighted exposures</b> (b) | <b>264,815,492</b> | <b>111,766,135</b>  | <b>215,786,183</b> | <b>94,119,048</b>   |
| <b>CAR [ (a) / (b) x 100 ]</b>           | <b>12.51%</b>      |                     | <b>11.88%</b>      |                     |

The Bank has a paid up capital of Rs. 5,018,350 thousand against the required minimum paid up capital of Rs. 4,000,000 thousand set by the SBP for the Banking Companies as of December 31, 2007.

## 42. RISK MANAGEMENT

Risk management aspects are embedded in the Bank's strategy, organization structure and processes. The Bank has adopted a cohesive risk management structure for credit, operations, liquidity and market risk to strengthen the process and system from the foundation as controls are more effective and valuable when built into the process. Effective risk management is considered essential in the preservation of the assets and long-term profitability of the Bank. Clear guidelines and limits, which are under regular review, are backed up by a comprehensive system of internal controls and independent audit inspections. Internal reporting/ MIS are additional tools for measuring and controlling risks. Separation of duties is also embedded in the Bank's system and organization.

### 42.1 Credit risk

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises principally in relation to the lending and trade finance business carried out by the Bank. The Bank's strategy is to minimize credit risk through a strong pre-disbursement credit analysis, approval and risk measurement process added with an effective product, geography, industry and customer diversification. The Bank, as its strategic preference, extends trade and working capital financing, so as to keep the major portion of exposure (funded and non-funded) on a short-term, self-liquidating basis. Major portion of the Bank credit portfolio is priced on flexible basis with pricing reviewed on periodic basis.

The Bank's credit policy/ instructions defines the credit extension criteria, the credit approval and monitoring process, the loan classification system and provisioning policy. The Bank also considers the requirements of the SBP. A standard credit granting procedure exists which has been well-disseminated down the line, ensuring proper pre-sanction evaluation, adequacy of security, pre-examination of charge / control documents and monitoring of each exposure on an ongoing basis.

| Segment by class of business                 | 2007              |               |                    |               |                               |               |
|--|-------------------|---------------|--------------------|---------------|-------------------------------|---------------|
|  | Advances          |               | Deposits           |               | Contingencies and Commitments |               |
|  | Rs. in '000       | Percent       | Rs. in '000        | Percent       | Rs. in '000                   | Percent       |
| Textile                                      | 52,552,336        | 57.72         | 5,411,048          | 4.47          | 9,692,670                     | 17.78         |
| Exports/Imports                              | 6,858,549         | 7.53          | 2,973,269          | 2.46          | 16,415,182                    | 30.11         |
| Wholesale and retail trade                   | 2,542,673         | 2.79          | 2,653,093          | 2.19          | 1,254,269                     | 2.30          |
| Chemical and pharmaceuticals                 | 2,416,468         | 2.65          | 1,097,593          | 0.91          | 2,539,384                     | 4.66          |
| Electronics and electrical appliances        | 2,301,490         | 2.53          | 1,112,466          | 0.92          | 1,061,640                     | 1.95          |
| Individuals                                  | 2,169,030         | 2.38          | 42,512,808         | 35.12         | 124,955                       | 0.23          |
| Automobile and transportation equipment      | 1,595,618         | 1.75          | 3,448,906          | 2.85          | 3,027,838                     | 5.55          |
| Services                                     | 1,308,272         | 1.44          | 2,413,936          | 1.99          | 199,488                       | 0.37          |
| Construction                                 | 1,289,104         | 1.42          | 1,656,064          | 1.37          | 766,141                       | 1.41          |
| Footwear and leather garments                | 1,068,583         | 1.17          | 1,448,853          | 1.20          | 104,446                       | 0.19          |
| Transport, storage and communication         | 999,356           | 1.10          | 5,151,512          | 4.26          | 416,804                       | 0.76          |
| Cement                                       | 754,152           | 0.82          | 39,725             | 0.03          | 551,326                       | 1.01          |
| Sugar  | 590,088           | 0.65          | 264,175            | 0.22          | 123,301                       | 0.23          |
| Power (electricity), gas, water and sanitary | 479,168           | 0.53          | 4,782,736          | 3.95          | 4,084,081                     | 7.49          |
| Financial                                    | 478,628           | 0.53          | 3,414,366          | 2.82          | 1,042,157                     | 1.91          |
| Insurance                                    | 4,260             | 0.01          | 960,883            | 0.79          | 482                           | 0.00          |
| Mining and quarrying                         | 12,734            | 0.01          | 39,321             | 0.03          | 31,807                        | 0.06          |
| Agriculture, forestry, hunting and fishing   | 12,156            | 0.01          | 343,327            | 0.28          | 16,956                        | 0.03          |
| Others                                       | 13,611,396        | 14.96         | 41,342,308         | 34.15         | 13,073,177                    | 23.98         |
|  | <u>91,044,061</u> | <u>100.00</u> | <u>121,066,389</u> | <u>100.00</u> | <u>54,526,104</u>             | <u>100.00</u> |

### Segment by sector

|                     | 2007              |               |                    |               |                               |               |
|---------------------|-------------------|---------------|--------------------|---------------|-------------------------------|---------------|
|                     | Advances          |               | Deposits           |               | Contingencies and Commitments |               |
|                     | Rs. in '000       | Percent       | Rs. in '000        | Percent       | Rs. in '000                   | Percent       |
| Private             | 90,940,172        | 99.89         | 106,941,401        | 88.33         | 51,581,002                    | 94.60         |
| Public / Government | 103,889           | 0.11          | 14,124,988         | 11.67         | 2,945,102                     | 5.40          |
|                     | <u>91,044,061</u> | <u>100.00</u> | <u>121,066,389</u> | <u>100.00</u> | <u>54,526,104</u>             | <u>100.00</u> |

