



JS Bank Limited  
Annual Report 2007



**JS Bank Limited**

Head office:  
Shaheen Commercial Complex  
Dr. Ziauddin Ahmed Road, P.O. Box 4847  
Karachi-74200, Pakistan  
[www.jsbl.com](http://www.jsbl.com)

**Phone:** +92 21 263 0343-49  
**UAN:** +92 21 111-JS-BANK (111-57-2265)  
**Fax:** +92 21 253 1803



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## MISSION

To be a preferred partner of our customers by providing complete financial solutions exceeding service expectations, through a single relationship via conventional and non- conventional, conveniently accessible distribution channels, exceeding service expectation.



# VISION

To provide quality and innovative range of banking services and products to our customers by a highly motivated team of professionals whilst maintaining high ethical and regulatory standards thereby, generating sustainable returns to the shareholders.

## Company Information

|  |   |   |
|--|---|---|
| <b>Board of Directors</b>                      | <b>Mr. Jahangir Siddiqui</b><br><b>Mr. Mazhar-ul-Haq Siddiqui</b><br><b>Mr. Maqbool A. Soomro</b><br><b>Mr. Ashraf Nawabi</b><br><b>Mr. Rafique R. Bhimjee</b><br><b>Syed Amjad Ali</b><br><b>Mr. Basir Shamsie</b> | Chairman  |
| <b>President &amp; Chief Executive Officer</b> | <b>Mr. Naveed Qazi</b>  |   |
| <b>Audit Committee</b>                         | <b>Mr. Jahangir Siddiqui</b><br><b>Mr. Maqbool A. Soomro</b><br><b>Mr. Rafique R. Bhimjee</b><br><b>Mr. Sajid Hussain</b>   | Chairman<br>Member<br>Member<br>Secretary           |
| <b>Human Resource Committee</b>                | <b>Mr. Jahangir Siddiqui</b><br><b>Mr. Naveed Qazi</b><br><b>Syed Muhammad Shoaib Omair</b>   | Chairman<br>Member<br>Member/Secretary              |
| <b>Risk Management Committee</b>               | <b>Mr. Jahangir Siddiqui</b><br><b>Mr. Naveed Qazi</b><br><b>Mr. Ashraf Nawabi</b><br><b>Syed Amjad Ali</b><br><b>Mr. Akbar Hasan Khan</b>  | Chairman<br>Member<br>Member<br>Member<br>Secretary |
| <b>Company Secretary</b>                       | <b>Mr. Muhammad Yousuf Amanullah</b>  |   |
| <b>Auditors</b>                                | <b>Ford Rhodes Sidat Hyder &amp; Co.</b><br><b>Chartered Accountants</b>  |   |
| <b>Legal Advisors</b>                          | <b>Bawaney &amp; Partners</b><br><b>Liaquat Merchant Associates</b>   |   |
| <b>Share Registrar</b>                         | <b>Technology Trade (Pvt.) Limited</b><br>241-C, Block-2, P.E.C.H.S., Karachi.  |   |
| <b>Registered Office</b>                       | <b>JS Bank Limited</b><br>Shaheen Commercial Complex Dr. Ziauddin Ahmed Road<br>P.O. Box 4847 Karachi-74200, Pakistan.  |   |



## NOTICE OF SECOND ANNUAL GENERAL MEETING

Notice is hereby given that the second Annual General Meeting of the Shareholders of JS Bank Limited will be held on 29th March, 2008 at 09:00 am at Beach Luxury Hotel, Karachi to transact the following business:

### ORDINARY BUSINESS

1. To confirm the minutes of the Annual General Meeting held on March 30, 2007.
2. To receive and consider the Audited Financial Statements of the Bank for the year ended December 31, 2007 together with the Directors' Report and Auditors' Report thereon.
3. To appoint the Auditors for the year 2008 and to fix their remuneration. Present auditors Messrs. Ford Rhodes Sidat Hyder & Co., Chartered Accountants retire, and being eligible have offered themselves for re-appointment.

### SPECIAL BUSINESS

4. To consider and if thought fit subject to the approval from State Bank of Pakistan to increase the authorized share capital of the Bank to Rs. 50,000,000,000 by creation of 4,449,950,000 shares of Rs. 10 each and to pass the following special resolutions:

'RESOLVED that the Authorized Share Capital of the Bank be increased from Rs. 5,500,500,000 divided into 550,050,000 shares of Rs. 10 each to Rs. 50,000,000,000 divided into 5,000,000,000 shares of Rs. 10 each and Clause V of the Memorandum of Association and Article 6 of the Articles of Association be amended by replacing the amount of authorized capital.

RESOLVED FURTHER that the President & Chief Executive Officer and the Company Secretary be and are hereby jointly and severally authorized to fulfill all legal and corporate formalities for increasing the Authorized Capital of the Bank and effectuate this Resolution'.

5. Any other business with the permission of the Chairman,

By Order of the Board

Karachi: March 01, 2008

**Muhammad Yousuf Amanullah**  
Company Secretary

**Notes:**

- (i) Share transfer books of the Bank will remain closed from March 22, 2008 to March 28, 2008 (both days inclusive)
- (ii) A member of the Bank entitled to attend and vote may appoint another member as his/her proxy to attend and vote instead of him/her.
- (iii) Proxies must be received at the Registered Office of the Bank not less than 48 hours before the time of the meeting.
- (iv) Beneficial owners of the shares registered in the name of Central Depository Company of Pakistan (CDC) and/or their proxies are required to produce their original Computerized National Identity Card (CNIC) or passport for identification purpose at the time of attending the meeting. The form of the proxy must be submitted with the Bank within the stipulated time, duly witnessed by two persons whose names, addresses and CNIC numbers must be mentioned on the form, along with attested copies of the CNIC or the passport of the beneficial owner and the proxy. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with the proxy form of the Bank.
- (v) Shareholders are requested to notify immediately for any change in their address.

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

This statement sets out the material facts concerning the Resolutions contained in item (4) of the Notice pertaining to the special business to be transacted at the Annual General Meeting of the Bank to be held on March 29, 2008.

**Increase in Authorized Capital**

In order to meet the requirements of State Bank of Pakistan to increase the paid up capital of the commercial banks to Rs. 6 billion by December 31, 2009, the capital clauses of Memorandum & Articles of Association of the Bank are required to be altered so as to increase the authorized capital of the Bank from Rs. 5,500,500,000 divided into 550,050,000 shares of Rs. 10 each to Rs. 50,000,000,000 divided into 5,000,000,000 shares of Rs. 10 each to enable the Bank to increase its paid-up capital as and when required. Under Section 92(1) of the Companies Ordinance, 1984 the Bank may alter the clause of Memorandum of Association so as to inter alia increase the share capital by such amount as it thinks expedient.

No Director or Chief Executive Officer of the Bank has any interest in the proposed amendment, except in their capacities as Director / CEO / shareholders.



## DIRECTORS' REPORT

We are pleased to present the Second Annual Report of JS Bank Limited ("JSBL") along with the audited accounts and Auditors' report thereon for the year ended December 31, 2007.

JS Bank Limited was a new banking company incorporated on March 15, 2006. On December 30, 2006, by virtue of the Sanction Order issued by the State Bank of Pakistan, Jahangir Siddiqui Investment Bank Limited and the Pakistan Operations of American Express Bank Limited were merged and amalgamated with and into JS Bank Limited with a network of four branches. During the year 2007, five more online branches were added bringing the total number to nine.

### Economic Review:

Pakistan's economy continues to grow at a tremendous pace with real GDP growth rate accelerating to 7% in FY07, the third highest in Asia behind China and India. This growth momentum has propelled the country into one of the most energetic and vibrant economies by achieving a 5 year (FY03-07) average GDP growth rate of 7%. While major economic fundamentals remain strong, rising commodity prices and the consequent inflationary pressures pose some concerns to overall macroeconomic stability.

The banking sector has continued to benefit from the broad based economic reforms and favorable economic policies in recent times. As a result, unprecedented interest has been witnessed in the sector with high profile mergers and acquisitions over the last few years. Going forward, aggressive marketing coupled with rising per capita income is expected to provide significant growth opportunities especially in the consumer banking arena.

### Financial Performance Review

During the year, your bank attained an after tax profit of Rs 35 million. Total assets of the bank showed an upward trend since December 31, 2006 and have reached to Rs 20.33 billion registering a growth of 62%. The bank has built an advances portfolio of Rs 6.47 billion, which for a new bank can be termed as a significant achievement. The deposit based has risen from Rs 7.19 billion to Rs 13.68 billion reflecting an increase of 90%.

### Summarized financial data of your bank is as follows:

|                             | Rupees in '000 |           |
|-----------------------------|----------------|-----------|
|                             | 2007           | 2006      |
| Deposits and other accounts | 13,679,898     | 7,198,149 |
| Investments                 | 6,109,536      | 2,582,096 |
| Advances                    | 6,475,963      | 1,692,831 |
| Profit / (Loss) after tax   | 35,431         | (417)*    |

\*as the bank was formed on December 30, 2006, the profit and loss account had been prepared for one day only.

With all divisions expanding their operations and delivering robust performances, your bank has moved one step ahead in developing a niche for itself. The Investment banking division played an active role and achieved impressive results during the year. The Corporate division revealed significant improvement during the year as advances and deposits witnessed a strong growth and trade volume increased significantly. Performance of the Retail banking group has also been strong as improvements were made at every front with considerable increase in asset base and deposits. Treasury made impressive progress during the year with its primary dealership rated amongst the best in the industry.



The bank is set to implement Basel II in line with the State Bank's defined timelines. Basel II for your bank is more than compliance as it is actually a business opportunity whereby improvement in risk management practices would result in calculated and prudent risk decisions, and optimal utilization of capital.

### **Business / Product Development**

JS Bank believes in the philosophy that customers are always welcome. Consequently, all the products and services being offered by JS Bank Limited have been tailored according to the client's preferences ensuring their complete satisfaction. Besides its existing product lines and services range, JS Bank Limited is continuously launching new products and services in order to cater to emerging market needs and acquire strong competitive edge over its competitors.

The economic outlook for the coming year is promising. Our bank is determined to grow in line with the economy and is well placed to seize the existing and future opportunities presented within the economy. We aim to pursue our customer lead strategy and bring innovation in products to enter new customer segments. We are set to realize good revenue growth for the upcoming year. We have focused on quality, integrity and dedication and have been able to lead the way. We believe our strong performance is sustainable and we are well positioned for even stronger performance in the future.

### **Future outlook**

During the last few years the banking sector in Pakistan has experienced significant growth, reflected by increased deposit mobilization and development of innovative consumer banking products.

During the year 2008, the bank has plans to diversify its operations by introducing new consumer finance products to enhance its market share for better results. Moreover, your bank has also got the permission to open branches / sub-branches across the country and we are hopeful that by the end of the year 2008, JS Bank's presence will be made in remote, less urban and urban areas of the country.

### **Auditors**

The retiring auditors M/s Ford Rhodes Sidat Hyder & Co. Chartered Accountants, being eligible, offer themselves for re-appointment. The Audit Committee of the Bank has recommended their re-appointment till the conclusion of next AGM.

### **Credit Rating**

The Pakistan Credit Rating Agency (Pvt.) Ltd. has assigned the long term credit rating of the Bank at A- ("Single A minus") and the short term rating at A2 ("A Two"). The ratings denote a low expectation of credit risk emanating from a strong capacity for timely repayment of financial commitments.

### **Statement on Internal Controls**

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



The bank's management fully recognizes this responsibility and appreciates its value significance. Accordingly, policies and procedures encompassing various functional and administrative areas have been developed and circulated across all pertinent levels of the organization. These policies and procedures are first approved by the senior management and thereafter forwarded to the Board of Directors for final approval. The bank's internal audit function keeps monitoring compliance with these policies and procedures and regularly apprises the Board on the same through the Audit Committee.

JS Bank has thus operated a system of internal control which provides reasonable assurance of effective and efficient operations covering major controls, including financial and operational controls and compliance with laws and regulations.

### **Risk Management Framework**

The bank has been proactive in adopting measures to manage, monitor and mitigate risks associated with the banking activities and has placed great emphasis in the development of an effective risk management framework which contributes towards the effective allocation of the Bank's Capital. The Integrated Risk Management Committee (IRMC) and Assets & Liabilities Committee (ALCO) operate within an established framework in order to monitor the bank's activities and maintain the business risk level within predefined limits. These committees meet on a regular basis to review market development and the level of financial risk exposure to the Bank. A sound structure of Board's Sub-committee on Risk is also in place which keeps an eye on the overall risk profile of the bank.

The bank has a comprehensive risk management framework commensurate with the nature of its business, which includes;

- a) Clearly defined risk management policies and procedures covering risk identification, acceptance, measurement, monitoring, reporting and control;
- b) A well constituted centralized organizational structure defining roles and responsibilities of individuals involved in risk taking as well as managing it.
- c) An effective management information system that ensures flow of information from operational level to top management and a system to address any exceptions observed. Any deviation from the approved standards is explicitly approved by the competent level of authorities.
- d) A mechanism to ensure an on-going review of systems, policies and procedures for risk management and procedures to adopt changes.
- e) Development of comprehensive policies in areas such as Credit, Market and Operational Risks.
- f) Engagement of renowned consultants (Ernst & Young International) to assist the bank with Basel II initiative so as to be compliant with SBP's Basel II requirements.

### Statement on Corporate and Financial Reporting Framework

The Directors confirm compliance with the Corporate and financial reporting framework of the Securities and Exchange Commission of Pakistan (SECP) Code of Corporate Governance for the following:

- The financial statements prepared by the Management present fairly the state of affairs of the Bank, the results of its operations, Cash Flow Statement and Statement of Changes in Equity
- Proper books of accounts of the Bank have been maintained.
- Accounting policies as stated in the notes to the accounts have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards as applicable in Pakistan have been followed in preparation of the financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no doubts about the Bank's ability as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- The details of outstanding statutory payments, if any, have been adequately disclosed in the financial statements. There were no trades in the shares of the Bank, carried out by Directors, CEO, Company Secretary and CFO and their spouses and dependents except for the allocation of 1,483,745 right sharers as approved by the Board.

### Employee Benefits Scheme

The Bank operates a funded provident scheme covering all its permanent employees. The un-audited balance of the fund as at December 31, 2007 was Rs 16.153 million.

