1. STATUS AND NATURE OF BUSINESS

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

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

2. (a) BASIS OF PRESENTATION

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

(b) BASIS OF MEASUREMENT

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

3. STATEMENT OF COMPLIANCE

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

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

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

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

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

5.2 Lendings to/borrowings from financial institutions

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

(a) Sale under re-purchase agreements

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

(b) Purchase under resale agreements

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

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

5.3 Investments

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

(a) Held for trading

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

(b) Held to maturity

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

(c) Available for sale

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

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

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

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

Quoted securities are revalued as per directives of SBP.

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

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

5.4 Advances (including net investment in finance lease)

Advances are stated net of general and specific provisions.

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

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

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

5.5 Operating fixed assets and depreciation

Owned

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

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

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

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

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

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

Intangible assets

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

Capital work-in-progress

Capital work– in– progress is stated at cost.

5.6 Taxation

Current

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

Deferred

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

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

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

5.7 Staff retirement and other benefits

5.7.1 Staff retirement schemes

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

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

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

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

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

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

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

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

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

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

5.7.2 Other benefits

a) Employees’ compensated absences

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

b) Post retirement medical benefits

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

5.8 Assets acquired in satisfaction of claims

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

5.9 Deposits

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

5.10 Subordinated Loans

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

5.11 Impairment

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

5.12 Provisions

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

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

5.13 Stock and cash dividends

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

5.14 Foreign currencies

a) Functional and presentation currency

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

b) Foreign currency transactions

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

c) Translation gains and losses

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

d) Commitments

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

5.15 Financial instruments

5.15.1 Financial assets and liabilities

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

5.15.2 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently re–measured at fair value using appropriate valuation techniques. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value of derivative financial instruments is taken to profit and loss account.

5.16 Off setting

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

5.17 Recognition

5.17.1 Trade date accounting

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

5.17.2 Revenue recognition

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

a) Advances and investments

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

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

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

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

b) Lease financing

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

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

c) Fees, brokerage and commission

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

5.18 Segment reporting

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

5.18.1 Business segments

a) Corporate finance

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

b) Trading and sales

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

c) Retail banking

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

d) Commercial banking

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

e) Payment and settlement

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

5.18.2 Geographical segments

The Bank conducts all its operations in Pakistan.

5.19 Related party transactions

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

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

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

6.2 This represents US Dollar Settelment Account maintained with SBP.

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

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

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

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

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

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

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

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

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

8.6 Securities held as collateral against lending to financial institutions

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

9. INVESTMENTS

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

Rupees in '000	Note	December 31, 2007	December 31, 2006
9.2 Investments by segments:			
Federal Government Securities:			
– Market Treasury Bills	9.2.1& 9.2.2	37,479,862	23,331,425
– Pakistan Investment Bonds		11,553,520	14,185,820
– Federal Investment Bonds		–	5,000
– Foreign Currency Bonds (US$)		160,010	212,087
Fully Paid up Ordinary Shares:			
– Listed Companies		1,635,465	1,725,150
– Unlisted Companies	9.2.3	533,318	468,318
Investment in Open End Mutual Funds		19,606,845	266,229
Fully paid up Preference Shares	9.2.4	275,000	275,000
Pre IPO Investments		2,514,900	305,000
Privately placed Investments		1,890,918	250,000
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
Term Finance Certificates			
– Listed		1,013,140	1,676,436
– Unlisted		1,744,476	3,262,128
Debentures		65,184	65,392
Bonds – Government guaranteed		410,280	938,497
– Others		4,820,000	238,645
Participation Term Certificates		6,912	7,023
Subsidiary		500,000	62,488
Total investments at cost		84,209,830	47,274,638
Less: Provision for diminution in the value of investment	9.3	(192,290)	(203,038)
Investments (Net of Provisions)		84,017,540	47,071,600
Unrealized loss on revaluation of Held–for–trading securities	9.5	(1,463)	(30,180)
Deficit on revaluation of Available–for–sale securities	20.2	(57,614)	(88,179)
Total investments at market value		83,958,463	46,953,241

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

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

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

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

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

Rupees in '000	December 31, 2007	December 31, 2006
9.3 Particulars of Provision		
Opening balance	203,038	342,115
Charge for the year	9,130	24
Reversals	(8,411)	(14,647)
Net charge / (reversal)	719	(14,623)
Amounts written off	(11,467)	(124,454)
Closing balance	192,290	203,038