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

|  | 2007                |                         | 2006                |                         |
|--|---------------------|-------------------------|---------------------|-------------------------|
|  | Classified Advances | Specific provision held | Classified Advances | Specific provision held |
| Rupees in '000                             |                     |                         |                     |                         |
| Textile                                    | 372,527             | 346,847                 | 274,511             | 176,745                 |
| Exports/Imports                            | —                   | —                       | 3,312               | 3,312                   |
| Wholesale and retail trade                 | —                   | —                       | 2,983               | 2,983                   |
| Chemical and pharmaceuticals               | 40,207              | 40,207                  | —                   | —                       |
| Individuals                                | 39,761              | 37,572                  | 35,593              | 23,527                  |
| Automobile and transportation equipment    | 648                 | 648                     | —                   | —                       |
| Services                                   | —                   | —                       | 149                 | 149                     |
| Footwear and leather garments              | 31,339              | 31,339                  | 32,774              | 32,774                  |
| Cement                                     | —                   | —                       | 5,323               | 5,323                   |
| Agriculture, forestry, hunting and fishing | 64,624              | 64,624                  | —                   | —                       |
| Others                                     | 255,141             | 179,744                 | 88,603              | 59,762                  |
|  | <u>804,247</u>      | <u>700,981</u>          | <u>443,248</u>      | <u>304,575</u>          |

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

|                   | 2007                |                         | 2006                |                         |
|-------------------|---------------------|-------------------------|---------------------|-------------------------|
|                   | Classified Advances | Specific provision held | Classified Advances | Specific provision held |
| Rupees in '000    |                     |                         |                     |                         |
| Public/Government | —                   | —                       | —                   | —                       |
| Private           | 804,247             | 700,981                 | 443,248             | 304,575                 |
|                   | <u>804,247</u>      | <u>700,981</u>          | <u>443,248</u>      | <u>304,575</u>          |

**Geographical segment analysis**

|                | 2007                   |                       |                     |                               |
|----------------|------------------------|-----------------------|---------------------|-------------------------------|
|                | Profit before taxation | Total assets employed | Net assets employed | Contingencies and Commitments |
| Rupees in '000 |                        |                       |                     |                               |
| Pakistan       | <u>4,204,380</u>       | <u>172,867,688</u>    | <u>13,519,908</u>   | <u>54,526,104</u>             |

Total assets employed include intra group items of Rs. 2,264,709 thousand

## 42.2 Market risk

The Board of Directors oversees the Bank's strategy for market risk exposures. ALCO which comprises of senior management, oversees the balance sheet of the Bank and performs oversight function to ensure sound asset quality, liquidity and pricing. The investment policy, amongst other aspects, covers the Bank asset allocation guidelines inclusive of equity investments. While market risk limits are in place and are monitored effectively, the Bank has also formalized liquidity and market risk management policies which contain action plans to strengthen the market risk management system.

## 42.3 Foreign exchange risk

The Bank's business model for foreign exchange risk is to serve trading activities of its clients in an efficient and cost effective manner. The Bank is not in the business of actively trading and market making activities. A conservative risk approach and the Bank's business strategy to work with export oriented clients gives the ability to meet its foreign exchange needs generally and frequently provide foreign exchange to the inter-bank market.

|                      | <b>2007</b>        |                    |                                    |  |
|----------------------|--------------------|--------------------|------------------------------------|--|
|                      | <b>Assets</b>      | <b>Liabilities</b> | <b>Off-balance<br/>sheet items</b> | <b>Net foreign<br/>currency<br/>exposure</b> |
|                      | (Rupees in '000)   |                    |                                    |  |
| Pakistan Rupee       | 153,964,706        | 161,360,841        | 9,341,319                          | 1,945,184                                    |
| United States Dollar | 15,644,648         | 9,617,022          | (8,172,235)                        | (2,144,609)                                  |
| Euro                 | 1,689,040          | 695,943            | (988,432)                          | 4,665  |
| Great Britain Pound  | 1,179,248          | 1,085,492          | (76,714)                           | 17,042                                       |
| Asian Currency unit  | 254,356            | 88,520             | (17,234)                           | 148,602                                      |
| Arab Emirates Drahm  | 54,821             | -                  | (46,217)                           | 8,604  |
| Japanes Yen          | 42,104             | 18,311             | (40,487)                           | (16,694)                                     |
| Australian Dollar    | 10,423             | -                  | -                                  | 10,423                                       |
| Canadian Dollar      | 9,996              | -                  | -                                  | 9,996  |
| Saudi Riyal          | 4,751              | -                  | -                                  | 4,751  |
| Other Currencies     | 13,595             | 1,559              | -                                  | 12,036                                       |
|                      | <b>172,867,688</b> | <b>172,867,688</b> | <b>-</b>                           | <b>-</b>                                     |

#### 42.4 Interest rate risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

The Bank's interest rate exposure is low due to the short-term nature of the majority of business transactions. Interest rate risk is also controlled through flexible credit pricing mechanism and variable deposit rates. Optimization of yield is achieved through the Bank's investment strategy which aims on attaining a balance between yield and liquidity under the strategic guidance of ALCO.

The advances and deposits of the Bank are repriced on a periodic basis based on interest rates scenario.