### Board Meetings

Eight meetings of the Board of Directors were held during the Year 2007. The attendance of directors at Board Meetings is as follows:

| Name of Director  | Eligible to attend | Meetings attended |
|---|--------------------|-------------------|
| Jahangir Siddiqui, Chairman                             | 8                  | 7                 |
| Mazharul Haq Siddiqui                                   | 8                  | 4                 |
| Maqbool A. Soomro                                       | 8                  | 5                 |
| Ashraf Nawabi (appointed on August 25, 2007)            | 3                  | 1                 |
| Rafique R. Bhimjee (appointed on August 25, 2007)       | 3                  | 2                 |
| Syed Amjad Ali (appointed on August 25, 2007)           | 3                  | 3                 |
| Basir Shamsie   | 8                  | 7                 |
| Naveed Qazi, President & CEO                            | 8                  | 8                 |
| Munaf Ibrahim (resigned on August 25, 2007)             | 5                  | 3                 |
| Stephen Christopher Smith (resigned on August 25, 2007) | 5                  | 5                 |
| Suleman Lalani (resigned on August 25, 2007)            | 5                  | 4                 |
| Muhammad Yousuf Amanullah (resigned on March 30, 2007)  | 2                  | 2                 |
| Zainul Abidin Memon, (resigned on March 30, 2007)       | 2                  | 2                 |



### **Pattern of Shareholding**

Statement of Pattern of Shareholding as on December 31, 2007 appears on Page No. 71 and includes the transactions carried out by Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and their spouses and minor children.

### **Right Issue**

The process relating to 50% issue of right shares at par has been completed successfully. The said issuance has enabled JS Bank to comply with the minimum capital requirement, as laid down by the State Bank of Pakistan up till December 31, 2008. Availability of further equity will enable us to explore permissible business avenues for ultimate increase in earnings of the Bank.

### **Information Technology**

We strongly believe that the future of JS bank is dependent on a state-of-art technology. A robust core banking system having up to date MIS is a key requirement for growth and control. The Core Banking System (T24) project is well underway and is slated for 1st phase implementation on April 1, 2008. Temenos is a software company based in Geneva, Switzerland and its T24 core banking software is rated as the leading product worldwide with over 500 installed sites worldwide. The T24 software is considered as the most technologically advanced integrated banking system available worldwide which integrates with all major technology platforms including Oracle, Windows, UNIX, Linux, etc.

We have selected the full suite of T24 modules covering all business function areas of the Bank. It will enable the bank to bring to market new products very quickly and scale upwards both in terms of transaction volumes and customer services.

### **Acknowledgement**

We would like to express our sincere thanks and gratitude for the guidance provided by the State Bank of Pakistan, the Securities and Exchange Commission of Pakistan and the Karachi Stock Exchange (Guarantee) Limited. We would also like to thank our valued clients for their continued patronage and confidence. The Board would also like to place on record its appreciation for the hard work, dedication, professionalism and sincere efforts of the senior management, officers and staff of the Bank at all levels.

For and on behalf of the Board of Director

**Jahangir Siddiqui**  
**Chairman**

Karachi: February 29, 2008

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## Statement of Compliance with the best practices of Corporate Governance Period ended December 31, 2007

This statement is being presented to comply with the Code of Corporate Governance as required under Prudential Regulation No. G-1 - Responsibilities of the Board of Directors, vide BSD Circular No.15 dated June 13, 2002 for the purposes of establishing a framework of good governance, whereby a Bank is managed in compliance with the best practices of Corporate Governance.

1. The Bank encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes six non-executive directors including three independent directors. There are no directors representing minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies including the Bank.
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution (DFI) or a Non Banking Finance Company (NBFC) or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancy occurring in the Board on August 25, 2007 was filled up by the Board of Directors on August 25, 2007.
5. The Bank has prepared a Statement of Ethics and Business practices, which has been signed by all the Directors and employees of the Bank.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates of approval or amendment has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer (CEO) and the Executive Director have been taken by the Board.
8. All the meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated. The Board members have been provided an orientation course to apprise them of their duties and responsibilities.
9. The Board has approved appointment of Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The Financial Statements of the Bank were duly endorsed by CEO and CFO before approval of the Board.



13. The directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the code as applicable during the period.
15. The Board has formed an audit committee. It comprises three members, of whom all are non-executive directors including the Chairman of the committee.
16. The meetings of the Audit Committee were held once every quarter prior to the approval of interim and final results of the Bank as required by the Code. The terms of reference of the committee have been framed by the Board and the Audit Committee operates within the defined terms of reference.
17. The Board has set up an effective internal audit function consisting of a full time internal auditor who is suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Bank.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the code have been complied with.

For and on behalf of the Board

**Naveed Qazi**  
**President & Chief Executive Officer**

Karachi: February 29, 2008

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## **REVIEW REPORT TO THE MEMBERS ON THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) for the year ended **December 31, 2007** prepared by the Board of Directors of **JS Bank Limited** (the Company) to comply with the Listing Regulation No. 37 (Chapter XI) of the Karachi Stock Exchange, where the Company is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Company's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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

Karachi: February 29, 2008

**Ford Rhodes Sidat Hyder & Co.**  
**CHARTERED ACCOUNTANTS**



## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of JS BANK LIMITED (the bank) as at December 31, 2007 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion proper books of account have been kept by the bank as required by the Companies Ordinance, 1984 (XLVII of 1984);
- (b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon have been draw up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change in accounting policy as stated in note 6.1 with which we concur;
  - (ii) the expenditure incurred during the year was for the purpose of the bank's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the bank and the transactions of the bank which have come to our notice have been within the powers of the bank;
- (c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the bank's affairs as at December 31, 2007 and its true balance of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Karachi: February 29, 2008

**Ford Rhodes Sidat Hyder & Co.**  
**CHARTERED ACCOUNTANTS**



## Balance Sheet

As at December 31, 2007

|   | Note | December 31,<br>2007 | December 31,<br>2006 |
|---|------|----------------------|----------------------|
| ----- Rupees in '000 -----                          |      |                      |                      |
| <b>ASSETS</b>                                       |      |                      |                      |
| Cash and balances with treasury banks               | 7    | 977,235              | 1,912,648            |
| Balances with other banks                           | 8    | 254,079              | 1,463,280            |
| Lendings to financial institutions                  | 9    | 3,601,211            | 2,825,912            |
| Investments   | 10   | 6,109,536            | 2,582,096            |
| Advances  | 11   | 6,475,963            | 1,692,831            |
| Operating fixed assets                              | 12   | 491,736              | 379,584              |
| Deferred tax assets                                 | 13   | 126,525              | 26,250               |
| Other assets  | 14   | 2,291,467            | 1,662,854            |
|   |      | <b>20,327,752</b>    | <b>12,545,455</b>    |
| <b>LIABILITIES</b>                                  |      |                      |                      |
| Bills payable                                       | 15   | 727,179              | 610,623              |
| Borrowings  | 16   | 481,147              | 800,005              |
| Deposits and other accounts                         | 17   | 13,679,898           | 7,198,149            |
| Sub-ordinated loans                                 |      | -                    | -                    |
| Liabilities against assets subject to finance lease |      | -                    | -                    |
| Deferred tax liabilities                            |      | -                    | -                    |
| Other liabilities                                   | 18   | 245,721              | 932,870              |
|   |      | <b>15,133,945</b>    | <b>9,541,647</b>     |
| <b>NET ASSETS</b>                                   |      |                      |                      |
|   |      | <b>5,193,807</b>     | <b>3,003,808</b>     |
| <b>REPRESENTED BY</b>                               |      |                      |                      |
| Share capital                                       | 19   | 5,106,337            | 3,004,225            |
| Reserves  |      | 7,086                | -                    |
| Unappropriated profit / (accumulated loss)          |      | 27,928               | (417)                |
|   |      | <b>5,141,351</b>     | <b>3,003,808</b>     |
| Surplus on revaluation of assets - net of tax       | 20   | 52,456               | -                    |
|   |      | <b>5,193,807</b>     | <b>3,003,808</b>     |
| <b>CONTINGENCIES AND COMMITMENTS</b>                |      |                      |                      |
|   | 21   |                      |                      |

The annexed notes 1 to 43 form an integral part of these financial statements.

**Jahangir Siddiqui**  
Chairman

**Naveed Qazi**  
President and Chief Executive

**Rafique R. Bhimjee**  
Director

**Basir Shamsie**  
Director



## Profit and Loss Account

For the year ended December 31, 2007

|   |         | For the year ended<br>December 31,<br>2007 | For the day of<br>December 31,<br>2006 |
|---|---------|--|--|
|   | Note    | ----- Rupees in '000 -----                 |  |
| Mark-up / Return / Interest Earned  | 23      | 1,130,383                                  | 2,050                                  |
| Mark-up / Return / Interest Expensed  | 24      | 864,300                                    | 1,554                                  |
| Net Mark-up / Interest Income   |         | 266,083                                    | 496                                    |
| Provision against non-performing loans and advances                             | 11.4    | 8,973                                      | -                                      |
| Provision for diminution in the value of investments                            | 10.1    | 754  | -                                      |
| Bad debts written off directly  |         | -  | -                                      |
|   |         | 9,727                                      | -                                      |
| <b>Net Mark-up / Interest Income after provisions</b>                           |         | <b>256,356</b>                             | <b>496</b>                             |
| <b>NON MARK-UP / INTEREST INCOME</b>  |         |  |  |
| Fee, Commission and Brokerage Income  | 25      | 126,542                                    | 50                                     |
| Dividend Income   |         | 92,813                                     | -                                      |
| Income from dealing in foreign currencies                                       |         | 48,451                                     | 51                                     |
| Gain on sale of securities - net  | 26      | 148,891                                    | -                                      |
| Unrealized loss on revaluation of investments<br>classified as held for trading |         | (4,123)                                    | -                                      |
| Other income  |         | 5,766                                      | -                                      |
| <b>Total non-mark-up / interest income</b>                                      |         | <b>418,340</b>                             | <b>101</b>                             |
|   |         | 674,696                                    | 597                                    |
| <b>NON MARK-UP / INTEREST EXPENSES</b>  |         |  |  |
| Administrative expenses   | 27      | 736,263                                    | 1,003                                  |
| Other provisions / write offs   |         | -  | -                                      |
| Other charges   | 28      | 654  | -                                      |
| <b>Total non-mark-up / interest expenses</b>                                    |         | <b>736,917</b>                             | <b>1,003</b>                           |
|   |         | (62,221)                                   | (406)                                  |
| Extra ordinary / unusual items  |         | -  | -                                      |
| <b>LOSS BEFORE TAXATION</b>   |         | <b>(62,221)</b>                            | <b>(406)</b>                           |
| Taxation - Current  | 29      | (6,556)                                    | (11)                                   |
| - Prior years   |         | -  | -                                      |
| - Deferred  | 13      | 104,208                                    | -                                      |
|   |         | 97,652                                     | (11)                                   |
| <b>PROFIT / (LOSS) AFTER TAXATION</b>   |         | <b>35,431</b>                              | <b>(417)</b>                           |
| Loss brought forward  |         | (417)                                      | -                                      |
| <b>Profit available for appropriation / (loss)</b>                              |         | <b>35,014</b>                              | <b>(417)</b>                           |
| <b>Basic Earnings per share</b>   | (Rupee) | 30   | 0.09                                   |
| <b>Diluted Earnings per share</b>   | (Rupee) | 30   | 0.09                                   |

The annexed notes 1 to 43 form an integral part of these financial statements.

**Jahangir Siddiqui**  
Chairman

**Naveed Qazi**  
President and Chief Executive

**Rafique R. Bhimjee**  
Director

**Basir Shamsie**  
Director

## Cash Flow Statement

For the year ended December 31, 2007

|   | For the year ended<br>December 31,<br>2007 | For the period<br>from March 15,<br>2006 to<br>December 31,<br>2006 |
|---|--|---|
|   | ----- Rupees in '000 -----                 |   |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>  |  |   |
| Loss before taxation  | (62,221)                                   | (406)   |
| Less: Dividend income   | (92,813)                                   | -   |
|   | (155,034)                                  | (406)   |
| <b>Adjustments:</b>   |  |   |
| Depreciation  | 29,856                                     | 71  |
| Amortisation of goodwill  | -  | 201   |
| Amortisation of intangibles   | 191,839                                    | 527   |
| Amortisation of deferred cost   | 6,736                                      | 4   |
| Charge for defined benefit plan   | 7,239                                      | -   |
| Unrealised loss on revaluation of investments<br>classified as held for trading     | 4,123                                      | -   |
| Reversal of provision against non-performing advances                               | (5,095)                                    | -   |
| Provision against non-performing advances   | 14,068                                     | -   |
| Provision for impairment in the value of investments                                | 754  | -   |
| Gain on sale of fixed assets  | (5,766)                                    | -   |
|   | 243,754                                    | 803   |
|   | 88,720                                     | 397   |
| <b>Increase in operating assets</b>   |  |   |
| Lendings to financial institutions  | (775,299)                                  | -   |
| Held for trading securities   | (115,367)                                  | -   |
| Advances  | (4,792,105)                                | -   |
| Other assets  | (609,187)                                  | (1,244)   |
|   | (6,291,958)                                | (1,244)   |
| <b>Increase / (decrease) in operating liabilities</b>                               |  |   |
| Bills payable   | 116,556                                    | -   |
| Borrowings  | (328,845)                                  | -   |
| Deposits  | 6,481,749                                  | -   |
| Amount paid to American Express Bank Limited, New York<br>as per transfer agreement | -  | (276,683)   |
| Other liabilities   | (694,388)                                  | 1,754   |
|   | 5,575,072                                  | (274,929)   |
|   | (716,886)                                  | (276,173)   |
| Income tax paid   | (32,718)                                   | (94)  |
| <b>Net cash flow from operating activities (Balance c/f)</b>                        | (660,884)                                  | (275,870)   |



## Cash Flow Statement

For the year ended December 31, 2007

|   | For the year ended<br>December 31,<br>2007 | For the period<br>from March 15,<br>2006 to<br>December 31,<br>2006 |
|---|--|---|
| Note  | ----- Rupees in '000 -----                 |   |
| <b>Net cash flow from operating activities (Balance b/f)</b>  | <b>(660,884)</b>                           | <b>(275,870)</b>  |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>  |  |   |
| Net investment in available for sale securities   | (3,361,361)                                | -   |
| Dividend income   | 92,813                                     | -   |
| Investment in operating fixed assets  | (339,130)                                  | -   |
| Sale proceeds of property and equipment disposed-of   | 11,849                                     | -   |
| <b>Net cash flow from investing activities</b>  | <b>(3,595,829)</b>                         | <b>-</b>  |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>  |  |   |
| Issue of share capital  | 2,102,112                                  | 240,100   |
| Amount received from Jahangir Siddiqui Investment Bank Limited prior to amalgamation                          | -  | 300,007   |
| <b>Net cash flow from financing activities</b>  | <b>2,102,112</b>                           | <b>540,107</b>  |
| Effects of exchange rate changes on cash and cash equivalents   | -  | -   |
| <b>(Decrease) / increase in cash and cash equivalents</b>   | <b>(2,154,601)</b>                         | <b>264,237</b>  |
| Cash and cash equivalents at beginning of the year / period   | <b>3,375,923</b>                           | -   |
| Cash and cash equivalents acquired upon amalgamation from JSIBL   | -  | 196,032   |
| Cash and cash equivalents acquired upon amalgamation from American Express Bank Limited - Pakistan Operations | -  | 2,915,654   |
| <b>Cash and cash equivalents at end of the year / period</b>  | <b>1,221,322</b>                           | <b>3,375,923</b>  |
| 31  |  |   |

The annexed notes 1 to 43 form an integral part of these financial statements.