	December 31, 2007	December 31, 2006
9.3.1 Particulars of Provision in respect of Type and Segment		
By Type		
Available–for–sale securities		
Ordinary shares of listed companies	59,543	65,298
Ordinary shares of unlisted companies	13,873	4,743
	73,416	70,041
Held–to–maturity securities		
TFCs, Debentures, Bonds and PTCs	118,874	132,997
	192,290	203,038
By Segment		
Fully Paid up Ordinary Shares:		
– Listed companies	59,543	65,298
– Unlisted companies	13,873	4,743
	73,416	70,041
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:		
Term Finance Certificates – unlisted	46,778	60,582
Debentures	65,184	65,392
Participation Term Certificates	6,912	7,023
	118,874	132,997
	192,290	203,038

9.4 Quality of Available for Sale Securities

Information relating to quality of available for sale securities required to be disclosed as part of the financial statements under SBP's BSD Circular No. 4 dated February 17, 2006, is given in Annexure "I", which is an integral part of these financial statements.

Rupees in '000	Note	December 31, 2007	December 31, 2006
9.5 Unrealized loss on revaluation of investments classified as held for trading			
Ordinary shares of listed companies		(1,463)	(30,180)
10. ADVANCES			
Loans, cash credits, running finances, etc. - in Pakistan		170,743,654	143,383,499
Net investment in finance lease - in Pakistan	10.2	741,148	777,878
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,455,922	2,942,960
Payable outside Pakistan		3,256,536	3,493,264
		4,712,458	6,436,224
		176,197,260	150,597,601
Financing in respect of continuous funding system (CFS)	10.3	2,327,097	1,107,817
Advances - gross		178,524,357	151,705,418
Provision for non-performing advances	10.5.1	(10,103,954)	(7,657,737)
General provision for consumer financing	10.5.2	(13,123)	(14,047)
Advances - net of provision		168,407,280	144,033,634

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

10.2 Net investment in finance lease

	December 31, 2007				December 31, 2006			
Rupees in '000	Not later than one Year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
Lease rentals receivable	332,529	374,697	–	707,226	317,623	455,475	–	773,098
Residual value	33,341	108,030	–	141,371	47,653	94,295	–	141,948
Minimum lease payments	365,870	482,727	–	848,597	365,276	549,770	–	915,046
Financial charges for future periods	(63,243)	(44,206)	–	(107,449)	(67,503)	(69,665)	–	(137,168)
Present value of minimum lease payments	302,627	438,521	–	741,148	297,773	480,105	–	777,878

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

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

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

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

10.5 Particulars of provision against non-performing advances

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

10.5.2

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

10.5.3 Particulars of provisions against non–performing advances

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

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

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

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

10.7 Details of loan write off of Rs. 500,000/- and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees and above allowed to a person(s) during the year ended December 31, 2007 is given in Annexure - II. However, this write off does not affect the Bank's right to recover debts from these customers.

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

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

11.2 Property and equipment

		Cost/Revaluation			Accumulated Depreciation				
Description	Note	At January 1, 2007	Additions/ (deletions)	At December 31, 2007	At January 1, 2007	Charge for the year/ adjustment/ (depreciation on deletions)	At December 31, 2007	Net book value at December 31, 2007	Annual rate of depreciation %
Rupees in '000									
Land	11.4	3,704,167	348,488	4,038,202	–	–	–	4,038,202	–
			(14,453)			–			
Buildings	11.4	1,538,382	272,262	1,810,644	136,593	77,439	214,032	1,596,612	5
			–						
Furniture and fixtures		361,256	36,533	386,792	275,286	20,824	287,506	99,286	10
			(10,997)			(8,604)			
Electrical, office and computer equipment		1,149,681	367,850	1,500,487	703,797	162,299	849,179	651,308	14.28 – 50
			(17,044)			(16,917)			
Vehicles		348,509	76,854	347,539	125,708	57,591	137,226	210,313	20
			(77,824)			(46,073)			
Building improvements (rented premises)		52,095	58,975	111,070	13,320	14,813	28,133	82,937	20
Total		7,154,090	1,160,962	8,194,734	1,254,704	332,966	1,516,076	6,678,658	
			(120,318)			(71,594)			