2007

|   | Effective Yield/Interest Rate % | Exposed to Yield/Interest risk |              |                          |                           |                         |                        |                         |                         |                          |                | Non-interest bearing financial instruments |           |
|---|---------------------------------|--------------------------------|--------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|----------------|--|-----------|
|   |                                 | Total                          | Upto 1 month | Over 1 month to 3 months | Over 3 months to 6 months | Over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years | Above 10 years |  |           |
| <b>On balance sheet financial instruments</b>         |                                 |                                |              |                          |                           |                         |                        |                         |                         |                          |                |  |           |
| <b>Assets</b>   |                                 |                                |              |                          |                           |                         |                        |                         |                         |                          |                |  |           |
| Cash and balances with treasury banks                 | 4.24%                           | 10,201,545                     | 542,500      | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -              | -  | 9,659,045 |
| Balances with other banks                             | 3.75% to 9.00%                  | 3,691,183                      | 2,175,452    | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -              | -  | 1,515,731 |
| Lendings to financial institutions                    | 9.25% to 10.60%                 | 3,989,249                      | 2,701,749    | 1,250,000                | 37,500                    | -                       | -                      | -                       | -                       | -                        | -              | -  | -         |
| Investments   | 8.00 to 14.00%                  | 61,735,716                     | 3,094,000    | 12,662,367               | 4,182,693                 | 22,990,516              | 1,658,699              | 166,491                 | 7,268,672               | 2,588,336                | 284,140        | 7,123,942                                  |           |
| Advances  | 3.50% to 20.00%                 | 89,826,806                     | 5,773,840    | 26,344,138               | 19,397,184                | 30,998,044              | 2,607,481              | 2,607,481               | -                       | 1,010,251                | -              | 804,247                                    |           |
| Other assets  |                                 | 2,128,703                      | -            | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -              | -  | 2,128,703 |
|   |                                 | 171,573,202                    | 14,287,541   | 40,256,505               | 23,617,377                | 53,988,560              | 4,266,180              | 2,773,972               | 7,268,672               | 3,598,587                | 284,140        | 21,231,668                                 |           |
| <b>Liabilities</b>                                    |                                 |                                |              |                          |                           |                         |                        |                         |                         |                          |                |  |           |
| Bills payable   |                                 | 3,210,041                      | -            | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -              | -  | 3,210,041 |
| Borrowings  | 2.00% to 10.00%                 | 29,991,633                     | 13,639,031   | 6,098,450                | 7,335,010                 | 298,096                 | 528,505                | 355,846                 | 468,178                 | 684,920                  | -              | 583,597                                    |           |
| Deposits and other accounts                           | 1.50% to 10.80%                 | 121,066,389                    | 11,131,828   | 21,541,696               | 19,265,766                | 19,546,060              | 2,106,436              | 3,763,172               | 3,857,935               | 2,588,051                | 2,286,901      | 34,978,544                                 |           |
| Other liabilities                                     |                                 | 4,179,905                      | -            | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -              | -  | 4,179,905 |
|   |                                 | 158,447,968                    | 24,770,859   | 27,640,146               | 26,600,776                | 19,844,156              | 2,634,941              | 4,119,018               | 4,326,113               | 3,272,971                | 2,286,901      | 42,952,087                                 |           |
| <b>On-balance sheet gap</b>                           |                                 | 13,125,234                     | (10,483,318) | 12,616,359               | (2,983,399)               | 34,144,404              | 1,631,239              | (1,345,046)             | 2,942,559               | 325,616                  | (2,002,761)    | (21,720,419)                               |           |
| <b>Off-balance sheet financial instruments</b>        |                                 |                                |              |                          |                           |                         |                        |                         |                         |                          |                |  |           |
| Forward lending                                       |                                 | -                              | -            | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -              | -  | -         |
| Forward borrowing                                     |                                 | -                              | -            | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -              | -  | -         |
| <b>Off-balance sheet gap</b>                          |                                 | -                              | -            | -                        | -                         | -                       | -                      | -                       | -                       | -                        | -              | -  | -         |
| <b>Total Yield/Interest Risk Sensitivity gap</b>      |                                 | 10,483,318                     | 12,616,359   | (2,983,399)              | 34,144,404                | 1,631,239               | (1,345,046)            | 2,942,559               | 325,616                 | (2,002,761)              | (21,720,419)   |  |           |
| <b>Cumulative Yield/Interest Risk Sensitivity gap</b> |                                 | 10,483,318                     | 2,133,041    | (850,358)                | 33,294,046                | 34,925,285              | 33,580,239             | 36,522,798              | 36,848,414              | 34,845,653               | 13,125,234     |  |           |

## 42.5 Liquidity risk

Liquidity risk is the risk that the Bank will not be able to raise funds to meet its commitments. ALCO manages the liquidity position on a continuous basis.

The Bank's liquidity model is based on "self-reliance" with an extensive branch network to diversify the Bank deposit base. The Bank's liquidity profile generally comprises of short-term, secured assets, in line with the Bank's credit strategy. Long term investments and loans are generally kept at an amount lower than the Bank's term liability and capital/reserves.

### 2007

#### Maturities of assets and liabilities

|                                       | Total       | Upto 1 month | Over 1 month to 3 months | over 3 months to 6 months | over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years | Over 10 years |
|---------------------------------------|-------------|--------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|---------------|
| Rupees in '000                        |             |              |                          |                           |                         |                        |                         |                         |                          |               |
| <b>Assets</b>                         |             |              |                          |                           |                         |                        |                         |                         |                          |               |
| Cash and balances with treasury banks | 10,201,545  | 10,201,545   | —                        | —                         | —                       | —                      | —                       | —                       | —                        | —             |
| Balances with other banks             | 3,691,183   | 3,691,183    | —                        | —                         | —                       | —                      | —                       | —                       | —                        | —             |
| Lendings to financial institutions    | 3,989,249   | 2,701,749    | 1,250,000                | 37,500                    | —                       | —                      | —                       | —                       | —                        | —             |
| Investments                           | 61,735,716  | 10,218,022   | 12,662,367               | 4,182,693                 | 22,990,516              | 1,658,699              | 166,491                 | 7,268,672               | 2,588,256                | —             |
| Advances                              | 89,826,806  | 5,773,840    | 26,344,138               | 19,397,184                | 28,517,553              | 2,480,491              | 5,214,962               | —                       | 1,814,498                | 284,140       |
| Operating fixed assets                | 1,294,486   | 6,450        | 12,900                   | 19,350                    | 38,700                  | 77,400                 | 154,800                 | 232,200                 | 387,000                  | 365,686       |
| Other assets                          | 2,128,703   | 1,846,737    | 31,239                   | 63,008                    | 110,466                 | 26,678                 | —                       | 50,575                  | —                        | —             |
| <b>Liabilities</b>                    |             |              |                          |                           |                         |                        |                         |                         |                          |               |
| Bills payable                         | 172,867,688 | 34,439,526   | 40,300,644               | 23,699,735                | 51,657,235              | 4,243,268              | 5,536,253               | 7,551,447               | 4,789,754                | 649,826       |
| Borrowings                            | 3,210,041   | 3,210,041    | —                        | —                         | —                       | —                      | —                       | —                       | —                        | —             |
| Deposits and other accounts           | 29,991,633  | 14,222,628   | 6,098,450                | 7,335,010                 | 298,096                 | 528,505                | 355,846                 | 468,178                 | 684,920                  | —             |
| Deferred tax liabilities              | 121,066,389 | 14,638,791   | 25,038,548               | 28,007,894                | 28,288,188              | 3,854,861              | 5,511,597               | 5,606,360               | 5,210,690                | 4,909,460     |
| Other liabilities                     | 60,874      | —            | —                        | —                         | —                       | 14,465                 | —                       | —                       | 46,409                   | —             |
|                                       | 5,018,843   | 1,128,375    | 272,200                  | 612,273                   | 1,604,551               | 197                    | 856,502                 | 359,036                 | —                        | 185,709       |
| <b>Net assets</b>                     | 159,347,780 | 33,199,835   | 31,409,198               | 35,955,177                | 30,190,835              | 4,398,028              | 6,723,945               | 6,433,574               | 5,942,019                | 5,095,169     |
|                                       | 13,519,908  | 1,239,691    | 8,891,446                | (12,255,442)              | 21,466,400              | (154,760)              | (1,187,692)             | 1,117,873               | (1,152,265)              | (4,445,343)   |
| Share capital                         | 5,018,350   |              |                          |                           |                         |                        |                         |                         |                          |               |
| Reserves                              | 6,383,936   |              |                          |                           |                         |                        |                         |                         |                          |               |
| Unappropriated profit                 | 2,061,674   |              |                          |                           |                         |                        |                         |                         |                          |               |
| Surplus on revaluation of assets      | 55,948      |              |                          |                           |                         |                        |                         |                         |                          |               |
|                                       | 13,519,908  |              |                          |                           |                         |                        |                         |                         |                          |               |