**Jahangir Siddiqui**  
Chairman

**Naveed Qazi**  
President and Chief Executive

**Rafique R. Bhimjee**  
Director

**Basir Shamsie**  
Director

## Statement of Changes in Equity

For the year ended December 31, 2007

|   | Issued,<br>subscribed and<br>paid-up share<br>capital | Statutory<br>reserve | Unappropriated<br>Profit /<br>Accumulated loss | Total            |
|---|---|----------------------|--|------------------|
|   | ----- Rupees in '000 -----                            |                      |  |                  |
| Issue of ordinary shares of Rs.10/-<br>each against cash                                      | 240,100   | -                    | -  | 240,100          |
| Issue of ordinary shares of Rs.10/-<br>each upon amalgamation to the<br>shareholders of JSIBL | 2,764,125   | -                    | -  | 2,764,125        |
| Loss for the period   | -   | -                    | (417)  | (417)            |
| <b>Balance as at December 31, 2006</b>  | <b>3,004,225</b>                                      | <b>-</b>             | <b>(417)</b>                                   | <b>3,003,808</b> |
| Issue of ordinary shares of Rs.10/-<br>each against cash                                      | 2,102,112   | -                    | -  | 2,102,112        |
| Net profit for the year   | -   | -                    | 35,431   | 35,431           |
| Transfer to statutory reserve   | -   | 7,086                | (7,086)  | -                |
| <b>Balance as at December 31, 2007</b>  | <b>5,106,337</b>                                      | <b>7,086</b>         | <b>27,928</b>                                  | <b>5,141,351</b> |

The annexed notes 1 to 43 form an integral part of these financial statements.

**Jahangir Siddiqui**  
Chairman

**Naveed Qazi**  
President and Chief Executive

**Rafique R. Bhimjee**  
Director

**Basir Shamsie**  
Director



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2007

### 1. STATUS AND NATURE OF BUSINESS

- 1.1 JS bank Limited (the bank), incorporated in Pakistan, is a scheduled bank, engaged in commercial banking and related services. The bank is listed on Karachi Stock Exchange in Pakistan. The bank is a subsidiary of Jahangir Siddiqui & Company Limited (JSCL). The registered office of JSBL is situated at Shaheen Commercial Complex, Dr. Ziauddin Ahmed Road, Karachi and it operates with nine branches in Pakistan. The Pakistan Credit Rating Agency (Private) Limited (PACRA) has assigned the long term credit rating of the bank at A- ("Single A minus") and the short term rating at A2 ("A Two").
- 1.2 Jahangir Siddiqui Investment Bank Limited (JSIBL) and its holding company, Jahangir Siddiqui & Company Limited (JSCL), entered into a Framework Agreement with American Express Bank Limited, New York (AMEX) on November 10, 2005 for acquisition of its American Express Bank Limited (AEBL) Pakistan Operations. Consequently, a new banking company, JS Bank Limited (JSBL) was incorporated on March 15, 2006 and a restricted Banking License was issued by the State Bank of Pakistan (SBP) on May 23, 2006.

Further, during the previous year, a Transfer Agreement was executed on June 24, 2006 between JSIBL and JSBL for the transfer of entire business and undertaking of JSIBL to JSBL. The shareholders of JSIBL and JSBL in their respective extra ordinary general meetings held on July 31, 2006 approved a Scheme of Amalgamation (the Scheme) under Section 48 of the Banking Companies Ordinance, 1962. The Scheme was initially approved by the Securities and Exchange Commission of Pakistan (SECP) vide its letter No. SC/NBF-C(J)-R/JSIBL/2006/517 dated September 28, 2006. Subsequently, the Scheme was sanctioned by State Bank of Pakistan (SBP) vide its order dated December 02, 2006 and in accordance therewith, the effective date of amalgamation was fixed at December 30, 2006.

Accordingly, comparative figures in these financial statements are for the day of December 31, 2006.

### 2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the conversion of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by 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 utilised and the appropriate portion of mark-up thereon.

### 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 SBP as per 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 and valued in accordance with the requirements of various circulars issued by SBP.

**3.3 Accounting standards not yet effective**

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

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

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, including in some cases revisions to accounting policies.

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

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



#### 4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for held for trading and available for sale investments, and derivative financial instruments which are stated at fair value.

#### 5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the bank's accounting policies. Estimates and judgments 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 judgments which are significant to the financial statements:

- (a) classification of investments (Note 6.5);
- (b) valuation of derivatives (Note 6.6.2);
- (c) determining the residual values and useful lives of property and equipment (Note 6.9);
- (d) impairment (Note 6.10);
- (e) recognition of taxation and deferred tax (Note 6.11);
- (f) provisions (Note 6.12);
- (g) accounting for post employment benefits (Note 6.13);
- (h) goodwill (Note 6.17); and
- (i) segment reporting (Note 6.18)

#### 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 6.1 Change in accounting policy

During the current year, the bank has changed its accounting policy in respect of accounting for goodwill consequent upon the notification issued by the SECP regarding applicability of IFRS - 3 "Business Combinations". In accordance with the new policy, goodwill arising on business combination is carried at cost less any impairment in value. Previously, goodwill was amortised using the straight line method over its estimated useful economic life, not exceeding 20 years commencing from the effective date of acquisition in accordance with the superseded IAS - 22 "Business Combinations".

The said change in accounting policy has been applied prospectively in accordance with the transitional provisions of IFRS - 3. Accordingly, the bank has discontinued amortisation of goodwill with effect from January 1, 2007 and the carrying value of the goodwill as of the said date would be tested for impairment on an annual basis.

Had there been no change in the above accounting policy, the loss before taxation for the year would have been higher by Rs.73.191 million and total assets of the bank would have been reduced by the same amount.



## **6.2 Cash and cash equivalents**

Cash and cash equivalents represent cash and balances with treasury banks, balances with other banks and overdrawn nostro accounts.

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

The bank enters into transactions of lendings to / borrowings from financial institutions at contracted rates for a specified period of time. These are recorded as under:

### **Sale under repurchase obligation**

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

### **Purchase under resale obligation**

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

### **Other borrowings**

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

## **6.4 Trade date accounting**

All 'regular way' purchases and sales of financial assets are recognised on the trade date, i.e. the date on which commitment to purchase / sale is made by the bank. Regular way purchases or sales of financial assets are those, the contract for which requires delivery of assets within the time frame generally established by regulation or convention in the market place.

## **6.5 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 plus, in the case of investments not held for trading, directly attributable acquisition costs.

### **Held for trading**

These are securities, which are either acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days. These are carried at fair value, with the related surplus / (deficit) being taken to profit and loss account.



### **Held to maturity**

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

Investments classified as held to maturity are carried at amortized cost.

### **Available for sale**

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

These are initially recognized at cost, being the fair value of the consideration given including the acquisition cost.

In accordance with the requirements of the SBP, quoted securities other than those classified as held to maturity are carried at market value. Investments classified as held to maturity are carried at amortised cost. Unquoted securities are valued at cost less impairment, if any.

Further, in accordance with the requirements of the SBP, surplus / (deficit) on revaluation of the bank's held for trading investments is taken to the profit and loss account. The surplus / deficit on investments 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 realized upon disposal. The unrealized surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading' is taken to the profit and loss account.

Premium or discount on acquisition of investments is capitalized and amortized through the profit and loss account using effective yield over the remaining period till maturities.

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 is made in accordance with the requirements of the Prudential Regulations issued by the SBP.

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

## **6.6 Financial Instruments**

### **6.6.1 Financial assets and financial liabilities**

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

### **6.6.2 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 the profit and loss account.

### **6.7 Off-setting of financial assets and financial liabilities**

Financial assets and liabilities are set off and the net amount is reported in the financial statements when there exists a legally enforceable right to set off and the bank intends either to settle the assets and liabilities on a net basis or to realize the assets and to settle the liabilities simultaneously. Income and expenses arising from such assets and liabilities are accordingly offset.

### **6.8 Advances**

Advances are stated net of general and specific provision. General and specific provisions against funded loans are determined in accordance with the requirements of the Prudential Regulations issued by the SBP and charged to the profit and loss account. Advances are written off when there are no realistic prospects of recovery.

### **6.9 Operating fixed assets and depreciation**

#### **Property and equipment – owned**

Owned assets are stated at cost less accumulated depreciation and impairment, if any, except capital work in progress, which is stated at cost.

Depreciation is charged to income using the straight-line method so as to write off the depreciable amount of the assets over their estimated useful lives at the rates given in note 12 to the financial statements. A full month's depreciation is charged in the month of addition and no depreciation is charged for the month in which the disposal is made. The assets residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Normal repairs and maintenance are charged to the profit and loss account as and when incurred.

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.

#### **Intangible**

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



## **6.10 Impairment**

At each balance sheet date the bank reviews the carrying amounts 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 the 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.

## **6.11 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. The charge for current tax also includes adjustments, where considered necessary, relating to prior years arising from assessments made during the year.

### **Deferred**

Deferred tax is recognised using the balance sheet liability method on all temporary differences arising between tax bases of assets and liabilities and their carrying amounts appearing in the financial statements. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences are expected to reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the profit and loss account.

Deferred tax, if any, on revaluation of investments is recognised as an adjustment to surplus / (deficit) arising on revaluation.

## **6.12 Provisions**

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

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.

## **6.13 Staff retirement benefits**

### **Defined contribution plan**

The bank has established a provident fund scheme for all permanent employees effective from January 01, 2007. Equal monthly contributions are made, both by the bank and the employees, to the fund at the rate of 10 percent of basic salary.

**Defined benefit plan**

The bank operates a unfunded gratuity scheme covering all employees, which requires contribution to be made in accordance with the actuarial recommendations. The most recent valuation in this regard was carried out as at December 31, 2007, using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

**6.14 Revenue recognition**

Mark-up / return / interest income on regular loans and advances and investments is recognised on accrual basis. Mark-up / return / interest income on classified advances is recognised on receipt basis.

Commission is generally recognised as income at the time of affecting the transaction to which it relates, except on guarantees on which the commission is recognised as income over the period of the guarantee. Fees are recognised when earned.

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

**6.15 Dividend and appropriation to reserves**

Dividend and appropriation to reserves except for statutory reserves are recognized in the financial statements in the periods in which these are approved.

**6.16 Foreign currencies****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.

**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.

**Translation gains and losses**

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

**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.

### **6.17 Goodwill**

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the bank's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

### **6.18 Segment reporting**

A segment is a distinguishable component of the bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

#### **6.18.1 Business segments**

##### **Corporate finance**

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

##### **Trading and sales**

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

##### **Retail banking**

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

##### **Commercial banking**

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

#### **6.18.2 Geographical segment**

The bank has nine branches and operates only in Pakistan.

### 6.19 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.

### 6.20 Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the bank in balance sheet.

|  | Note | December 31,<br>2007 | December 31,<br>2006 |
|--|------|----------------------|----------------------|
| Rupees in '000   |      |                      |                      |
| <b>7. CASH AND BALANCES WITH TREASURY BANKS</b>                                |      |                      |                      |
| <b>In hand</b>   |      |                      |                      |
| Local currency   |      | 101,619              | 78,922               |
| Foreign currencies   |      | 43,403               | 75,642               |
|  |      | <b>145,022</b>       | 154,564              |
| <b>With State Bank of Pakistan in</b>  |      |                      |                      |
| Local currency current account   |      | 709,692              | 830,113              |
| Foreign currency accounts  |      |                      |                      |
| - Cash reserve account - non remunerative                                      | 7.1  | 54,250               | 66,636               |
| - Special cash reserve account - remunerative                                  | 7.2  | 54,250               | 198,688              |
| - Local US dollar instruments collection and settlement account - remunerative | 7.3  | 13,715               | 4,613                |
|  |      | <b>831,907</b>       | 1,100,050            |
| AEBL's capital with State Bank of Pakistan                                     | 18.1 | -                    | 658,023              |
| National Prize Bonds   |      | 306                  | 11                   |
|  |      | <b>977,235</b>       | 1,912,648            |

**7.1** This represents current account maintained with SBP under the requirements of BSD Circular No. 18 dated March 31, 2001.

**7.2** This represents deposit account maintained with SBP under the requirements of BSD Circular No. 18 dated March 31, 2001. Profit rates on this deposit account are fixed on a monthly basis by SBP. It carries profit ranging between 3.71% and 4.72% (2006: 3.39% and 4.39%) per annum.

**7.3** This represents mandatory reserve maintained to facilitate collection and settlement and to settle foreign currency accounts under FE-25, as prescribed by the State Bank of Pakistan. Profit rates on this account are fixed on a monthly basis by SBP. It carries profit ranging between 3.71% and 4.72% (2006: 3.39% and 4.39%) per annum.



|                                     | Note | December 31,<br>2007 | December 31,<br>2006 |
|-------------------------------------|------|----------------------|----------------------|
| ----- Rupees in '000 -----          |      |                      |                      |
| <b>8. BALANCES WITH OTHER BANKS</b> |      |                      |                      |
| <b>In Pakistan</b>                  |      |                      |                      |
| On current accounts                 |      | 36,205               | 261,218              |
| On deposit accounts                 | 8.1  | 159                  | 190,923              |
|                                     |      | <b>36,364</b>        | 452,141              |
| <b>Outside Pakistan</b>             |      |                      |                      |
| On current accounts                 |      | 92,843               | 69,944               |
| On deposit accounts                 | 8.2  | 124,872              | 941,195              |
|                                     |      | <b>217,715</b>       | 1,011,139            |
|                                     |      | <b>254,079</b>       | 1,463,280            |

8.1 These carry mark up at the rate of 3.56% (2006: 1.00% to 11.80%) per annum.

8.2 This represents term placements outside Pakistan, carrying interest rates ranging between 2.60% and 3.51% (2006: 3.55% and 5.22%) per annum.

#### 9. LENDINGS TO FINANCIAL INSTITUTIONS

|  |     |                  |           |
|--|-----|------------------|-----------|
| Call money lendings                          | 9.1 | 2,115,000        | 754,250   |
| Repurchase agreement lendings (Reverse Repo) | 9.2 | 1,486,211        | 2,071,662 |
|  |     | <b>3,601,211</b> | 2,825,912 |

9.1 These represent unsecured call money lendings to financial institutions, carrying interest at the rates ranging between 9.85% and 11.50% (2006: 7.50% and 12.60%) per annum, with maturities up to March 2008.