		Cost/Revaluation			Accumulated Depreciation				
Description	Note	At January 1, 2006	Additions/ (deletions)	At December 31, 2006	At January 1, 2006	Charge for the year/ adjustment/ (depreciation on deletions)	At December 31, 2006	Net book value at December 31, 2006	Annual rate of depreciation %
Rupees in '000									
Land	11.4	2,882,599	852,585	3,704,167	–	–	–	3,704,167	–
			(31,017)			–			
Buildings	11.4	1,256,759	284,919	1,538,382	75,293	61,465	136,593	1,401,789	5
			(3,296)			(165)			
Furniture and fixtures		367,198	8,650	361,256	265,015	23,801	275,286	85,970	10
			(14,592)			(13,530)			
Electrical, office and computer equipment		891,789	280,917	1,149,681	614,306	110,697	703,797	445,884	14.28 – 50
			(23,025)			(21,206)			
Vehicles		219,749	201,839	348,509	152,924	28,388	125,708	222,801	20
			(73,079)			(55,604)			
Building improvements (rented premises)		25,932	26,163	52,095	6,226	7,094	13,320	38,775	20
Total		5,644,026	1,655,073	7,154,090	1,113,764	231,445	1,254,704	5,899,386	
			(145,009)			(90,505)			

11.3 Intangible assets

Description	Cost: At January 01, 2007	Cost: Additions/ (deletion)	Cost: At December 31, 2007	Accumulated Amortization: At January 01, 2007	Accumulated Amortization: Amortization/ (amortization on deletion)	Accumulated Amortization: At December 31, 2007	Net book value at December 31, 2007	Rate of amortization %
Rupees in '000								
Computer software	56,890	17,020 (270)	73,640	27,212	8,690 (270)	35,632	38,008	14.28

Description	Cost: At January 01, 2006	Cost: Additions/ (deletion)	Cost: At December 31, 2006	Accumulated Amortization: At January 01, 2006	Accumulated Amortization: Amortization/ (amortization on deletion)	Accumulated Amortization: At December 31, 2006	Net book value at December 31, 2006	Rate of amortization %
Rupees in '000								
Computer software	46,733	10,157	56,890	19,776	7,436	27,212	29,678	14.28

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

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

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

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

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

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

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

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

11.13 Disposal of fixed assets

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

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

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

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

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

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

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

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

Rupees in '000	Note	December 31, 2007	December 31, 2006
15. BORROWINGS			
In Pakistan		22,878,061	18,033,050
Outside Pakistan		55,595	377,375
		22,933,656	18,410,425

15.1 Particulars of borrowings with respect to Currencies

In local currency		22,878,061	18,033,050
In foreign currencies		55,595	377,375
		22,933,656	18,410,425

15.2 Details of borrowings Secured/Unsecured

Secured			
Borrowings from financial institutions		15,000	14,500
Borrowings from State Bank of Pakistan			
Under export refinance scheme	15.3	4,509,834	5,555,134
LTF – EOP	15.4	4,021,644	3,907,552
		8,531,478	9,462,686
Repurchase agreement borrowings	15.5	12,231,583	4,855,864
Unsecured			
Call borrowings	15.6	2,100,000	3,700,000
Overdrawn nostro accounts	15.7	55,595	377,375
		2,155,595	4,077,375
		22,933,656	18,410,425

15.3 The Bank has entered into various agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreements, the Bank has granted the SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with the SBP. These carry interest at the rate of 6.5% (2006: ranging between 6.5% and 7.5%) per annum. These borrowings are repayable within six months from the deal date.

15.4 This represents Long Term Financing against Export Oriented Projects (LTF–EOP) availed by the Bank for further extending the same to its customers for export oriented projects, for a maximum period of 7.5 years. The loan repayments to SBP correspond the respective repayment from customers. The loan carries mark–up ranging from 4% to 5% (2006: 4% to 5 %) per annum.

15.5 These represent funds borrowed from the local interbank market against government securities, carrying mark–up at rates, ranging between 9.35% and 10.00% (2006: 8.00% and 8.85%) per annum maturing on various dates, latest by January 31, 2008.

15.6 These represent unsecured borrowings from the local interbank market, carrying mark–up at rates, ranging between 9.30% and 10.25% (2006: 10.35% and 11.25%) per annum maturing on various dates, latest by April 03, 2008.