## 42.6 Operational risk

The Bank operates in a controlled manner and operational risk is generally managed effectively. With the evolution of operational risk management into a separate distinct discipline, the Bank's strategy is to further strengthen the risk management system along new industry standards.

The Bank's operational risk management strategy takes guidance from Basel – II, Committee of Sponsoring Organization of Treadway Commission (COSO) publications, the SBP guidelines and standard industry practices. The operational risk management manual addresses enterprise wide risk drivers inclusive of technology infrastructure, software hardware and I.T security.

While broadening risk awareness and assuring regulatory compliance, internal audit department of the Bank is an important pillar of the Bank's risk management and controls infrastructure, performing continuous reviews to improve the quality of the Bank's internal control environment, ensuring an effective balance in safety and performance of processes and adding value towards the bank's risk mitigation endeavors.

The Bank's Business Continuity Plan includes risk management strategies to mitigate inherent risk and prevent interruption of mission critical services caused by disaster event. The Bank's operational risk management infrastructure has been further strengthened through the establishment of a separate operational and risk control unit.

## 43. KEY THE ISLAMIC BANKING OPERATIONS

The Bank is operating 4 (2006: 4) Islamic banking branches in Pakistan. The balance sheet of these branches as at December 31, 2007 is as follows:

|   | 2007             | 2006             |
|---|------------------|------------------|
|   | Rupees in '000   |                  |
| <b>ASSETS</b>   |                  |                  |
| Cash and balances with treasury banks                     | 551,062          | 561,385          |
| Balances with and due from financial institutions         | 800,632          | 956,035          |
| Investments   | 432,500          | 140,228          |
| Financing and receivables                                 |                  |                  |
| - Murabaha  | 1,842,382        | 1,308,287        |
| - Ijara   | 1,820,897        | 1,392,648        |
| - Diminishing Musharaka                                   | 1,033,550        | 112,061          |
| Due from head office                                      | -                | 31,651           |
| Other assets  | 173,076          | 87,805           |
| <b>Total Assets</b>                                       | <b>6,654,099</b> | <b>4,590,100</b> |
| <b>LIABILITIES</b>  |                  |                  |
| Bills payable   | 61,806           | 21,279           |
| Deposits and other accounts                               |                  |                  |
| - Current accounts  | 344,106          | 230,250          |
| - Saving accounts   | 1,261,557        | 535,569          |
| - Term deposits   | 1,691,342        | 1,928,088        |
| - Deposit from financial institutions - remunerative      | 1,824,198        | 1,123,368        |
| - Deposits from financial institutions - non-remunerative | 30               | 24               |
| Due to head office  | 393,037          | -                |
| Other liabilities   | 538,788          | 316,686          |
| <b>Total Liabilities</b>                                  | <b>6,114,864</b> | <b>4,155,264</b> |
| <b>NET ASSETS</b>   | <b>539,235</b>   | <b>434,836</b>   |
| <b>REPRESENTED BY:</b>                                    |                  |                  |
| Islamic banking fund                                      | 401,550          | 401,523          |
| Unappropriated profit                                     | 137,685          | 33,313           |
|   | <b>539,235</b>   | <b>434,836</b>   |

|  | <b>2007</b>         | 2006                |
|--|---------------------|---------------------|
|  | Rupees in '000      |                     |
| <b>Remuneration to Shariah Advisor/Board</b> | <b><u>1,086</u></b> | <b><u>1,090</u></b> |
| <b>CHARITY FUND</b>                          |                     |                     |
| Opening balance                              | 33                  | –                   |
| Additions during the year                    | 69                  | 33                  |
| Payments/utilizaion during the year          | <u>(59)</u>         | <u>–</u>            |
| Closing balance                              | <u>43</u>           | <u>33</u>           |

#### 44. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on March 3, 2008 by the Board of Directors of the Bank.

#### 45. GENERAL

**45.1** Captions, as prescribed by BSD Circular No. 04, dated February 17, 2006 issued by the SBP, in respect of which there are no amounts have not been reproduced in these financial statements, except for the captions of the balance sheet and profit and loss account.

**45.2** Figures have been rounded off to the nearest thousand rupees.

**MUHAMMAD H. HABIB**  
Chairman

**KASSIM PAREKH**  
President & Chief Executive

**BASHIR ALI MOHAMMAD**  
Director

**ANWAR H. JAPANWALA**  
Director

**ANNEXURE I (Referred to in Note 11.5)  
DETAILS OF INVESTMENTS AS AT DECEMBER 31, 2007**

**1. MARKET TREASURY BILLS**

These securities have maturity period of 1 year, with yield ranging between 9% to 9.4 % (2006: 8.63% to 8.99%) per annum.