9.2 These are short-term lendings to various financial institutions against the Government securities shown in note 9.4 below.

#### 9.3 Particulars of lendings

|                   |                  |           |
|-------------------|------------------|-----------|
| In local currency | <b>3,601,211</b> | 2,825,912 |
|-------------------|------------------|-----------|

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

|                       | Note  | December 31, 2007          |                                   |       |
|-----------------------|-------|----------------------------|-----------------------------------|-------|
|                       |       | Held by<br>bank            | Further<br>given as<br>Collateral | Total |
|                       |       | ----- Rupees in '000 ----- |                                   |       |
| Market Treasury Bills | 9.4.1 | <b>1,486,211</b>           | -                                 | -     |



| December 31, 2006          |                                   |                  |
|----------------------------|-----------------------------------|------------------|
| Held by<br>bank            | Further<br>given as<br>Collateral | Total            |
| ----- Rupees in '000 ----- |                                   |                  |
| Market Treasury Bills      | 1,871,662                         | 1,871,662        |
| Pakistan Investment Bonds  | 200,000                           | 200,000          |
|                            | <u>2,071,662</u>                  | <u>2,071,662</u> |

**9.4.1** These have been purchased under resale agreements at rates ranging between 9.90% and 9.95% (2006: 8.00% and 8.80%) per annum with maturities in January 2008. The fair value of these securities amounted to Rs.1,486,660 (2006: Rs.2,072.309) million as at December 31, 2007.

## 10. INVESTMENTS

| December 31, 2007          |                        |       |
|----------------------------|------------------------|-------|
| Held by<br>bank            | Given as<br>Collateral | Total |
| ----- Rupees in '000 ----- |                        |       |

### 10.1 Investments by type

#### Held for trading securities

|                                     |                |          |                |
|-------------------------------------|----------------|----------|----------------|
| Pakistan Investment Bonds           | 46,054         | -        | 46,054         |
| Ordinary Shares of listed companies | 69,313         | -        | 69,313         |
|                                     | <u>115,367</u> | <u>-</u> | <u>115,367</u> |

#### Available for sale securities

|                                     |                  |                |                  |
|-------------------------------------|------------------|----------------|------------------|
| Market Treasury Bills               | 2,920,855        | 472,370        | 3,393,225        |
| Pakistan Investment Bonds           | 652,604          | -              | 652,604          |
| Ordinary Shares of listed companies | 352,994          | -              | 352,994          |
| Preference Shares of listed company | 95,503           | -              | 95,503           |
| Term Finance Certificates-listed    | 462,275          | -              | 462,275          |
| Term Finance Certificates-unlisted  | 677,707          | -              | 677,707          |
| Sukuk Certificates                  | 15,000           | -              | 15,000           |
| Mutual Fund Units                   | 293,349          | -              | 293,349          |
|                                     | <u>5,470,287</u> | <u>472,370</u> | <u>5,942,657</u> |

#### Total investments at cost

Less: Provision for diminution in value of investments

#### Investments (net of provision)

Deficit on revaluation of held for trading securities  
Surplus on revaluation of available for sale securities

#### Total Investments at market value

|  |                  |                |                  |
|--|------------------|----------------|------------------|
|  | 5,585,654        | 472,370        | 6,058,024        |
|  | (754)            | -              | (754)            |
|  | <u>5,584,900</u> | <u>472,370</u> | <u>6,057,270</u> |
|  | (4,123)          | -              | (4,123)          |
|  | 56,367           | 22             | 56,389           |
|  | <u>5,637,144</u> | <u>472,392</u> | <u>6,109,536</u> |



|  | December 31, 2006          |                        |                  |
|--|----------------------------|------------------------|------------------|
|  | Held by<br>bank            | Given as<br>Collateral | Total            |
|  | ----- Rupees in '000 ----- |                        |                  |
| <b>Investments by type</b>   |                            |                        |                  |
| <b>Available for sale securities</b>                                 |                            |                        |                  |
| Market Treasury Bills  | 489,688                    | -                      | 489,688          |
| Pakistan Investment Bonds  | 592,379                    | -                      | 592,379          |
| Ordinary Shares of listed companies                                  | 201,202                    | -                      | 201,202          |
| Preference Shares of listed companies                                | 109,645                    | -                      | 109,645          |
| Ordinary Shares of unlisted companies                                | 81,859                     | -                      | 81,859           |
| Term Finance Certificates-listed                                     | 379,582                    | -                      | 379,582          |
| Term Finance Certificates-unlisted                                   | 322,760                    | -                      | 322,760          |
| Mutual Fund Units  | 404,981                    | -                      | 404,981          |
| <b>Total investment at cost</b>                                      | <b>2,582,096</b>           | <b>-</b>               | <b>2,582,096</b> |
| Less: Provision for diminution in value of investments               | -                          | -                      | -                |
| <b>Investments (net of provision)</b>                                | <b>2,582,096</b>           | <b>-</b>               | <b>2,582,096</b> |
| Surplus/(deficit) on revaluation of available<br>for sale securities | -                          | -                      | -                |
| <b>Total Investments at market value</b>                             | <b>2,582,096</b>           | <b>-</b>               | <b>2,582,096</b> |

| 10.2 Investments by Segments                            | Note   | December 31,<br>2007       | December 31,<br>2006 |
|---|--------|----------------------------|----------------------|
|   |        | ----- Rupees in '000 ----- |                      |
| <b>Federal Government Securities:</b>                   |        |                            |                      |
| Market Treasury Bills                                   | 10.2.1 | <b>3,393,225</b>           | 489,688              |
| Pakistan Investment Bonds                               | 10.2.2 | <b>698,658</b>             | 592,379              |
| <b>Fully Paid Ordinary Shares</b>                       |        |                            |                      |
| Listed Companies  | 10.2.3 | <b>422,307</b>             | 201,202              |
| Unlisted Company  | 10.2.4 | -                          | 81,859               |
| <b>Fully Paid Preference Shares</b>                     |        |                            |                      |
| Listed Company  | 10.2.5 | <b>95,503</b>              | 109,645              |
| <b>Term Finance Certificates</b>                        |        |                            |                      |
| Term Finance Certificates – Listed                      | 10.2.5 | <b>462,275</b>             | 379,582              |
| Term Finance Certificates – Unlisted                    | 10.2.6 | <b>677,707</b>             | 322,760              |
| Sukuk Certificates                                      | 10.2.7 | <b>15,000</b>              | -                    |
| Mutual fund units                                       | 10.2.8 | <b>293,349</b>             | 404,981              |
| <b>Total investments at cost</b>                        |        | <b>6,058,024</b>           | 2,582,096            |
| Less: Provision for diminution in value of investments  |        | <b>(754)</b>               | -                    |
| <b>Investments (net of provisions)</b>                  |        | <b>6,057,270</b>           | 2,582,096            |
| Deficit on revaluation of held for trading securities   |        | <b>(4,123)</b>             | -                    |
| Surplus on revaluation of available for sale securities |        | <b>56,389</b>              | -                    |
| <b>Total investments at market value</b>                |        | <b>6,109,536</b>           | 2,582,096            |

**10.2.1** Market treasury bills are for a period of six to twelve months and carry a yield of 8.98% to 9.40% (2006: 8.81%) per annum with maturity up to August 2008. Market treasury bills and Pakistan Investment Bonds are eligible for re-discounting with the State Bank of Pakistan.

**10.2.2** These represents Pakistan Investment Bonds (PIBs) with interest income receivable semi-annually at the rate ranging between 9.43% and 11.34% (2006: 6.0% and 9.60%) per annum with a maximum remaining term of 15 years.

**10.2.3 Details of investment in Ordinary shares - listed**

|                                      | No. of      | No. of      | Total   |                |                | Market         | Market         |
|--------------------------------------|-------------|-------------|---------|----------------|----------------|----------------|----------------|
|                                      | Shares of   | Shares of   | paid up | Cost           | Cost           | Value          | Value          |
|                                      | Rs. 10 each | Rs. 10 each | value   | 2007           | 2006           | 2007           | 2006           |
|                                      | 2007        | 2006        |         | Rupees in '000 |                |                |                |
| <b>Held for trading</b>              |             |             |         |                |                |                |                |
| Bank Alfalah Limited                 | 50,000      | -           | 500     | 2,893          | -              | 2,685          | -              |
| National Bank of Pakistan Limited    | 25,000      | -           | 250     | 6,235          | -              | 5,804          | -              |
| The Bank of Punjab Limited           | 100,000     | -           | 1,000   | 10,265         | -              | 9,780          | -              |
| MCB Bank Limited                     | 25,000      | -           | 250     | 10,742         | -              | 9,999          | -              |
| Adamjee Insurance Company            | 20,000      | -           | 200     | 7,723          | -              | 7,167          | -              |
| Oil and Gas Development              |             |             |         |                |                |                |                |
| Company Limited                      | 25,000      | -           | 250     | 3,140          | -              | 2,986          | -              |
| Pakistan Petroleum Limited           | 50,000      | -           | 500     | 12,914         | -              | 12,253         | -              |
| Fauji Fertilizer Bin Qasim           | 100,000     | -           | 1,000   | 4,630          | -              | 4,205          | -              |
| Engro Chemical Pakistan Limited      | 38,800      | -           | 388     | 10,771         | -              | 10,311         | -              |
| <b>Available for sale securities</b> |             |             |         |                |                |                |                |
| United Bank Limited                  | 223,500     | -           | 2,235   | 37,058         | -              | 38,643         | -              |
| National Bank of Pakistan            | 150,000     | -           | 1,500   | 35,189         | -              | 34,823         | -              |
| Pakistan Petroleum Limited           | 190,000     | -           | 1,900   | 47,778         | -              | 46,560         | -              |
| Oil and Gas Development              |             |             |         |                |                |                |                |
| Company Limited                      | 225,000     | -           | 2,250   | 26,044         | -              | 26,876         | -              |
| Engro Chemical Pakistan Limited      | 169,900     | -           | 1,699   | 48,096         | -              | 45,151         | -              |
| Azgard Nine Limited                  |             |             |         |                |                |                |                |
| - a related party                    | 4,300,000   | 5,939,109   | 43,000  | 158,829        | 130,066        | 194,575        | 130,066        |
| Pakistan International Container     |             |             |         |                |                |                |                |
| Terminal Limited - a related party   | -           | 1,248,000   | 12,480  | -              | 71,136         | -              | 71,136         |
|                                      |             |             |         | <u>422,307</u> | <u>201,202</u> | <u>451,818</u> | <u>201,202</u> |

**10.2.4** During the current year, bank sold its investment in JS Infocom Limited, a related party, at a price of Rs.7.95 per share, realising a gain of Rs.3.598 million (refer note 26).

**10.2.5 Details of investment in Preference shares - listed**

Chenab Limited - 9.25% per annum

|   |            |            |         |               |                |               |                |
|---|------------|------------|---------|---------------|----------------|---------------|----------------|
| Cumulative Preference shares (note 10.2.5.1)                          | 13,357,000 | 13,357,000 | 133,570 | 95,503        | 95,503         | 94,434        | 95,503         |
| D.G. Khan Cement Limited - 10% per annum Cumulative Preference shares | -          | 1,512,542  | 15,125  | -             | 14,142         | -             | 14,142         |
|   |            |            |         | <u>95,503</u> | <u>109,645</u> | <u>94,434</u> | <u>109,645</u> |



**10.2.5.1** The bank has an option to get the shares redeemed, in part, on yearly basis after four years from the date of issuance of cumulative preference shares. The investee company also has option to redeem, in part, cumulative preference shares after August 2008.

**10.2.6** Details of investment in Term Finance Certificates - listed\*

|   | No. of<br>certificates<br>2007 | No. of<br>certificates<br>2006 | Rating    | Cost<br>2007   | Cost<br>2006   | Market<br>value<br>2007 | Market<br>value<br>2006 |
|---|--------------------------------|--------------------------------|-----------|----------------|----------------|-------------------------|-------------------------|
| ----- Rupees in '000 -----  |                                |                                |           |                |                |                         |                         |
| United Bank Limited - unsecured                                   | 12,182                         | 14,702                         | AA-       | 57,250         | 66,650         | 56,844                  | 66,650                  |
| MCB Bank Limited - unsecured                                      | 46                             | 46                             | AA        | 69             | 233            | 70                      | 233                     |
| Pakistan Mobile Communication<br>(Private) Limited                | 40                             | 19,040                         | AA-       | 206            | 98,893         | 211                     | 98,893                  |
| Trust Leasing & Investment<br>Bank Limited - unsecured            | 2,000                          | -                              | AA-       | 3,841          | -              | 3,842                   | -                       |
| Standard Chartered Pakistan<br>Limited - 1st Issue                | 1,047                          | 6,208                          | AA-       | 1,723          | 31,300         | 1,741                   | 31,300                  |
| Crescent Standard Investment<br>Bank Limited - overdue, unsecured | 1,000                          | 1,000                          | Suspended | 754            | 1,356          | -                       | 1,356                   |
| Ittehad Chemicals Limited   | 2,000                          | 2,000                          | A         | 3,347          | 5,046          | 3,339                   | 5,046                   |
| Engro Chemical Pakistan Limited                                   | 79,017                         | -                              | AA-       | 395,085        | -              | 400,089                 | -                       |
| Prime Commercial Bank Limited                                     | -                              | 66                             | A         | -              | 333            | -                       | 333                     |
| Chanda Oil and Gas Securitization<br>Company Limited              | -                              | 5,895                          | A         | -              | 24,561         | -                       | 24,561                  |
| Hira Textile Mills Limited  | -                              | 4,994                          | A         | -              | 25,205         | -                       | 25,205                  |
| Bank Alfalah Limited  | -                              | 2,512                          | A-        | -              | 12,603         | -                       | 12,603                  |
| Crescent Leasing Corporation Limited                              | -                              | 541                            | A-        | -              | 2,732          | -                       | 2,732                   |
| First Dawood Investment Bank<br>Limited - 2nd Issue               | -                              | 3,527                          | AA-       | -              | 17,900         | -                       | 17,900                  |
| Sitara Chemical Industries Limited                                | -                              | 471                            | AA-       | -              | 817            | -                       | 817                     |
| Sui Southern Gas Company<br>Limited - 2nd Issue                   | -                              | 1,500                          | AA        | -              | 1,261          | -                       | 1,261                   |
| Trust Leasing Corporation Limited                                 | -                              | 2,000                          | AA        | -              | 7,204          | -                       | 7,204                   |
| WorldCall Communications Limited                                  | -                              | 10,240                         | AA-       | -              | 14,839         | -                       | 14,839                  |
| Pakistan Services Limited   | -                              | 3,504                          | A-        | -              | 10,055         | -                       | 10,055                  |
| Al Zamin Leasing Modaraba   | -                              | 5,800                          | A         | -              | 18,734         | -                       | 18,734                  |
| Standard Chartered Pakistan<br>Limited - 2nd Issue                | -                              | 8,400                          | AA-       | -              | 39,860         | -                       | 39,860                  |
|   |                                |                                |           | <b>462,275</b> | <b>379,582</b> | <b>466,136</b>          | <b>379,582</b>          |

\* Secured and have a face value of Rs.5,000/- each unless specified otherwise.