15.7 Included in overdrawn nostro accounts are balances, aggregating to Rs. Nil (2006: Rs. 144.05 million), representing balances held with a related party outside Pakistan.

Rupees in '000	December 31, 2007	December 31, 2006
16. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	72,912,363	53,304,136
Savings deposits	71,255,336	66,954,303
Current accounts – Remunerative	42,351,315	23,028,853
– Non–remunerative	67,742,105	56,422,618
	254,261,119	199,709,910
Financial Institutions		
Remunerative deposits	9,711,263	6,321,414
	263,972,382	206,031,324

Rupees in '000		December 31, 2007	December 31, 2006
16.1	**Particulars of deposits**		
	In local currency	250,079,804	198,931,209
	In foreign currencies	13,892,578	7,100,115
		263,972,382	206,031,324

17. SUB–ORDINATED LOANS

	Term Finance Certificates – Unsecured	2,499,000	2,500,000

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

Other salient features of the issue are as follows:

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

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

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

19. SHARE CAPITAL

19.1 Authorized Capital

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

19.2 Issued, subscribed and paid-up capital

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

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

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

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

Rupees in '000		Note	December 31, 2007	December 31, 2006
20.2	Surplus/(Deficit) on revaluation of Available–for–sale securities			
	Federal Government Securities			
	Market Treasury Bills		(62,104)	(15,715)
	Pakistan Investment Bonds		(2,577)	(2,240)
	Term Finance Certificates – Listed		19,921	7,298
	Shares/Certificates – Listed		(79,261)	(97,150)
	Mutual Funds		66,407	19,628
		9.1	(57,614)	(88,179)
	Less : Related deferred tax asset		20,165	6,284
			(37,449)	(81,895)

21. CONTINGENCIES AND COMMITMENTS

		December 31, 2007	December 31, 2006
21.1	Direct credit substitutes		
	Guarantees in favour of:		
	Banks and financial institutions	1,971,776	1,761,869
21.2	Transaction–related contingent liabilities		
	Guarantees in favour of:		
	Government	4,040,048	1,986,614
	Others	6,235,919	4,761,103
		10,275,967	6,747,717
21.3	Trade–related contingent liabilities	83,037,690	38,142,108
21.4	Claims against the Bank not acknowledged as debt	3,058,291	2,738,318

21.5 The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

Rupees in '000		December 31, 2007	December 31, 2006
21.6	Commitments in respect of forward foreign exchange contracts		
	Purchase	10,998,473	6,983,267
	Sale	4,763,749	3,266,742
21.7	Commitments in respect of:		
	Civil works	752,139	294,037
	Acquisition of operating fixed assets	168,654	1,149,408
21.8	Commitments in respect of lease financing	188,174	150,384
21.9	Commitments in respect of:		
	Forward lending	1,000,000	–
	Forward borrowing	–	1,853,461
		1,000,000	1,853,461
21.10	Commitments in respect of lending against CFS	733	250,824
21.11	Commitments in respect of purchase of shares	865,000	–

21.12 Other Contingencies

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

a) While finalizing income tax assessments up to the assessment year 2000-2001, the Income Tax Authorities made certain add backs with a tax impact of Rs. 278 million. As a result of appeals filed by the Bank before the Appellate Authorities, these add-backs were set-aside with a tax impact of Rs. 125 million. The appeal effect orders with regard to the above matters are pending.

b) The assessments from Assessment Year 2001-2002 to Tax Year 2005 have been finalized with net additional tax liability of Rs. 4,684 million. As a result of the appeals filed by the Bank before the Appellate Authorities, various additions having tax impact of Rs. 4,718 million and Rs. 2,424 million have been deleted and set-aside by the Appellate Authorities, respectively. The appeal effect orders with regard to the above matters are pending.

c) The assessment for Tax Year 2006 has been finalized with net additional tax liability of Rs. 671 million. However, the Bank has filed appeal against the above referred order before the Appellate Authority.