**2. PAKISTAN INVESTMENT BONDS**

These securities have maturity period of 3 to 10 years with interest rates ranging between 8% to 14% (2006: 8% to 14%) per annum. These include securities having book value of Rs. 158,500 thousand (2006: Rs. 158,500 thousand) pledged with the SBP and National Bank of Pakistan as security for TT discounting facility.

**3. FULLY PAID-UP ORDINARY SHARES - LISTED**

|  | 2007                              | 2006    | 2007          | 2006   | 2007          | 2006    | 2007          | 2006    |
|--|-----------------------------------|---------|---------------|--------|---------------|---------|---------------|---------|
|  | No. of shares of<br>Rs. 10/- each |         | Paid up value |        | Market value  |         | Cost          |         |
|  | Rupees in '000                    |         |               |        |               |         |               |         |
| Allied Bank Limited                            | –                                 | 39,500  | –             | 3,950  | –             | 3,693   | –             | 3,680   |
| Bank Al-Habib Limited                          | <b>84,000</b>                     | 60,000  | <b>8,400</b>  | 6,000  | <b>6,485</b>  | 4,110   | <b>3,646</b>  | 3,646   |
| D.G.Khan Cement Limited                        | –                                 | 11,000  | –             | 1,100  | –             | 692     | –             | 925     |
| Fauji Fertilizer Company Limited               | <b>95,461</b>                     | 60,461  | <b>9,546</b>  | 6,046  | <b>11,336</b> | 6,382   | <b>9,682</b>  | 6,001   |
| Hub Power Company Limited                      | –                                 | 500,000 | –             | 50,000 | –             | 13,500  | –             | 16,565  |
| Lucky Cement Limited                           | –                                 | 10,000  | –             | 1,000  | –             | 599     | –             | 790     |
| Nishat Textile Mills Limited                   | –                                 | 71,500  | –             | 7,150  | –             | 6,278   | –             | 7,622   |
| Oil and Gas Development Corporation Limited    | <b>115,000</b>                    | 125,000 | <b>11,500</b> | 12,500 | <b>13,737</b> | 14,338  | <b>13,372</b> | 14,575  |
| Pakistan Petroleum Limited                     | <b>90,000</b>                     | 35,000  | <b>9,000</b>  | 3,500  | <b>22,055</b> | 8,120   | <b>22,921</b> | 8,039   |
| Pakistan Oil Fields Limited                    | <b>25,000</b>                     | 55,000  | <b>2,500</b>  | 5,500  | <b>8,360</b>  | 19,236  | <b>8,462</b>  | 18,616  |
| Pakistan Telecommunication Corporation Limited | –                                 | 100,000 | –             | 10,000 | –             | 4,430   | –             | 4,168   |
| Pakistan State Oil Limited                     | –                                 | 23,000  | –             | 2,300  | –             | 6,762   | –             | 7,499   |
| Soneri Bank Limited                            | <b>474,768</b>                    | 365,400 | <b>47,477</b> | 36,540 | <b>20,605</b> | 17,411  | <b>12,322</b> | 12,322  |
|  |                                   |         |               |        | <b>82,578</b> | 105,551 | <b>70,405</b> | 104,448 |

|   | 2007<br>No. of shares | 2006      | 2007<br>Rupees in '000 | 2006<br>Rupees in '000 |
|---|-----------------------|-----------|------------------------|------------------------|
| <b>4. FULLY PAID-UP ORDINARY SHARES - LISTED</b>  |                       |           |                        |                        |
| Khushali Bank Limited<br>Ordinary shares of Rs. 1,000,000/- each<br>Chief Executive - Mr. Ghalib Nishtar<br>Breakup value per share Rs. 1,025,929/- based on audited accounts for the year ended December 31,2006   | <b>25</b>             | 25        | <b>25,000</b>          | 25,000                 |
| Pakistan Export Finance Guarantee<br>Ordinary shares of Rs. 10/- each<br>Chief Executive - Mr. S. M. Zaeem<br>Break-up value per share Rs. 3.5/- based on audited accounts for the year ended June 30, 2007   | <b>1,136,088</b>      | 1,136,088 | <b>11,361</b>          | 11,361                 |
| DHA Cogen Limited<br>Ordinary shares of Rs. 10/- each<br>Chief Executive - Mr. Michael Yap<br>Break-up value per share Rs. 9.85/- based on audited accounts for the year ended June 30, 2007  | <b>5,000,000</b>      | 5,000,000 | <b>50,000</b>          | 50,000                 |
| Society for World Wide Inter Bank Fund Transfer (SWIFT)<br>Ordinary shares of Euro 2,290/- each<br>Chief Executive - Mr. Pascal Deman   | <b>14</b>             | 14        | <b>1,740</b>           | 1,740                  |
|   |                       |           | <u><b>88,101</b></u>   | <u>88,101</u>          |
| <b>5. FULLY PAID-UP PREFERENCE SHARES - LISTED</b>  |                       |           |                        |                        |
| Chenab Limited<br>Preference shares of Rs. 10/- each<br>These are non-voting, cumulative preference shares redeemable by August 2008 and carry preferred dividend of 9.25% (2006:9.25%) per annum on cumulative basis and have a market value of Rs. 32,000 thousand (2006: 40,000 thousand). | <b>4,000,000</b>      | 4,000,000 | <u><b>40,000</b></u>   | <u>40,000</u>          |
|   |                       |           | 2007                   | 2006                   |
|   | No. of shares         |           | Rupees in '000         | Rupees in '000         |
| <b>6. FULLY PAID-UP PREFERENCE SHARES - LISTED</b>  |                       |           |                        |                        |
| Jamshoro Joint Venture Limited<br>Ordinary shares of Rs. 10/- each<br>These are non-voting, cumulative preference shares redeemable by August 2008 and carry preferred dividend of 15% (2006:15%) per annum on cumulative basis.  | <b>2,500,000</b>      | 2,500,000 | <u><b>25,000</b></u>   | <u>25,000</u>          |