**10.2.6.1 Other particulars of listed Term Finance Certificates are as follows:**

| Name of the Company                             | Repayment frequency | Profit  |  | Maturity Date     |
|---|---------------------|---|--|-------------------|
|   |                     | Rate per annum  |  |                   |
| United Bank Limited                             | Semi-annually       | 9.49%   |  | March 15, 2013    |
| MCB Bank Limited                                | Semi-annually       | 1.50% plus base rate (cut-off yield of the last successful SBP auction of five year PIBs) with 11.75% as floor and 15.75% as cap.   |  | February 10, 2013 |
| Pakistan Mobile Communication (Private) Limited | Semi-annually       | 6 months KIBOR ask rate plus 285 bps.   |  | May 26, 2011      |
| Trust Leasing & Investment Bank Limited         | Semi-annually       | 6 months KIBOR ask rate plus 200 bps.   |  | June 03, 2008     |
| Standard Chartered Pakistan Limited - 1st issue | Semi-annually       | 2.25% plus base rate (cut-off yield of the latest successful SBP auction of five year PIBs) with 11.00% as floor and 15.50% as cap. |  | June 21, 2008     |
| Crescent Standard Investment Bank Limited       | Semi-annually       | 2.00% plus base rate (cut-off yield of the latest successful SBP auction of five year PIBs) with 12.00% as floor and 15.75% as cap. |  | July 08, 2007     |
| Ittehad Chemicals Limited                       | Semi-annually       | 2.50% above SBP's discount rate with 7.00% as floor and 12.00% as cap.  |  | June 27, 2008     |
| Engro Chemical Pakistan Limited                 | Semi-annually       | 6 Months KIBOR offer rate plus 1.55%.   |  | November 30, 2015 |

**10.2.7 Details of Investment in Term Finance Certificates - unlisted, secured**

| Name of the Company                             | No. of certificates | No. of certificates | Rating | Face value per certificate<br>Rupees | Cost    | Cost    |
|---|---------------------|---------------------|--------|--------------------------------------|---------|---------|
|   | 2007                | 2006                |        |                                      | 2007    | 2006    |
| Escorts Investment Bank Limited                 | 10                  | 10                  | A+     | 5,000,000                            | 33,307  | 49,960  |
| Pakistan Mobile Communication (Private) Limited | 2,850               | 5,700               | AA-    | 5,000                                | 11,400  | 22,800  |
| UIG (Private) Limited                           | 25                  | 25                  | * N/A  | 10,000,000                           | 250,000 | 250,000 |
| First Dawood Investment Bank Limited            | 10,000              | -                   | AA-    | 5,000                                | 50,000  | -       |



| Name of the Company             | No. of       | No. of       | Rating | Face value per | Cost           | Cost           |
|---------------------------------|--------------|--------------|--------|----------------|----------------|----------------|
|                                 | certificates | certificates |        | certificate    | 2007           | 2006           |
|                                 | 2007         | 2006         |        | Rupees         |                |                |
| Kunjah Textile Mills Limited    | 1,600        | -            | * N/A  | 5,000          | 8,000          | -              |
| Trakker (Private) Limited       | 100,000      | -            | A      | 250            | 25,000         | -              |
| <b>Related parties</b>          |              |              |        |                |                |                |
| Azgard Nine Limited             | 30,000       | -            | AA-    | 5,000          | 150,000        | -              |
| Pak American Fertilizer Limited | 30,000       | -            | AA-    | 5,000          | 150,000        | -              |
|                                 |              |              |        |                | <b>677,707</b> | <b>322,760</b> |

\* Wherever rating of instrument is not available or in case the instrument is unrated, the same has been marked as 'N/A'.

#### 10.2.7.1 Other particulars of unlisted Term Finance Certificates are as follows:

| Name of the Company  | Repayment frequency | Profit  | Maturity Date      |
|--|---------------------|---|--------------------|
|  |                     | Rate per annum  |                    |
| Escorts Investment Bank Limited<br>(Chief Executive: Mr. Rashid Mansur)                        | Semi-annually       | 275 bps over six months KIBOR with floor at 5% and cap at 10%.  | September 27, 2009 |
| Pakistan Mobile Communication (Private) Limited<br>(Chief Executive: Mr. Zouhair Abdul Khaliq) | Semi-annually       | 2.25% above the average of the last three, six-months Treasury Bill cut-off yields with 6.00% as floor and 12.00% as cap. | September 16, 2008 |
| First Dawood Investment Bank Limited<br>(Chief Executive: Mr. Rafique Dawood)                  | Semi-annually       | 6 month KIBOR offer rate plus 1.60 %.   | September 11, 2012 |
| UIG (Private) Limited<br>(Chief Executive: Muhammad Akhtar Qureshi)                            | Semi-annually       | 3.00 % above KIBOR with a floor of 13.00 % and no cap.  | June 30, 2008      |
| Kunjah Textile Mills Limited<br>(Chief Executive: Mr. Shafay Hussain)                          | Semi-annually       | 300 bps over average six months KIBOR offer rate.   | March 23, 2014     |
| Trakker (Private) Limited<br>(Chief Executive: Mr. Ali Jameel)                                 | Semi-annually       | 350 bps over average six months KIBOR offer rate.   | July 11, 2011      |
| <b>Related Parties</b>   |                     |   |                    |
| Pak American Fertilizer Limited<br>(Chief Executive: Mr. Aalijah)                              | Semi-annually       | 6 month KIBOR offer rate plus 1.75%.  | November 29, 2014  |
| Azgard Nine Limited<br>(Chief Executive: Mr. Ahmed H. Shaikh)                                  | Semi-annually       | 6 Months KIBOR offer rate plus 2.25%.   | December 4, 2014   |

**10.2.8** This represents investment made in 3,000 Sukuk Certificates having face value of Rs.5,000 each issued by Karachi Shipyard and Engineering Works Limited, carrying mark-up at the rate of six months KIBOR plus 0.4% per annum and maturing on November 02, 2015.

10.2.9 Mutual Fund units

| Name of the Fund                            | No. of units |            | Rating | value per certificate (Rupees) | Cost           |                | Market value   |                |
|---|--------------|------------|--------|--------------------------------|----------------|----------------|----------------|----------------|
|   | 2007         | 2006       |        |                                | 2007           | 2006           | 2007           | 2006           |
| First Dawood Mutual Fund                    | 309          | 3,519,809  | 4-Star | 10                             | 2              | 22,351         | 2              | 22,351         |
| <b>Related parties</b>                      |              |            |        |                                |                |                |                |                |
| JS Value Fund [formerly BSJS Balanced Fund] | 8,745,668    | 8,745,668  | 5-Star | 10                             | 99,701         | 99,701         | 123,314        | 99,701         |
| UTP Large Capital Fund                      | 24,205,790   | 24,205,790 | 4-Star | 10                             | 193,646        | 193,646        | 196,067        | 193,646        |
| Crosby Dragon Fund                          | -            | 957,972    | 3-Star | 100                            | -              | 89,283         | -              | 89,283         |
|   |              |            |        |                                | <u>293,349</u> | <u>404,981</u> | <u>319,383</u> | <u>404,981</u> |

11. ADVANCES

|   | Note | December 31, 2007 | December 31, 2006 |
|---|------|-------------------|-------------------|
| Loans, cash credit, running finances, etc. - in Pakistan                      |      | 4,452,950         | 607,765           |
| Bills discounted and purchased (excluding treasury bills) payable in Pakistan |      | 147,938           | 109               |
| Financing in respect of continuous funding system                             | 11.2 | 1,992,747         | 1,193,656         |
| Advances - gross  |      | <u>6,593,635</u>  | <u>1,801,530</u>  |
| Provision for non-performing advances - specific                              | 11.4 | (113,604)         | (108,699)         |
| Provision for non-performing advances - general                               | 11.4 | (4,068)           |                   |
|   |      | <u>(117,672)</u>  | <u>(108,699)</u>  |
| Advances - net of provision   |      | <u>6,475,963</u>  | <u>1,692,831</u>  |

11.1 Particulars of advances (Gross)

|  |                  |                  |
|--|------------------|------------------|
| 11.1.1 In local currency               | 6,500,635        | 1,801,530        |
| In foreign currency                    | 93,000           | -                |
|  | <u>6,593,635</u> | <u>1,801,530</u> |
| 11.1.2 Short term (for up to one year) | 5,793,772        | 1,775,700        |
| Long term (for over one year)          | 799,863          | 25,830           |
|  | <u>6,593,635</u> | <u>1,801,530</u> |

11.2 The fair value of the securities held in respect of continuous funding system as on December 31, 2007 amounted to Rs.1,887.687 (2006: Rs.1,152.349) million.



**11.3** Advances include Rs.143.604 (2006: Rs.108.699) million which have been placed under non-performing status as detailed below:-

| Category of Classification        | Note   | December 31, 2007 |          |                |                    |                |
|-----------------------------------|--------|-------------------|----------|----------------|--------------------|----------------|
|                                   |        | Domestic          | Overseas | Total          | Provision Required | Provision Held |
| -----Rupees in '000-----          |        |                   |          |                |                    |                |
| Other Assets Especially Mentioned |        | -                 | -        | -              | -                  | -              |
| Substandard                       | 11.3.1 | 40,000            | -        | 40,000         | 10,000             | 10,000         |
| Doubtful                          |        | -                 | -        | -              | -                  | -              |
| Loss                              |        | 103,604           | -        | 103,604        | 103,604            | 103,604        |
|                                   |        | <u>143,604</u>    | <u>-</u> | <u>143,604</u> | <u>113,604</u>     | <u>113,604</u> |

**11.3.1** This represents call lending, amounting to Rs.40.00 million, provided to a borrower against which the bank had made a provision of Rs.10 million during the current year. Further, in May 2007, this lending was restructured by the bank. Upon receiving relaxation under R-4.2(d) and R-8 of the Prudential Regulations for Corporate / Commercial Banking from the SBP vide its letter No. BPRD/BRD-3/Corp/2007/7534, dated July 24, 2007. Accordingly, the bank has reclassified the said lending as an unsecured loan.

| Category of Classification        | December 31, 2006 |          |                |                    |                |
|-----------------------------------|-------------------|----------|----------------|--------------------|----------------|
|                                   | Domestic          | Overseas | Total          | Provision Required | Provision Held |
| -----Rupees in '000-----          |                   |          |                |                    |                |
| Other Assets Especially Mentioned | -                 | -        | -              | -                  | -              |
| Substandard                       | -                 | -        | -              | -                  | -              |
| Doubtful                          | -                 | -        | -              | -                  | -              |
| Loss                              | 108,699           | -        | 108,699        | 108,699            | 108,699        |
|                                   | <u>108,699</u>    | <u>-</u> | <u>108,699</u> | <u>108,699</u>     | <u>108,699</u> |

**11.4 Particulars of provision against non-performing advances**

|                          | December 31, 2007 |              |                | December 31, 2006 |          |                |
|--------------------------|-------------------|--------------|----------------|-------------------|----------|----------------|
|                          | Specific          | General      | Total          | Specific          | General  | Total          |
| -----Rupees in '000----- |                   |              |                |                   |          |                |
| Opening balance          | 108,699           | -            | 108,699        | 108,699           | -        | 108,699        |
| Charge for the year      | 10,000            | 4,068        | 14,068         | -                 | -        | -              |
| Amounts written off      | -                 | -            | -              | -                 | -        | -              |
| Reversals                | (5,095)           | -            | (5,095)        | -                 | -        | -              |
|                          | <u>4,905</u>      | <u>4,068</u> | <u>8,973</u>   | <u>-</u>          | <u>-</u> | <u>-</u>       |
| Closing Balance          | <u>113,604</u>    | <u>4,068</u> | <u>117,672</u> | <u>108,699</u>    | <u>-</u> | <u>108,699</u> |



|                       | December 31, 2007        |              |                | December 31, 2006        |          |                |
|-----------------------|--------------------------|--------------|----------------|--------------------------|----------|----------------|
|                       | Specific                 | General      | Total          | Specific                 | General  | Total          |
|                       | -----Rupees in '000----- |              |                | -----Rupees in '000----- |          |                |
| In local currency     | 113,604                  | 4,068        | 117,672        | 108,699                  | -        | 108,699        |
| In foreign currencies | -                        | -            | -              | -                        | -        | -              |
|                       | <u>113,604</u>           | <u>4,068</u> | <u>117,672</u> | <u>108,699</u>           | <u>-</u> | <u>108,699</u> |

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

There have been no loan write offs or any other financial relief allowed to a person during the year ended December 31, 2007 of Rs. 500,000 or above that require disclosure in terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962.

|  | Note | December 31, December 31,  |      |
|--|------|----------------------------|------|
|  |      | 2007                       | 2006 |
|  |      | ----- Rupees in '000 ----- |      |
| <b>11.6 Particulars of loans and advances to directors, associated companies, subsidiaries, etc.</b> |      |                            |      |

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

|                                      |               |              |
|--------------------------------------|---------------|--------------|
| Balance at the beginning of the year | 1,052         | -            |
| Loans granted during the year        | 88,381        | 1,052        |
| Repayments                           | (12,321)      | -            |
| Balance at the end of the year       | <u>77,112</u> | <u>1,052</u> |

### 12. OPERATING FIXED ASSETS

|                          |      |                |                |
|--------------------------|------|----------------|----------------|
| Capital work-in-progress | 12.1 | 90,440         | 4,256          |
| Property and equipment   | 12.2 | 295,179        | 78,172         |
| Intangible assets        | 12.3 | 106,117        | 297,156        |
|                          |      | <u>491,736</u> | <u>379,584</u> |

#### 12.1 Capital work-in-progress

##### Property and equipment

|                                   |        |       |
|-----------------------------------|--------|-------|
| Civil works                       | 10,590 | -     |
| Advance for purchase of vehicles  | 5,458  | 4,256 |
| Advance for purchase of equipment | 1,655  | -     |

##### Intangible

|                   |               |              |
|-------------------|---------------|--------------|
| Computer software | 72,737        | -            |
|                   | <u>90,440</u> | <u>4,256</u> |