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

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

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

22. DERIVATIVE INSTRUMENTS

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

- Forward Exchange Contracts
- Foreign Exchange Swaps
- Equity Futures

Forward Exchange Contracts (with Importers and Exporters)

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

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

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

Foreign Exchange Swaps

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

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

Equity Futures

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

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

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

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

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

28.1 Auditors' remuneration

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

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

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

Rupees in '000	Note	December 31, 2007	December 31, 2006
29. OTHER CHARGES			
Penalties imposed by SBP		256,869	7,078
30. TAXATION			
Current – for the year		1,887,299	2,215,092
– for prior years		–	–
		1,887,299	2,215,092
Deferred		(10,381)	48,752
		1,876,918	2,263,844

30.1 Relationship between tax expense and accounting profit

Accounting profit for the current year		5,953,076	6,661,094
Tax on income @ 35% (2006 : 35%)		2,083,577	2,331,383
Effect of permanent differences		170,404	65,477
Effect of exempt income		(298,268)	(91,085)
Adjustments in respect of tax on reduced rates		(18,824)	(36,804)
Others		(59,971)	(5,127)
Tax charge for the current year		1,876,918	2,263,844
31. EARNINGS PER SHARE – BASIC AND DILUTED			
Profit after taxation		4,076,158	4,397,250
		Number of Shares	
Weighted average number of Ordinary shares outstanding during the year	31.1	538,636,938	538,636,938
		Rupees	
Earnings per share – basic and diluted		7.57	8.16

There is no dilution effect on basic earnings per share.

31.1 The comparative figure of weighted average number of shares outstanding has been restated to include the effect of bonus shares issued by the Bank during the year.

Rupees in '000	Note	December 31, 2007	December 31, 2006
32. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	29,739,857	23,042,011
Balances with other banks	7	668,449	1,703,011
Overdrawn nostro accounts	15	(55,595)	(377,375)
		30,352,711	24,367,647

	December 31, 2007	December 31, 2006
	Number	
33. STAFF STRENGTH		
Permanent	8,181	7,139
Temporary/on contractual basis/trainee	55	65
Bank's own staff strength at the end of the year	8,236	7,204
Outsourced	2,061	1,675
Total Staff strength	10,297	8,879

34 DEFINED BENEFIT PLANS

34.1 General description

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

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

34.2 Number of Employees under the schemes

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

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

34.3 Principal actuarial assumptions

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

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

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

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

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

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

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

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

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

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

34.6 Reconciliation of present value of defined benefit obligations

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

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

34.7 Reconciliation of fair value of plan assets

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

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

34.8 Composition of fair value of plan assets

Rupees in '000	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
	December 31, 2007			
Government securities	3,447,938	19,492	335,540	–
Listed shares *	1,344,419	166,671	160,354	–
Bank balances *	946,365	289,194	196,264	–
	5,738,722	475,357	692,158	–
*Fair value of Bank's financial instruments included in plan assets				
Shares of ABL	524,607	25,601	–	–
Bank balances with ABL	946,365	289,194	196,264	–
	1,470,972	314,795	196,264	–

Rupees in '000	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
	December 31, 2006			
Government securities	4,394,299	46,055	364,410	–
Bank balances *	761,598	347,944	246,401	–
	5,155,897	393,999	610,811	–
*Fair value of Bank's financial instruments included in plan assets				
Shares of ABL	–	–	–	–
Bank balances with ABL	761,598	347,944	246,401	–
	761,598	347,944	246,401	–

34.9 Charge for defined benefit plan

Rupees in '000	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
	December 31, 2007			
Current service cost	–	77,343	19,174	42,926
Interest cost	329,525	46,356	53,222	145,887
Expected return on plan assets	(515,590)	(39,400)	(61,081)	–
Actuarial (gains)/losses	(30,136)	–	1,375	20,001
Contributions – employee	–	–	(36,280)	–
Benefit of the surplus not available to the bank	–	–	29,935	–
	(216,201)	84,299	6,345	208,814

Rupees in '000	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
	December 31, 2006			
Current service cost	–	75,048	15,770	41,460
Interest cost	324,455	37,652	55,940	129,222
Expected return on plan assets	(547,565)	(28,616)	(56,348)	–
Actuarial (gains)/losses	(74,965)	–	3,885	17,363
Contributions – employee	–	–	(32,918)	–
Benefit of the surplus not available to the Bank	–	–	43,890	–
	(298,075)	84,084	30,219	188,045