**7. TERM FINANCE CERTIFICATES - LISTED**

|   | No. of certificates<br>of Rs. 5,000/- each |        | Market Value     |                  | Cost             |                  | Rating         |      |
|---|--|--------|------------------|------------------|------------------|------------------|----------------|------|
|   | 2007                                       | 2006   | 2007             | 2006             | 2007             | 2006             | 2007           | 2006 |
|   | Rupees in '000                             |        | Rupees in '000   |                  | Rupees in '000   |                  | Rupees in '000 |      |
| Allied Bank Limited                         | 10,000                                     | 10,000 | 54,538           | 50,000           | 49,980           | 50,000           | A+             | A    |
| Askari Commercial Bank Limited              | 5,000                                      | 5,000  | 25,474           | 25,485           | 24,975           | 24,981           | AA-            | AA   |
| Askari Commercial Bank Limited II           | 2,000                                      | 2,000  | 9,992            | 9,996            | 9,992            | 10,000           | AA-            | AA   |
| Azgard Nine Limited                         | -  | 40,000 | -                | 200,000          | -                | 200,000          | -              | A+   |
| Bank Alfalah Limited                        | 12,700                                     | 12,700 | 71,640           | 71,669           | 63,398           | 63,424           | AA-            | AA-  |
| Bank Al-Habib Limited I                     | 20,000                                     | 20,000 | 99,880           | 99,920           | 99,880           | 99,920           | AA-            | AA-  |
| Bank Al-Habib Limited II                    | 10,000                                     | 10,000 | 50,679           | 50,000           | 49,990           | 50,000           | AA-            | AA-  |
| Engro Chemical Pakistan Limited             | 20,000                                     | -      | 100,000          | -                | 100,000          | -                | AA             | -    |
| First International Investment Bank Limited | 10,000                                     | 10,000 | 49,980           | 50,000           | 49,980           | 50,000           | A+             | A+   |
| First Receivables Securitization Limited    | 5,000                                      | 5,000  | 24,995           | 25,000           | 24,995           | 25,000           | AA-            | AA-  |
| Ittehad Chemicals Limited                   | 1,714                                      | 1,714  | 2,854            | 4,453            | 2,854            | 4,282            | A-             | A    |
| Jahangir Siddiqi & Company Limited          | 7,182                                      | 7,182  | 8,967            | 26,900           | 8,967            | 26,900           | AA+            | AA+  |
| Jahangir Siddiqi & Company Limited          | 10,000                                     | 10,000 | 49,980           | 50,000           | 49,980           | 50,000           | AA+            | AA+  |
| Muslim Commercial Bank Limited              | 8,544                                      | 8,544  | 12,821           | 44,384           | 12,821           | 42,677           | A1+            | AA   |
| New Allied Electronics Industry limited     | 10,000                                     | -      | 50,000           | -                | 50,000           | -                | A-             | -    |
| NIB Bank Limited                            | 13,400                                     | -      | 67,000           | -                | 67,000           | -                | A              | -    |
| Orix Leasing Pakistan Limited II            | 10,000                                     | 10,000 | 55,489           | 55,500           | 49,990           | 50,000           | AA+            | AA+  |
| Orix Leasing Pakistan Limited III           | 40,000                                     | -      | 200,000          | -                | 200,000          | -                | AA+            | -    |
| Pak Arab Fertilizer Limited                 | 20,000                                     | -      | 100,000          | -                | 100,000          | -                | AA-            | -    |
| Pakistan Services Limited                   | 2,987                                      | 2,987  | 4,435            | 8,870            | 4,265            | 8,529            | A-             | A    |
| Prime Commercial Bank Limited               | 1,974                                      | 1,974  | 9,860            | 9,864            | 9,860            | 9,864            | A+             | A    |
| Sitara Chemical Industries Limited          | -  | 3,150  | -                | 6,105            | -                | 5,355            | -              | AA-  |
| Soneri Bank Limited                         | 17,000                                     | 17,000 | 84,915           | 84,949           | 84,915           | 84,949           | A+             | A+   |
| Standard Chartered Bank Limited             | 4,742                                      | 4,742  | 24,649           | 24,658           | 23,701           | 23,710           | AAA            | A+   |
| Sui Southern Gas Company Limited            | -  | 11,000 | -                | 10,258           | -                | 9,159            | -              | AA   |
| Trust Leasing and Investment Bank Limited   | 5,000                                      | 5,000  | 15,000           | 21,500           | 15,000           | 20,000           | AA             | AA   |
| Trust Leasing Company Limited               | 4,000                                      | 4,000  | 8,000            | 12,000           | 8,000            | 13,127           | AA-            | AA   |
| Trust Leasing Company Limited               | 5,857                                      | 5,857  | 12,010           | 20,836           | 11,172           | 19,709           | AA-            | AA   |
| United Bank Limited I                       | 10,000                                     | 10,000 | 48,558           | 49,962           | 49,942           | 50,000           | AA             | AA-  |
| United Bank Limited III                     | 5,000                                      | 5,000  | 27,001           | 25,000           | 24,990           | 24,962           | AA             | AA-  |
| WorldCall TeleCommunication Limited         | 3,600                                      | 10,600 | 17,993           | 29,493           | 17,993           | 27,994           | AA-            | AA-  |
|   |  |        | <b>1,286,710</b> | <b>1,066,802</b> | <b>1,264,640</b> | <b>1,044,542</b> |                |      |

**7.1** The term finance certificates are redeemable in quarterly/half-yearly installments and carry mark-up rates ranging from 8.5% to 12.56% (2006: 7.5% to 15.01%) per annum.