## 12.2 Property and equipment

|   | COST                  |                           | ACCUMULATED DEPRECIATION  |                         |                    |              | Book value as at December 31, 2007 | Rate %  |           |
|---|-----------------------|---------------------------|---------------------------|-------------------------|--------------------|--------------|------------------------------------|---------|-----------|
|   | As at January 1, 2007 | Additions during the year | Disposals during the year | As at December 31, 2007 | On January 1, 2007 | For the year |                                    |         | Disposals |
|   | Rupees in '000        |                           |                           |                         |                    |              |                                    |         |           |
| Building on lease hold land - note 12.2.1 | 40,138                | 60,000                    | -                         | 100,138                 | -                  | 2,657        | 2,657                              | 97,481  | 2.3-4.78  |
| Lease hold improvements                   | 31,626                | 51,627                    | -                         | 83,253                  | 16,958             | 3,691        | 20,649                             | 62,604  | 10        |
| Furniture and fixture                     | 20,878                | 10,230                    | (68)                      | 31,040                  | 12,196             | 2,203        | 14,376                             | 16,664  | 10-20     |
| Electrical, office and computer equipment | 85,329                | 57,495                    | (7,486)                   | 135,338                 | 75,985             | (7,062)      | 9,192                              | 57,223  | 12.5-33.3 |
| Vehicles                                  | 18,302                | 73,594                    | (16,735)                  | 75,161                  | 12,962             | (11,121)     | 12,113                             | 61,207  | 20        |
|   | 196,273               | 252,946                   | (24,289)                  | 424,930                 | 118,101            | (18,206)     | 29,856                             | 295,179 |           |

|   | COST                 |                             | ACCUMULATED DEPRECIATION   |                         |                   |              | Book value as at December 31, 2006 | Rate % |                            |
|---|----------------------|-----------------------------|----------------------------|-------------------------|-------------------|--------------|------------------------------------|--------|----------------------------|
|   | As at March 15, 2006 | Additions during the period | Acquired upon Amalgamation | As at December 31, 2006 | On March 15, 2006 | For the year |                                    |        | Acquired upon Amalgamation |
|   | Rupees in '000       |                             |                            |                         |                   |              |                                    |        |                            |
| Building on lease hold land               | -                    | -                           | 40,138                     | 40,138                  | -                 | -            | -                                  | 40,138 | 2.5-4.78                   |
| Lease hold improvements                   | -                    | -                           | 31,626                     | 31,626                  | -                 | 16,958       | -                                  | 14,668 | 10                         |
| Furniture and fixture                     | -                    | -                           | 20,878                     | 20,878                  | -                 | 12,196       | -                                  | 8,682  | 10-20                      |
| Electrical, office and computer equipment | -                    | 1,607                       | 83,722                     | 85,329                  | -                 | 75,940       | 45                                 | 9,344  | 12.5-33.3                  |
| Vehicles                                  | -                    | 1,554                       | 16,748                     | 18,302                  | -                 | 12,936       | 26                                 | 5,340  | 20                         |
|   | -                    | 3,161                       | 193,112                    | 196,273                 | -                 | 118,030      | 71                                 | 78,172 |                            |

**12.2.1** Addition during the year represents the consideration paid by the bank in connection with the transfer of tenancy rights in favour of the bank in respect of the property at the Karachi Stock Exchange building. The ownership of the property rests with the Karachi Stock Exchange (KSE).

The bank has exercised the option given by the KSE to convert these tenancy rights into a lease for a period of 45 years. The lease agreement in this regard is in the process of being signed by both the parties. Accordingly, the above amount has been classified as a part of fixed assets of the bank.

**12.2.2** Included in cost of property and equipment are fully depreciated items still in use having cost of Rs.74,059 (2006: Rs.70,082) million.

**12.2.3** The fair value of property and equipment is not materially different from their carrying amount.

**12.2.3 Details of disposal of fixed assets having written down value exceeding Rs.50,000 each**

| Particulars           | Acquisition cost | Accumulated depreciation | Written down value | Sale proceeds | Profit/(loss) | Mode of disposal      | Buyer's particulars   |
|-----------------------|------------------|--------------------------|--------------------|---------------|---------------|-----------------------|---|
|                       |                  |                          |                    |               |               |                       |   |
| <b>Motor Vehicles</b> |                  |                          |                    |               |               |                       |   |
| Suzuki Baleno         | 834              | 612                      | 222                | 475           | 253           | Negotiation           | Mr. Ilyas Ahmed<br>Karachi  |
| Honda City            | 705              | 587                      | 118                | 397           | 279           | As per<br>Bank policy | Mr. Sadiq Iman, Employee<br>Karachi   |
| Honda City            | 798              | 678                      | 120                | 441           | 321           | As per<br>Bank policy | Mr. Junaid Ansari, Employee<br>Karachi  |
| Suzuki Cultus         | 560              | 476                      | 84                 | 259           | 175           | As per<br>Bank policy | Mr. Saifuddin, Employee<br>Karachi  |
| Honda Accord          | 1,554            | 130                      | 1,424              | 1,214         | (210)         | As per<br>Bank policy | Mr. Ashraf Shehzad, Employee<br>Karachi   |
| Honda City            | 829              | 622                      | 207                | 400           | 193           | Negotiation           | JS Global Capital Limited<br>- a related party<br>6th Floor, Faysal House,<br>Shahra-e-Faisal, Karachi                        |
| Honda Civic           | 800              | 453                      | 347                | 410           | 63            | Negotiation           | ---- do ----  |
| Toyota Corolla        | 969              | 113                      | 856                | 969           | 113           | Insurance<br>claim    | EFU General Insurance Limited<br>- a related party<br>Central Division, 1st Floor, Kashif<br>Centre, Shahra-e-Faisal, Karachi |
| Honda Civic           | 1,506            | 151                      | 1,355              | 1,506         | 151           | Insurance<br>claim    | ---- do ----  |
| Toyota Corolla        | 969              | 162                      | 807                | 969           | 162           | Insurance<br>claim    | ---- do ----  |



|   |             | December 31,<br>2007       | December 31,<br>2006 |
|---|-------------|----------------------------|----------------------|
|   | Note        | ----- Rupees in '000 ----- |                      |
| <b>13. DEFERRED TAX ASSETS</b>          |             |                            |                      |
| Deferred tax debits arising from:       |             |                            |                      |
| Unused tax losses                       | 13.1 & 13.2 | <b>185,106</b>             | 25,125               |
| Provision against investments and loans | 13.3        | <b>3,405</b>               | 1,125                |
| Deferred cost                           |             | <b>1,886</b>               | -                    |
| Gratuity                                |             | <b>2,513</b>               | -                    |
| Deferred tax credits arising due to:    |             |                            |                      |
| Fixed assets                            |             | <b>(11,085)</b>            | -                    |
| Goodwill                                |             | <b>(51,367)</b>            | -                    |
| Surplus on revaluation of assets        |             | <b>(3,933)</b>             | -                    |
|   |             | <b>126,525</b>             | <b>26,250</b>        |

**13.1** Included herein is a sum of Rs.25.125 (2006: Rs.25.125) million representing deferred tax asset relating to Jahangir Siddiqui Investment Bank Limited in respect of tax losses, expected to be available for carry forward and set off against the income of the bank in terms of Section 57 A of the Income Tax Ordinance, 2001. In addition, it also includes deferred tax asset set up in respect of current year's tax loss.

**13.2** Deferred tax asset, amounting to Rs.529.217 (2006: Rs.529.217) million, on unused tax losses of AEBL, has not been recognized in these financial statements as the bank is of the view that due to its operations being in the initial stages, these losses would be accounted for as and when the same are utilised. At the year end, these unused tax losses amounted to Rs.1,512.049 (2006: Rs.1,512.049) million.

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

#### 14. OTHER ASSETS

|   |                |        |
|---|----------------|--------|
| Income / Mark-up accrued in local currency            | <b>190,002</b> | 48,648 |
| Income / Mark-up accrued in foreign currency          | <b>1,374</b>   | 24     |
| Advances, deposits, advance rent and other prepayment | <b>87,264</b>  | 28,463 |
| Taxation (payments less provision)                    | <b>86,956</b>  | 60,794 |
| Receivable against sale of marketable securities      | <b>242,532</b> | 21,241 |
| Stationery and stamps on hand                         | <b>968</b>     | 38     |
| Prepaid exchange risk fee                             | <b>508</b>     | 732    |
| Trustee fee receivable from a related party           | <b>866</b>     | -      |



|  | Note        | December 31,<br>2007 | December 31,<br>2006 |
|--|-------------|----------------------|----------------------|
| Exchange difference on revaluation of forward foreign exchange contracts |             | 9,014                | 357                  |
| Goodwill   | 14.1 & 14.2 | 1,463,624            | 1,463,624            |
| Deferred costs   | 14.3        | -                    | 6,736                |
| Advance in respect of investments - secured                              | 14.4        | 200,000              | 25,535               |
| Others   |             | 8,359                | 6,662                |
|  |             | <u>2,291,467</u>     | <u>1,662,854</u>     |

#### 14.1 Goodwill

|                                    |        |                  |                  |
|------------------------------------|--------|------------------|------------------|
| As at 1st January                  |        | 1,463,624        | -                |
| Arising on acquisition             |        | -                | 1,463,825        |
| Amortization charge for the period |        | -                | (201)            |
| At 31st December                   | 14.1.1 | <u>1,463,624</u> | <u>1,463,624</u> |

**14.1.1** This represents goodwill arising as a result of acquisition of operations of Jahangir Siddiqui Investment Bank Limited (JSIBL) and American Express Bank Limited (AEBL) Pakistan Operations (refer note 1.2), amortised by Rs.0.201 million upto December 31, 2006. However, as mentioned in note 6.17, the said goodwill is now subjected to impairment testing as required under International Accounting Standard 36, "Impairment of assets".

**14.2** For impairment testing, goodwill has been allocated to 'Trading and Sales' Segment as Cash Generating Unit (CGU), which is also a reportable segment.

Key assumptions used in value in use calculation

The recoverable amount of the CGU has been determined based on value in use calculation, using cash flow projections based on business plans approved by the senior management of the bank covering a five year period. The discount rates applied to cash flows beyond the five year period are extrapolated using a terminal growth rate. The following rates are used by the bank.

|                                 | 2007  |
|---------------------------------|-------|
| Discount rate - discrete period | 23.1% |
| Terminal growth rate            | 10.0% |

The calculation of value in use is most sensitive to the following assumptions:

**(a) Interest margins**

Interest margins are based on prevailing industry trends and anticipated market conditions.

**(b) Discount rates**

Discount rates reflect management estimates of the rate of return required for each business and are calculated after taking into account the prevailing risk free rate, industry risk and business risk. Discount rates are calculated by using the cost of equity of the bank.

**(c) Key business assumptions**

These assumptions are important because, as well as using industry data for growth rates, management assess how the unit's position might change over the projected period. Management expects aggressive growth in advances, investments and deposits during the projected periods and thereafter stabilize in line with industry trends.

**(d) Sensitivity to changes in assumptions**

Management believes that reasonable possible changes in other assumptions used to determine the recoverable amounts will not result in an impairment of goodwill.

**14.3** During the previous year, the bank incurred preliminary expenses in respect of incorporation and amalgamation with JSIBL and AEBL. Upto December 31, 2006, this cost was being amortized over a period of five years. However, during the current year, the management has written off the remaining unamortized portion due to the changes brought about in the revised Fourth Schedule to the Companies Ordinance, 1984.

**14.4** This represents advance paid for subscription of:

- (a) privately placed Term Finance Certificates of Orix Investment Bank Limited, amounting to Rs.100 million, having a tenor of five years from the date of issue, with principal repayments in six semi annual installments carrying mark-up at the rate of six months KIBOR offer rate plus 140 bps.
- (b) privately placed diminishing musharika based Sukuk Certificates of Sitara Chemical Industries Limited, amounting to Rs.100 million, and having a tenor of five years from first drawdown, with principal repayments in quarterly installments, carrying profit at the rate of three months KIBOR offer rate plus 100 bps.

**15. BILLS PAYABLE**

|                            | Note | December 31,<br>2007 | December 31,<br>2006 |
|----------------------------|------|----------------------|----------------------|
| ----- Rupees in '000 ----- |      |                      |                      |
| In Pakistan                |      | 719,709              | 591,864              |
| Outside Pakistan           |      | 7,470                | 18,759               |
|                            |      | 727,179              | 610,623              |



|  | Note   | December 31,<br>2007 | December 31,<br>2006 |
|--|--|----------------------|----------------------|
| ----- Rupees in '000 -----                                       |  |                      |                      |
| <b>16. BORROWINGS</b>  |  |                      |                      |
| In Pakistan  |  | 471,155              | 800,000              |
| Outside Pakistan   |  | 9,992                | 5                    |
|  |  | <u>481,147</u>       | <u>800,005</u>       |
| <b>16.1 Particulars of borrowings with respect to Currencies</b> |  |                      |                      |
| In local currency  |  | 471,155              | 800,000              |
| In foreign currencies  |  | 9,992                | 5                    |
|  |  | <u>481,147</u>       | <u>800,005</u>       |
| <b>16.2 Details of borrowings - unsecured</b>                    |  |                      |                      |
| Call borrowing   |  | -                    | 800,000              |
| Repurchase agreement borrowing                                   | 16.2.1   | 471,155              | -                    |
| Overdrawn nostro accounts  | 16.2.2   | 9,992                | 5                    |
|  |  | <u>481,147</u>       | <u>800,005</u>       |
| <b>16.2.1</b>  | This represents collateralized borrowing from a commercial bank, against market treasury bills, carrying mark-up at the rate of 9.37% per annum and would mature in February 2008. |                      |                      |
| <b>16.2.2</b>  | This represents borrowings of Rs.9.992 million (2006: Nil) from Habib American Bank, New York, outside Pakistan.   |                      |                      |
| <b>17. DEPOSITS AND OTHER ACCOUNTS</b>                           |  |                      |                      |
| <b>Customers</b>   |  |                      |                      |
| Fixed deposits   |  | 6,354,276            | 3,018,679            |
| Savings deposits   |  | 3,052,699            | 3,021,986            |
| Current Accounts - Non-remunerative                              |  | 1,580,919            | 1,146,794            |
| Margin account   |  | 11,633               | 7,802                |
|  |  | <u>10,999,527</u>    | <u>7,195,261</u>     |
| <b>Financial Institutions</b>                                    |  |                      |                      |
| Remunerative deposits  |  | 2,588,667            | -                    |
| Non-remunerative deposits  |  | 91,704               | 2,888                |
|  |  | <u>2,680,371</u>     | <u>2,888</u>         |
|  |  | <u>13,679,898</u>    | <u>7,198,149</u>     |
| <b>17.1 Particulars of deposits</b>                              |  |                      |                      |
| In local currency  |  | 12,528,073           | 5,745,095            |
| In foreign currencies  |  | 1,151,825            | 1,453,054            |
|  |  | <u>13,679,898</u>    | <u>7,198,149</u>     |



| 18. OTHER LIABILITIES                                  | Note | December 31,               | December 31,   |
|--|------|----------------------------|----------------|
|  |      | 2007                       | 2006           |
|  |      | ----- Rupees in '000 ----- |                |
| Mark-up/ Return / Interest payable in local currency   |      | 91,897                     | 88,402         |
| Mark-up/ Return / Interest payable in foreign currency |      | 374                        | 947            |
| Accrued expenses                                       | 18.1 | 98,499                     | 54,935         |
| Payable in respect of defined benefit plan             |      | 7,239                      |                |
| Retention money  |      | 5,481                      | -              |
| Customer insurance                                     |      | 8,323                      | -              |
| Branch adjustment account                              |      | 5,199                      | -              |
| Unclaimed dividends                                    |      | 4,328                      | 4,822          |
| Government duties                                      |      | 1,189                      | -              |
| Payable against purchase of marketable securities      |      | -                          | 3,255          |
| Subscription amount received as banker to the issue    |      | -                          | 95,503         |
| Payable to American Express Bank Limited, New York     | 18.2 | -                          | 661,769        |
| Others   |      | 23,192                     | 23,237         |
|  |      | <u>245,721</u>             | <u>932,870</u> |

18.1 Included herein is a sum of Rs.0.847 million (2006: Nil) payable to related parties.

18.2 During the current year, an amount of Rs.658.023 million placed in approved foreign exchange interest free deposit with SBP as head office capital account has been remitted to American Express Bank New York on value date January 02, 2007.