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

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

34.11 Five year data of defined benefit plan and experience adjustments

Pension fund Rupees in '000	2007	2006	2005	2004	2003
Present value of defined benefit obligation	3,461,993	3,295,249	3,244,547	3,862,879	4,257,746
Fair value of plan assets	(5,738,722)	(5,155,897)	(5,475,648)	(5,635,568)	(5,223,596)
(Surplus) / deficit	(2,276,729)	(1,860,648)	(2,231,101)	(1,772,689)	(965,850)
Experience adjustments on plan obligations / assets					
Actuarial gain / (loss) on obligation	(219,179)	(63,723)	636,805	428,741	(1,120,021)
Actuarial gain / (loss) on assets	449,195	(529,840)	(360,464)	310,488	1,803,811

Gratuity fund Rupees in '000	2007	2006	2005	2004	2003
Present value of defined benefit obligation	574,685	463,564	376,520	294,852	216,995
Fair value of plan assets	(475,357)	(393,999)	(286,159)	(211,816)	(110,874)
(Surplus) / deficit	99,328	69,565	90,361	83,036	106,121
Experience adjustments on plan obligations / assets					
Actuarial gain / (loss) on obligation	(22,810)	1,848	1,362	101,325	(18,741)
Actuarial gain / (loss) on assets	(28,678)	19,193	(1,362)	7,318	(79,807)

Benevolent fund Rupees in '000	2007	2006	2005	2004	2003
Present value of defined benefit obligation	557,296	532,218	559,397	545,574	583,430
Fair value of plan assets	(692,158)	(610,811)	(563,483)	(504,731)	(501,864)
(Surplus) / deficit	(134,862)	(78,593)	(4,086)	40,843	81,566
Experience adjustments on plan obligations / assets					
Actuarial gain / (loss) on obligation	1,424	51,450	(2,126)	50,519	(600,716)
Actuarial gain / (loss) on assets	(6,400)	(27,417)	2,126	(49,592)	485,637

Post retirement medical Rupees in '000	2007	2006	2005	2004	2003
Present value of defined benefit obligation	1,624,176	1,458,865	1,292,221	1,224,870	1,164,760
Fair value of plan assets	-	-	-	-	-
(Surplus) / deficit	1,624,176	1,458,865	1,292,221	1,224,870	1,164,760
Experience adjustments on plan obligations / assets					
Actuarial gain / (loss) on obligation	(62,511)	(68,312)	-	1,398	(106,284)

34.12 Employees' compensated absences

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

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

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

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

35. DEFINED CONTRIBUTION PLAN

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

36. COMPENSATION OF DIRECTORS AND EXECUTIVES

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

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

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

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

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

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

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

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

39. RELATED PARTY TRANSACTIONS

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

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

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

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

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

40. CAPITAL ADEQUACY

40.1 Capital Management

Objectives of Managing Capital

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

Bank's capital management seeks:

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

Externally Imposed Capital Requirements

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

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

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

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

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

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

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

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

The required capital is achieved by the Bank through:

(a) enhancement in the risk profile of asset mix at the existing volume level;
(b) ensuring better recovery management; and
(c) maintain acceptable profit margins.

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

40.2 Capital adequacy ratio

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

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

Risk–Weighted Exposures

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

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

41. RISK MANAGEMENT

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

Categories of Risk

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

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

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

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

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

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

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

Risk Responsibilities

– The Board of Directors is accountable for overall supervision of the risk management process. This is discharged by distributing responsibilities at Board level for their management and determining the manner in which risk authorities are set. The Board is also responsible for approval of all risk policies and ensuring that these are properly implemented. Further, the Board shall also seek appointment of senior management personnel capable of managing the risk activities conducted by the Bank.

– The Board Risk Management Committee (BRMC) is responsible for ensuring that the overall risk strategy and appetite of the Bank is appropriately defined in the Strategic Plan and recommend the same to the Board of Directors.

– The BRMC recommends for approval to the Board of Directors the policies proposed by MANCO (Management Committee of the Bank) which discharges various responsibilities assigned to it by the BRMC.

– The President and Group Chiefs are accountable for the management of risk collectively through their membership of risk committees i.e. Management Committee and the Asset & Liability Committee. Independent supervision of risk management activities is provided by the Audit Committee.

– The Risk Management Group is headed by a Group Chief responsible to set–up and implement the Framework of the Bank.