## 8. TERM FINANCE CERTIFICATES - UNLISTED

|  | 2007                                       | 2006   | 2007           | 2006           | 2007    | 2006    |
|--|--|--------|----------------|----------------|---------|---------|
|  | No. of certificates<br>of Rs. 5,000/- each |        | Rupees in '000 |                | Rating  |         |
| Avari Hotels Limited                                   | 10,133                                     | –      | 50,667         | –              | AA      | –       |
| Dewan Mushtaq Textile Mills Limited                    | –  | 10,000 | –              | 6,250          | –       | Unrated |
| Jamshoro Joint Venture Limited                         | 11,000                                     | 11,000 | 20,625         | 34,375         | A       | A+      |
| Pakistan Mobile Communication<br>(Private) Limited     | 68,000                                     | 68,000 | 189,976        | 309,992        | Unrated | AA–     |
| Pakistan International Airlines Corporation<br>Limited | 38,700                                     | 38,700 | 169,306        | 178,980        | Unrated | Unrated |
| Security Leasing Corporation Limited                   | 10,000                                     | 10,000 | 43,750         | 50,000         | –       | Unrated |
|  |  |        | <b>474,324</b> | <b>579,597</b> |         |         |

## 9. SUKUK BONDS

|                                     | 2007                                       | 2006    | Maturity<br>date                      | 2007             | 2006           | 2007    | 2006    |
|-------------------------------------|--|---------|---------------------------------------|------------------|----------------|---------|---------|
|                                     | No. of certificates<br>of Rs. 5,000/- each |         |                                       | Rupees in '000   |                | Rating  |         |
| Sui Southern Gas Company<br>Limited | 60,000                                     | –       | Mar-08, Oct-<br>12, June-17<br>Mar-08 | 300,000          | –              | Unrated | Unrated |
| Wapda                               | 155,000                                    | 105,000 |                                       | 775,000          | 525,000        | Unrated | Unrated |
|                                     |  |         |                                       | <b>1,075,000</b> | <b>525,000</b> |         |         |

These carry profit rates ranging between 9.5% to 10% (2006: 9.5% to 10%) per annum

## 10. CERTIFICATE OF INVESTMENT

Represent Certificates of investment of various financial institutions carrying mark-up rates ranging between 9.45% to 10% (2006: 10% to 12%) per annum maturing by 2008.

**11. OPEN ENDED MUTUAL FUNDS**

|   | 2007             |                  | 2006             |                  | Face Value Rs. | 2007         |           | 2006     |          | Rating |
|---|------------------|------------------|------------------|------------------|----------------|--------------|-----------|----------|----------|--------|
|   | No. of Units     |                  | Rupees in '000   |                  |                | Market Value |           | Cost     |          |        |
|   | 2007             | 2006             | 2007             | 2006             |                | 2007         | 2006      | 2007     | 2006     |        |
| AKD Index and Tracker Fund                  | 1,500,000        | -                | 19,890           | -                | 10             | 15,000       | -         | Unrated  | -        |        |
| Alfalah GHP Value Fund                      | 3,382,151        | 626,841          | 177,867          | 35,868           | 50             | 175,000      | 35,000    | Unrated  | Unrated  |        |
| Amz Plus Income Fund                        | 3,861,983        | 2,312,156        | 408,818          | 245,655          | 100            | 400,000      | 240,000   | A(f)     | A(f)     |        |
| Askari Income Fund                          | 7,660,819        | 1,444,627        | 809,059          | 153,390          | 100            | 800,000      | 150,000   | A(f)     | Unrated  |        |
| Atlas Income Fund                           | 478,176          | -                | 250,550          | -                | 500            | 250,000      | -         | 5-Star   | -        |        |
| BMA Chundrigarh Road Savings Fund           | 1,506,072        | -                | 15,515           | -                | 10             | 15,000       | -         | Unrated  | -        |        |
| Crosby Dragon Fund                          | -                | 402,644          | -                | 37,526           | -              | -            | 39,741    | -        | 1 - Star |        |
| Dawood Money Market Fund                    | 1,712,383        | 1,465,008        | 180,590          | 154,360          | 100            | 180,000      | 154,228   | 3-Star   | 5 - Star |        |
| Faysal Income and Growth Fund               | 965,826          | 527,475          | 101,557          | 56,097           | 100            | 100,000      | 50,000    | A + (f)  | A + (f)  |        |
| HBL Income Fund                             | 4,856,727        | -                | 507,819          | -                | 100            | 500,000      | -         | Unrated  | -        |        |
| IGI Income Fund                             | 2,179,708        | -                | 228,739          | -                | 100            | 225,000      | -         | Unrated  | -        |        |
| JS Aggressive Income Fund                   | 5,000,000        | -                | 50,000           | -                | 10             | 50,000       | -         | Unrated  | -        |        |
| JS Income Fund                              | 3,881,945        | -                | 410,554          | -                | 100            | 405,000      | -         | 5-Star   | -        |        |
| KASB Balance Fund                           | 2,500,000        | -                | 25,000           | -                | 50             | 25,000       | -         | Unrated  | -        |        |
| KASB Liquid Fund                            | 6,726,388        | 738,069          | 707,549          | 77,689           | 100            | 695,000      | 75,000    | Unrated  | Unrated  |        |
| MCB Dynamic Cash Fund                       | 2,236,852        | -                | 234,216          | -                | 100            | 225,000      | -         | Unrated  | -        |        |
| Meezan Islamic Fund                         | -                | 500,000          | -                | 29,775           | -              | -            | 25,000    | -        | Unrated  |        |
| *Metro Bank Pakistan Sovereign Fund         | 16,762,000       | 26,701,363       | 821,338          | 1,306,349        | 50             | 819,830      | 1,301,397 | Unrated  | 4 - Star |        |
| NAFA Cash Fund                              | 67,221,725       | 9,582,675        | 706,608          | 100,812          | 10             | 700,000      | 100,000   | 5-Star   | Unrated  |        |
| NAFA Islamic Income Fund                    | 1,500,000        | -                | 15,196           | -                | 10             | 15,000       | -         | Unrated  | -        |        |
| NAFA Islamic Multi Asset Fund               | 2,500,000        | -                | 24,341           | -                | 10             | 25,000       | -         | Unrated  | -        |        |
| National Investment Trust                   | -                | 579,701          | -                | 26,000           | -              | -            | 26,765    | -        | 4 - Star |        |
| Pakistan Income Fund                        | 7,640,879        | 11,797,901       | 401,070          | 621,631          | 50             | 400,000      | 605,000   | 4 - Star | 4 - Star |        |
| Pak Oman BOP Advantage plus Fund            | 998,942          | -                | 50,696           | -                | 50             | 50,000       | -         | A(f)     | -        |        |
| Pakistan International Element Islamic Fund | 600,556          | 1,007,444        | 32,250           | 48,226           | 50             | 25,000       | 50,000    | Unrated  | Unrated  |        |
| Pakistan Stock Market Fund                  | -                | 380,967          | -                | 31,476           | -              | -            | 32,460    | -        | 5-Star   |        |
| UBL Islamic Income Fund                     | 150,000          | -                | 15,000           | -                | 100            | 15,000       | -         | Unrated  | -        |        |
| United Money Market Fund                    | 3,373,078        | 3,413,910        | 352,955          | 358,650          | 100            | 350,000      | 350,000   | A+(f)    | A+(f)    |        |
| United Growth & Income Fund                 | 1,925,855        | 494,750          | 201,672          | 52,451           | 100            | 200,000      | 50,000    | A(f)     | Unrated  |        |
|   | <b>6,748,849</b> | <b>3,335,955</b> | <b>6,659,830</b> | <b>3,284,591</b> |                |              |           |          |          |        |