## 19. SHARE CAPITAL

| December 31,                                       | December 31,       |  | December 31,               | December 31,       |
|--|--------------------|--|----------------------------|--------------------|
| 2007   | 2006               |  | 2007                       | 2006               |
|  |                    |  | ----- Rupees in '000 ----- |                    |
| <b>19.1 Authorized Capital</b>                     |                    |  |                            |                    |
| <u>550,050,000</u>                                 | <u>550,050,000</u> | Ordinary shares of Rs. 10/- each         | <u>550,050,000</u>         | <u>550,050,000</u> |
| <b>19.2 Issued, subscribed and paid-up capital</b> |                    |  |                            |                    |
| <b>Ordinary shares of Rs. 10/- each</b>            |                    |  |                            |                    |
| 234,221,250  | 24,010,000         | Issued for cash                          | 19.2.1                     | 2,342,212          |
| 276,412,500  | 276,412,500        | Issued for consideration other than cash |                            | 2,764,125          |
| <u>510,633,750</u>                                 | <u>300,422,500</u> |  | 19.2.2                     | <u>5,106,337</u>   |
|  |                    |  |                            | <u>3,004,225</u>   |

19.2.1 During the current year, the bank issued 210,211,250 Ordinary shares, with a face value of Rs.10/- each, as right shares at par.

19.2.2 Jahangir Siddiqui & Company Limited (the holding company), held 293,238,704 (2006: 172,521,177) Ordinary shares of Rs.10/- each as at December 31, 2007 representing 57.43% (2006: 57.43%) holding.



|  | December 31,<br>2007       | December 31,<br>2006 |
|--|----------------------------|----------------------|
|  | ----- Rupees in '000 ----- |                      |
| <b>20. SURPLUS ON REVALUATION OF ASSETS - net of tax</b>   |                            |                      |
| <b>Surplus / (deficit) arising on revaluation of available for sale securities:</b>  |                            |                      |
| Term Finance Certificates - listed   | 4,615                      | -                    |
| Ordinary Shares - listed   | 33,634                     | -                    |
| Preference Shares - listed   | (1,069)                    | -                    |
| Mutual Fund Units  | 26,034                     | -                    |
| Government Securities  | (6,825)                    | -                    |
|  | <u>56,389</u>              | -                    |
| Less: Related deferred tax liability   | (3,933)                    | -                    |
|  | <u>52,456</u>              | -                    |
| <b>21. CONTINGENCIES AND COMMITMENTS</b>   |                            |                      |
| <b>21.1 Transaction-related Contingent Liabilities</b>   |                            |                      |
| Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credit related to particular transactions. |                            |                      |
| i) Government  | 51,258                     | 10,217               |
| ii) Banking companies and other financial institutions   | 15                         | 15                   |
| ii) Others   | 10,244                     | -                    |
|  | <u>61,517</u>              | <u>10,232</u>        |
| <b>21.2 Trade-related Contingent Liabilities</b>   |                            |                      |
| Documentary credits  | <u>134,348</u>             | -                    |
| <b>21.3 Other Contingencies</b>  |                            |                      |
| Claims not acknowledged as debts   | <u>108,457</u>             | <u>702,345</u>       |
| <b>21.4 Commitments in respect of forward exchange contracts</b>   |                            |                      |
| Purchase   | <u>1,941,004</u>           | <u>2,100,726</u>     |
| Sale   | <u>1,256,303</u>           | <u>1,998,007</u>     |

The bank utilises foreign exchange instruments to meet the need of its customers and as part of its asset and liability management activity to hedge its own exposure to currency risk. At year end, all foreign exchange contracts have a remaining maturity of less than one year.

|  | December 31,<br>2007       | December 31,<br>2006 |
|--|----------------------------|----------------------|
|  | ----- Rupees in '000 ----- |                      |
| <b>21.5 Other Contingencies</b>  |                            |                      |
| Forward sale commitments in respect of TFCs  | <u>102,880</u>             | <u>95,000</u>        |
| Underwriting commitments in respect of purchase  |                            |                      |
| - of shares of a related party   | <u>155,000</u>             | <u>151,750</u>       |
| - of TFCs  | <u>-</u>                   | <u>10,000</u>        |
| Pre-IPO commitments  | <u>-</u>                   | <u>15,000</u>        |
| <b>21.6</b> US dollars 37,500 per month or actual service cost, whichever is lower, for the computer software and Technical Services and Technical Support payable to American Express Bank Limited, New York. |                            |                      |
| <b>21.7</b> Commitment in respect of capital expenditure   | <u>94,174</u>              | <u>-</u>             |

## 22. DERIVATIVE INSTRUMENTS

The bank, at present, does not offer structured derivative products such as Internal Rate Swaps, Forward Rate Agreements and FX Options. However, the bank's Treasury buys and sells financial instruments such as forward foreign exchange contracts.

The management is committed to managing risk and controlling business and financial activities in a manner which enables it to maximize profitable business opportunities, avoid or reduce risks, which can cause loss or reputation damage, ensure compliance with applicable laws and regulations and resilience to external events.

The Asset and Liability Committee regularly reviews the bank's risk profile in respect of derivatives. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and derivative activities. These controls include appropriate segregation of duties, regular reconciliation of account and the valuation of assets and liability positions. The bank has established trading limits, allocation process, operating controls and reporting requirements that are specifically designed to control risk of aggregate positions, assure compliance with accounting and regulatory standards and provide accurate management information regarding these activities.

Accounting policies in respect of derivative financial instruments are described in note 6.6.2.

|   | Note | For the year ended<br>December 31,<br>2007 | For the day of<br>December 31,<br>2006 |
|---|------|--|--|
|   |      | ----- Rupees in '000 -----                 |  |
| <b>23. MARK-UP / RETURN / INTEREST EARNED</b>   |      |  |  |
| <b>On loans and advances to:</b>                |      |  |  |
| Customers                                       |      | 196,757                                    | 136                                    |
| Financial Institutions                          |      | 322,127                                    | 515                                    |
| <b>On investments in:</b>                       |      |  |  |
| Available for sale securities                   |      | 352,397                                    | 572                                    |
| Held for trading securities                     |      | 33,066                                     | -                                      |
| On deposits with financial institutions         |      | 76,378                                     | 178                                    |
| On securities purchased under resale agreements |      | <u>149,658</u>                             | <u>649</u>                             |
|   |      | <u>1,130,383</u>                           | <u>2,050</u>                           |



|   | Note | For the year ended<br>December 31,<br>2007<br>----- Rupees in '000 ----- | For the day of<br>December 31,<br>2006 |
|---|------|--|--|
| <b>24. MARK-UP / RETURN / INTEREST EXPENSED</b> |      |  |  |
| Deposits  |      | 746,174  | 1,307                                  |
| Securities sold under repurchase agreements     |      | 71,647   | 247                                    |
| Borrowings                                      |      | 46,479   | -                                      |
|   |      | <u>864,300</u>   | <u>1,554</u>                           |
| <b>25. FEE, COMMISSION AND BROKERAGE INCOME</b> |      |  |  |
| Advisory fee                                    |      | 84,006   | -                                      |
| Trustee fee                                     |      | 6,980  | -                                      |
| Other fees, commission and charges              |      | 35,556   | -                                      |
|   |      | <u>126,542</u>   | <u>-</u>                               |
| <b>26. GAIN ON SALE OF SECURITIES - net</b>     |      |  |  |
| Federal Government Securities                   |      |  |  |
| Treasury Bills                                  |      | (1,150)  | -                                      |
| Pakistan Investment Bonds                       |      | 6,670  | -                                      |
| Ordinary shares - listed                        |      | 104,527  | -                                      |
| Ordinary shares - unlisted, of a related party  |      | 3,598  | -                                      |
| Term Finance Certificates                       |      | 19,047   | -                                      |
| Mutual Fund Units                               |      | 16,199   | -                                      |
|   |      | <u>148,891</u>   | <u>-</u>                               |
| <b>27. ADMINISTRATIVE EXPENSES</b>              |      |  |  |
| Salaries, wages, allowances, etc.               |      | 245,755  | -                                      |
| Charge for defined benefit plan                 |      | 7,239  | -                                      |
| Contribution to defined contribution plan       |      | 8,037  | -                                      |
| Contractor wages                                |      | 24,408   | -                                      |
| Brokerage, fee and commission                   |      | 7,205  | -                                      |
| Rent, taxes, insurance, electricity, etc.       | 27.1 | 90,590   | -                                      |
| Legal and professional charges                  |      | 3,474  | -                                      |
| Communication                                   |      | 11,951   | -                                      |
| Repairs and maintenance                         |      | 31,454   | -                                      |
| Travel and other related expenses               |      | 2,808  | -                                      |
| Stationery and printing                         |      | 12,431   | -                                      |
| Advertisement and publicity                     |      | 10,463   | -                                      |
| Postage and courier service                     |      | 3,138  | -                                      |
| Stamp duty                                      |      | 7,335  | -                                      |
| CDC charges                                     |      | 4,886  | -                                      |
| Bank charges and clearing house charges         |      | 3,888  | -                                      |
| Fees and subscription                           |      | 17,909   | -                                      |

|                                   | Note | For the year ended<br>December 31,<br>2007 | For the day of<br>December 31,<br>2006 |
|-----------------------------------|------|--|--|
| ----- Rupees in '000 -----        |      |  |  |
| Auditors' remuneration            | 27.2 | 4,334                                      | 200                                    |
| Depreciation                      | 12.2 | 29,856                                     | 71                                     |
| Amortization of intangible assets | 12.3 | 191,839                                    | 527                                    |
| Amortization of goodwill          |      | -  | 201                                    |
| Amortization of deferred cost     | 14.2 | 6,736                                      | 4                                      |
| Others                            |      | 10,527                                     | -                                      |
|                                   |      | <u>736,263</u>                             | <u>1,003</u>                           |

27.1 Included herein is a sum of Rs.27.802 million charged in respect of rent of BNS Software, payable to American Express Bank, New York.

#### 27.2 Auditors' Remuneration

|  |              |            |
|--|--------------|------------|
| Audit fee - Ford Rhodes Sidat Hyder & Co.        | 550          | 100        |
| Audit fee - M. Yusuf Adil Saleem & Co.           | -            | 100        |
| Code of corporate governance review fee          | 100          | -          |
| Half-yearly review                               | 200          | -          |
| Special certification and miscellaneous services | 3,423        | -          |
| Out of pocket expenses                           | 61           | -          |
|  | <u>4,334</u> | <u>200</u> |

#### 28. OTHER CHARGES

|   |     |   |
|---|-----|---|
| Penalties imposed by State Bank of Pakistan | 654 | - |
|---|-----|---|

#### 29. TAXATION

The numerical reconciliation between the average tax rate and the applicable tax rate has not been presented in these financial statements as the total income of the bank is subject to minimum taxation @ 0.5% percent under section 113 of Income Tax Ordinance, 2001.

Under Section 114 of the Income Tax Ordinance 2001 (Ordinance), the bank has filed the return of income for Tax year 2006 on due date. The said return shall be taken to be an assessment order passed by the Commissioner of Income Tax on the day the said return was filed.

|  | Note | December 31,<br>2007 | December 31,<br>2006 |
|--|------|----------------------|----------------------|
| ----- Rupees in '000 -----   |      |                      |                      |
| <b>30. EARNINGS / (LOSS) PER SHARE - BASIC AND DILUTED</b>                         |      |                      |                      |
| Profit / (loss) for the year / period after taxation                               |      | <u>35,431</u>        | <u>(417)</u>         |
| Weighted average number of Ordinary shares<br>outstanding during the year (Number) |      | <u>387,015,099</u>   | <u>1,331,794</u>     |
| Earnings per share - basic and diluted (Rupees)                                    |      | <u>0.09</u>          | <u>-</u>             |

There is no dilution effect on basic earnings per share.



|                                       | <b>December 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---------------------------------------|------------------------------|------------------------------|
|                                       | ----- Rupees in '000 -----   |                              |
| <b>31. CASH AND CASH EQUIVALENTS</b>  |                              |                              |
| Cash and Balances with Treasury Banks | 977,235                      | 1,912,648                    |
| Balances with other banks             | 254,079                      | 1,463,280                    |
| Overdrawn nostro account              | (9,992)                      | (5)                          |
|                                       | <u>1,221,322</u>             | <u>3,375,923</u>             |

|  | <b>December 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|--|------------------------------|------------------------------|
|  | Number                       |                              |
| <b>32. STAFF STRENGTH</b>                      |                              |                              |
| Permanent                                      | 280                          | 18                           |
| Temporary / on contractual basis               | 1                            | -                            |
| Bank own staff strength at the end of the year | <u>281</u>                   | <u>18</u>                    |
| Outsourced                                     | 177                          | -                            |
|  | <u>458</u>                   | <u>18</u>                    |

### 33. DEFINED BENEFIT PLAN

#### 33.1 General description

The bank operates a unfunded gratuity scheme for all employees who opted for the new staff retirement benefit scheme introduced by the management with effect from January 01, 2007. Comparative and prior period disclosures in respect of the scheme has not been disclosed as the scheme was established during the current year.