Risk Management Group Organization

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

41.1 Credit Risk

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

The Bank manages 3 principal sources of credit risk:

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

Sovereign Credit Risk

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

Non–Sovereign Credit Risk

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

Counter Party Credit Risk on Interbank Limits

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

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

Country Risk

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

Credit Administration

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

Risk Analytics

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

Internal Risk Rating Models

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

Stress Testing

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

Early Warning System

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

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

Management of Non Performing Loans

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

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

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

Portfolio Diversification

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

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

41.1.1 Segmental Information

41.1.1.1 Segments by class of business

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

41.1.1.2 Segments by sector

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

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

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

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

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

41.1.1.5 Geographical Segment Analysis

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

41.2 Market Risk

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

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

Market Risk Pertaining to the Trading Book

Trading Book

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

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

Risk Pertaining to Banking Book Investment Portfolio

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

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

Treasury investments parked in the banking book include:

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

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

Interest Rate Risk – Banking Book

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

Equity Position Risk – Banking Book

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

Stress Testing

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

Duration GAP Analysis

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

Market Risk Capital Charge

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

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

41.2.1 Foreign Exchange Risk

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

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

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

41.2.2 Equity Position Risk

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

Concentration Risk

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

Price Risk

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

41.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

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

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

41.3 Liquidity Risk

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

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

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

41.3.1 Maturities of Assets and Liabilities

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

	December 31, 2007									
Rupees in '000	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Assets										
Cash and balances with treasury banks	29,739,857	29,739,857	–	–	–	–	–	–	–	–
Balances with other banks	668,449	668,449	–	–	–	–	–	–	–	–
Lendings to financial institutions	18,419,241	14,354,479	4,064,762	–	–	–	–	–	–	–
Investments	83,958,463	5,665,425	17,997,491	10,411,424	8,362,387	24,327,425	1,738,973	9,899,686	4,482,076	1,073,576
Advances	168,407,280	23,632,878	35,731,127	10,325,079	42,328,286	13,511,777	10,700,959	15,514,401	12,327,943	4,334,830
Operating fixed assets	7,548,628	30,264	60,528	90,792	181,585	1,123,861	242,452	349,226	420,218	5,049,702
Deferred tax assets	662,431	197,931	14,290	14,128	17,885	57,367	27,851	53,463	22,832	256,684
Other assets	10,705,374	1,384,449	1,211,008	2,666,112	4,192,222	21,290	21,290	42,580	106,450	1,059,973
	320,109,723	75,673,732	59,079,206	23,507,535	55,082,365	39,041,720	12,731,525	25,859,356	17,359,519	11,774,765
Liabilities										
Bills payable	3,494,384	3,494,384	–	–	–	–	–	–	–	–
Borrowings	22,933,656	12,404,504	2,308,839	5,029,153	951,313	1,116,464	644,814	282,617	195,952	–
Deposits and other accounts	263,972,382	48,461,991	53,579,823	29,565,060	27,682,616	24,834,784	28,848,192	16,174,661	19,257,541	15,567,714
Sub–ordinated loans	2,499,000	–	–	500	500	1,000	1,000	2,000	2,494,000	–
Other liabilities	7,332,059	3,156,440	1,797,499	121,419	167,826	189,409	176,018	297,321	715,668	710,459
	300,231,481	67,517,319	57,686,161	34,716,132	28,802,255	26,141,657	29,670,024	16,756,599	22,663,161	16,278,173
Net assets/(liabilities)	19,878,242	8,156,413	1,393,045	(11,208,597)	26,280,110	12,900,063	(16,938,499)	9,102,757	(5,303,642)	(4,503,408)

Share capital	5,386,370
Reserves	6,050,713
Unappropriated profit	6,971,308
Surplus on revaluation of assets – net of tax	1,469,851
	19,878,242

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

41.4 Operational Risk

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

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

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

42. LIQUIDATION OF ALLIED MANAGEMENT SERVICES (PRIVATE) LIMITED

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

43. RECLASSIFICATION

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

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

44. NON ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

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

45. GENERAL

45.1 These accounts have been prepared in accordance with the revised forms of annual financial statements of the banks issued by the State Bank of Pakistan through its BSD Circular No. 04 dated February 17, 2006.

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

46. DATE OF AUTHORIZATION FOR ISSUE

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

Chief Financial Officer

President and Chief Executive

Director

Director

Chairman