\* The Bank is also a trustee of the Fund.

## 12. CLOSE ENDED MUTUAL FUNDS

|                                       | 2007                                       | 2006      | 2007           | 2006    | 2007           | 2006    | 2007           | 2006    |
|---------------------------------------|--|-----------|----------------|---------|----------------|---------|----------------|---------|
|                                       | No. of certificates<br>of Rs. 5,000/- each |           | Market Value   |         | Cost           |         | Rating         |         |
|                                       |  |           | Rupees in '000 |         |                |         |                |         |
| AKD Mutual Fund                       | -  | 2,500,000 | -              | 24,750  | -              | 25,000  | -              | Unrated |
| BMA Principal<br>Guaranteed Fund - I  | <b>5,254,950</b>                           | 5,000,000 | <b>47,557</b>  | 50,000  | <b>49,575</b>  | 50,000  | <b>Unrated</b> | AA-     |
| Intersecurities Islamic<br>Fund       | <b>250,000</b>                             | -         | <b>2,569</b>   | -       | <b>2,500</b>   | -       | <b>Unrated</b> | -       |
| Meezan Balanced<br>Fund               | <b>2,500,000</b>                           | 2,500,000 | <b>21,000</b>  | 21,500  | <b>25,000</b>  | 25,000  | <b>5-Star</b>  | 5-Star  |
| Pakistan Strategic<br>Allocation Fund | <b>3,087,000</b>                           | 3,087,000 | <b>28,092</b>  | 26,240  | <b>30,868</b>  | 30,868  | <b>4-Star</b>  | 4-Star  |
| PICIC Energy Fund                     | <b>4,200,000</b>                           | 4,200,000 | <b>31,500</b>  | 32,340  | <b>42,000</b>  | 42,000  | <b>Unrated</b> | Unrated |
| PICIC Growth Fund                     | <b>42,000</b>                              | 42,000    | <b>1,197</b>   | 1,182   | <b>1,946</b>   | 1,946   | <b>2-Star</b>  | Unrated |
| UTP-Large Capital<br>Fund             | <b>2,820,500</b>                           | 2,700,000 | <b>22,846</b>  | 21,600  | <b>27,959</b>  | 27,000  | <b>4-Star</b>  | 4-Star  |
|                                       |  |           | <b>154,761</b> | 177,612 | <b>179,848</b> | 201,814 |                |         |

**ANNEXURE II (Referred to in Note 12.8)  
STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF  
OF RS. 500,000/- OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2007**

| S. No.       | Name and address of the borrower   | Name of Individuals/<br>partners/directors<br>(with NIC No.)  | Father's/Husband's Name   | Outstanding liabilities at beginning of the year |                      |                          | Total         |               |               |
|--------------|--|---|---|--|----------------------|--------------------------|---------------|---------------|---------------|
|              |  |   |   | Principal  | Interest/<br>mark-up | Principal<br>written-off |               |               |               |
| 1.           | Knitwear Crafters (Private) Limited<br>Plot No. 220, Sector 23,<br>Korangi Industrial Area,<br>Karachi.              | Abdul Ghaffar Dewan<br>42301-5801884-1<br>Muhammad Javed Dewan<br>518-56-305957   | s/o Ali Mohammad Dewan<br><br>s/o Ali Mohammad Dewan  | 26,004   | 14,385               | 25,504                   | 40,389        | 14,385        | 39,889        |
| 2.           | Sabcos (Private) Limited<br>A/12, S.I.T.E Street # 5,<br>Mangopir Road,<br>Karachi.                                  | Abdul Qayoom Ahmedani<br>516-90-144387<br>Haji Abdul Ghaffar<br>517-28-220892<br>Haji M. Jamal<br>517-86-104043<br>Mohammad Yaqoob<br>517-85-147457<br>Muhammad Junaid<br>517-86-101538 | s/o Haji Yaqoob<br><br>s/o Haji Abdul Shakoor<br><br>s/o Haji Rauf<br><br>s/o Haji Abdul Ghaffar<br><br>s/o Haji Rauf | 7,300  | 166                  | 3,800                    | 7,466         | 166           | 3,966         |
| 3.           | N.P. Waterproof Textil Mills<br>(Private) Limited<br>704, 7th Floor, Uni Tower,<br>I. I. Chundrigar Road,<br>Karachi | Sheikh Zikr-ur-Rehman<br>517-44-142658<br>Rehana Begum<br>517-50-145919<br>Junaid Rehman<br>517-92-453333   | s/o Sheikh M. Yahya<br><br>w/o Sheikh Zikrur Rehman<br><br>s/o Sheikh Zikrur Rehman                                   | 7,573  | 15,831               | 6,123                    | 23,404        | 15,831        | 21,954        |
| <b>Total</b> |  |   |   | <b>40,877</b>                                    | <b>30,382</b>        | <b>35,427</b>            | <b>71,259</b> | <b>30,382</b> | <b>65,809</b> |