#### 33.2 Number of employees under the schemes

The number of employees covered under the following defined benefit scheme/plans are 280.

#### 33.3 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:

|                                  | <b>December 31,<br/>2007</b> | <b>Source of estimation</b> |
|----------------------------------|------------------------------|-----------------------------|
|                                  | %                            |                             |
| Discount rate                    | 10%                          | Yield on government bonds.  |
| Expected rate of salary increase | 10%                          | Linked to discount rates.   |

|  | December 31,<br>2007<br>Rupees in '000 |
|--|--|
| <b>33.4 Reconciliation of (receivable) / payable to defined benefit plan</b>       |  |
| Present value of defined benefit obligation  | 9,761                                  |
| Fair value of any plan assets  | -                                      |
| Net actuarial losses not recognized  | (579)                                  |
| Unrecognised transitional liability  | (1,943)                                |
|  | <u>7,239</u>                           |
| <b>33.5 Movement in payable to defined benefit plan</b>                            |  |
| Opening net liability  | -                                      |
| Expense for the year   | 7,239                                  |
| Benefits paid to employees   | -                                      |
| Closing net liability  | <u>7,239</u>                           |
| <b>33.6 Charge for defined benefit plan</b>  |  |
| Current service cost   | 6,510                                  |
| Interest cost  | 243                                    |
| Expected return on plan assets   | -                                      |
| Transitional liability recognised  | 486                                    |
| Actuarial (gain) / losses recognised   | -                                      |
|  | <u>7,239</u>                           |
| <b>33.7 Actual return on plan assets</b>   | <u>-</u>                               |
| <b>33.8 The bank amortizes transitional liability over a period of five years.</b> |  |

#### 34. DEFINED CONTRIBUTION PLAN

The bank operates a contributory provident fund scheme for all permanent employees. The employer and employee both contribute 10% of the basic salaries to the funded scheme every month. Number of employees covered under this plan are 180 as on December 31, 2007. During the year, employees made a contribution of Rs 8.037 million to the fund. The bank has also made a contribution of equal amount to the fund.



### 35. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for the year in respect of the remuneration and benefits to the President / Chief Executive, Directors and Executives are as follows:

|                                      | 2007                       |               |                | Total          |
|--------------------------------------|----------------------------|---------------|----------------|----------------|
|                                      | President                  | Directors     | Executives     |                |
|                                      | ----- Rupees in 000' ----- |               |                |                |
| Managerial remuneration              | 5,458                      | 5,826         | 58,930         | 70,214         |
| Defined contribution plan            | 545                        | 523           | 4,486          | 5,554          |
| Charge for defined contribution plan | 455                        | 435           | 4,911          | 5,801          |
| Rent and house maintenance           | 2,456                      | 2,351         | 26,518         | 31,325         |
| Utilities                            | 634                        | 563           | 6,276          | 7,473          |
| Medical                              | 21                         | 12            | 934            | 967            |
| Conveyance and vehicle maintenance   | 579                        | 316           | 6,337          | 7,232          |
| Bonus                                | 15,000                     | 9,600         | 27,083         | 51,683         |
|                                      | <u>25,148</u>              | <u>19,626</u> | <u>135,475</u> | <u>180,249</u> |
| Number of persons                    | <u>1</u>                   | <u>* 3</u>    | <u>68</u>      | <u>72</u>      |

\* Includes remuneration of three directors upto March 30, 2007 i.e the date of election of directors in the First Annual General Meeting. Thereafter, with effect from March 31, 2007, upto December 31, 2007 the remuneration of only one director is included.

**35.1** The President, Directors and certain executives are also provided with other facilities, including free use of the bank maintained cars.

### 36. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the bank's accounting policy as stated in note 6.8 to these financial statements.

The repricing profile, effective rates and maturity are stated in note 40 to these accounts.

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.



### 37. RELATED PARTY TRANSACTIONS

Related parties comprise the parent company, directors and key management personnel of the bank and its parent. The bank in the normal course of business carries out transactions with various related parties. The transactions with the related parties are made at normal market prices.

The detail of transactions with related parties during the year are as follows:

|                                    | December 31, 2007              |                    |
|------------------------------------|--------------------------------|--------------------|
|                                    | Key<br>management<br>personnel | Related<br>parties |
|                                    | ----- Rupees in '000 -----     |                    |
| <b>Advances</b>                    |                                |                    |
| Opening balance                    | -                              | -                  |
| Disbursements                      | 6,777                          | 430,897            |
| Repayments                         | (284)                          | (91,499)           |
| Balance as at December 31          | <u>6,493</u>                   | <u>339,398</u>     |
| Mark-up / return / interest earned | <u>246</u>                     | <u>585</u>         |

|                                      | December 31, 2007              |                    |
|--------------------------------------|--------------------------------|--------------------|
|                                      | Key<br>management<br>personnel | Related<br>parties |
|                                      | ----- Rupees in '000 -----     |                    |
| <b>Deposits</b>                      |                                |                    |
| Opening balance *                    | 106,814                        | 653                |
| Deposits during the year / period    | 563,715                        | 45,857,863         |
| Withdrawals during the year / period | (594,103)                      | (43,141,092)       |
| Balance as at December 31            | <u>76,426</u>                  | <u>2,717,424</u>   |
| Mark-up / return / interest expensed | <u>4,143</u>                   | <u>100,618</u>     |

\* The opening balance of deposit represents balances arising due to amalgamation of AMEX operations with the bank.

The related party status of outstanding receivables and payable as at December 31, 2007 are included in respective notes to the financial statements. Material transactions with related parties are given below:

| Relationship with the bank                  | Nature of transactions         | For the<br>year<br>ended<br>December 31,<br>2007 | For the period<br>from March<br>15, 2006 to<br>December 31,<br>2006 |
|---|--------------------------------|--|---|
|   |                                | ----- Rupees in '000 -----                       |   |
| <b>Companies having common directorship</b> |                                |  |   |
|   | Purchase of TFC                | 74,374   | -   |
|   | Sale of TFC                    | 747,144  | -   |
|   | Insurance claim received       | 3,444  | -   |
|   | Payment of insurance premium   | 7,687  | -   |
|   | Cash received                  | -  | 300,007   |
|   | Payments on behalf of the bank | -  | 15,395  |
|   | Shares issued                  | -  | 40,099  |



|  | For the<br>year<br>ended<br>December 31,<br>2007 | For the period<br>from March<br>15, 2006 to<br>December 31,<br>2006 |
|--|--|---|
|  | ----- Rupees in '000 -----                       |   |
| <b>Parent company</b>                                      |  |   |
| Subscription in right shares                               | 1,207,175  | -   |
| Advisory fee for TFC                                       | 6,250  | -   |
| Payment of rent expense                                    | 125  | -   |
| Refund of security deposit                                 | 1,233  | -   |
| <b>Companies in which parent company holds 20% or more</b> |  |   |
| Purchase of fixed assets                                   | 3,025  | -   |
| Sale of fixed assets                                       | 810  | -   |
| Amount paid for services rendered                          | 628  | -   |
| Purchase of TFC  | 458,134  | -   |
| Sale of TFC  | 427,271  | -   |
| Payment of rent expense                                    | 252  | -   |
| Sale of shares   | 580,643  | -   |
| Purchase of shares   | 423,747  | -   |
| Commission accrued   | 9,543  | -   |
| Dividend income  | 74,895   | -   |
| Advisory fee for TFC                                       | 10,938   | -   |
| Trustee fee  | 470  | -   |
| <b>Other related parties</b>                               |  |   |
| Trustee fee  | 4,524  | -   |
| Purchase of TFCs   | 150,000  | -   |
| Advisory fee for TFC                                       | 21,443   | -   |

**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    |                 |                |                    |                      |           | Total      |
|--|-------------------|-----------------|----------------|--------------------|----------------------|-----------|------------|
|  | Corporate Finance | Trading & Sales | Retail Banking | Commercial Banking | Payment & Settlement | Others    |            |
| Total income                           | 97,221            | 1,222,177       | 170,568        | 27,396             | 25,595               | 5,766     | 1,548,723  |
| Total expenses                         | 1,012             | 182,506         | 813,800        | 34,585             | 8,774                | 570,267   | 1,610,944  |
| Tax expense                            | -                 | -               | -              | -                  | -                    | -         | 6,556      |
| Deferred tax                           | -                 | -               | -              | -                  | -                    | -         | (104,208)  |
| Net income / (loss)                    | 96,209            | 1,039,671       | (643,232)      | (7,189)            | 16,821               | (564,501) | 35,431     |
| Segment Assets (Gross)                 | -                 | 12,934,808      | 5,685,573      | 147,938            | -                    | 1,677,105 | 20,445,424 |
| Segment Non Performing Loans           | -                 | -               | 117,672        | -                  | -                    | -         | 117,672    |
| Segment Provision Required             | -                 | -               | -              | -                  | -                    | -         | -          |
| Segment Liabilities                    | -                 | 481,147         | 13,925,619     | 727,179            | -                    | -         | 15,133,945 |
| Segment Return on net Assets (ROA) (%) | -                 | 10.03           | 12.07          | 10.25              | -                    | -         | -          |
| Segment Cost of funds (%)              | -                 | 9.54            | 6.52           | -                  | -                    | -         | -          |



## 39. CAPITAL ADEQUACY

### 39.1 Capital Management

The primary objectives of the bank's capital management are to ensure that the bank complies with externally imposed capital requirements and that the bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

#### Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No.6 dated October 28, 2006 requires the minimum paid up capital ( net of losses) for Banks/Development Finance Institutions to be raised to Rs 6 billion by the year ending December 31, 2009. The raise is to be achieved in a phased manner requiring Rs 4 billion paid up capital (net of losses) by the end of the financial year 2007. The paid up capital of the bank as at December 31, 2007 stood at Rs 5.106 billion and is in compliance with the SBP requirement for the said year. In addition the banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 8% of the risk weighted exposure of the bank. JS Bank CAR as at December 31, 2007 was 34.03% of its risk weighted exposure.

#### Bank's regulatory capital is analyzed into two tiers

Tier 1 capital, which includes fully paid up capital, general reserves and un-appropriated profits as per the financial statements less goodwill.

Tier 2 capital includes reserves on the revaluations of available for sale investments (up to a maximum of 50% of the balance in the related revaluation reserves).

The capital of the bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD circular No. 6 dated October 28, 2006. The adequacy of the capital is tested with reference to the risk-weighted assets of the bank.

The calculation of Capital Adequacy enables the bank to assess the long-term soundness. As the bank carries on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across the entire organization and aggregate the risks so as to take an integrated approach / view.

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

|   | December 31,<br>2007       | December 31,<br>2006 |
|---|----------------------------|----------------------|
|   | ----- Rupees in '000 ----- |                      |
| <b>Regulatory Capital Base</b>                                    |                            |                      |
| <b>Tier I Capital</b>   |                            |                      |
| Shareholders Capital  | 5,106,337                  | 3,004,225            |
| Statutory reserve   | 7,086                      | -                    |
| Accumulated loss  | 27,928                     | (417)                |
| Less: Adjustments   | (1,463,624)                | (1,463,624)          |
| <b>Total Tier I Capital</b>                                       | <b>3,677,727</b>           | 1,540,184            |
| <b>Tier II Capital</b>  |                            |                      |
| Subordinated Debt (upto 50% of total Tier I Capital)              | -                          | -                    |
| General Provisions subject to 1.25% of Total Risk Weighted Assets | -                          | -                    |
| Revaluation Reserve (upto 50%)                                    | 29,300                     | -                    |
| <b>Total Tier II Capital</b>                                      | <b>29,300</b>              | -                    |
| <b>Eligible Tier III Capital</b>                                  | -                          | -                    |
| <b>Total Regulatory Capital</b>                                   | <b>3,707,027</b>           | 1,540,184            |

(a)

| Risk-Weighted Exposures                           | December 31, 2007          |                     | December 31, 2006 |                     |
|---|----------------------------|---------------------|-------------------|---------------------|
|   | Book Value                 | Risk Adjusted Value | Book Value        | Risk Adjusted Value |
| <b>Credit Risk</b>                                | ----- Rupees in '000 ----- |                     |                   |                     |
| Balance Sheet Items:                              |                            |                     |                   |                     |
| Cash and other liquid Assets                      | 1,231,314                  | 50,816              | 3,375,928         | 292,656             |
| Money at call                                     | 2,115,000                  | 1,215,000           | 754,250           | 150,850             |
| Investments                                       | 7,595,747                  | 1,945,567           | 4,653,758         | 1,500,029           |
| Loans and Advances                                | 6,151,233                  | 6,043,131           | 1,382,277         | 1,350,941           |
| Fixed Assets                                      | 491,736                    | 491,736             | 379,584           | 379,584             |
| Deferred taxation                                 | 126,525                    | 126,525             | 26,250            | 26,250              |
| Other Assets                                      | 2,291,467                  | 725,009             | 1,662,854         | 89,764              |
|   | <b>20,003,022</b>          | <b>10,597,784</b>   | 12,234,901        | 3,790,074           |
| Off Balance Sheet Items:                          |                            |                     |                   |                     |
| Loan Repayment Guarantees                         | -                          | -                   | 6,491             | 6,491               |
| Purchase and Resale Agreement                     |                            |                     |                   |                     |
| Performance Bonds etc.                            | 56,922                     | 15,713              | 2,277             | 1,139               |
| Revolving underwriting Commitments                | 155,000                    | 77,500              | 10,000            | 5,000               |
| Other commitments                                 | 102,880                    | 102,880             | -                 | -                   |
| Letters of Credit                                 | 134,349                    | 67,175              | -                 | -                   |
| Outstanding Foreign Exchange Contracts            |                            |                     |                   |                     |
| - Purchase  | 1,941,004                  | 7,477               | 2,100,726         | 7,583               |
| - Sale  | 1,256,303                  | 2,575               | 1,998,007         | 7,992               |
| - Other commitments                               | -                          | -                   | 110,000           | 110,000             |
|   | <b>3,646,458</b>           | <b>273,320</b>      | 4,227,501         | 138,205             |
| Credit risk-weighted exposures                    |                            | <b>10,871,104</b>   |                   | 3,928,279           |
| <b>Market Risk</b>                                |                            |                     |                   |                     |
| General market risk                               |                            | 1,876               |                   | 584                 |
| Specific market risk                              |                            | -                   |                   | -                   |
| Market risk-weighted exposures                    |                            | <b>23,450</b>       |                   | 7,300               |
| <b>Total Risk-Weighted exposures</b> (b)          |                            | <b>10,894,554</b>   |                   | 3,936,163           |
| <b>Capital Adequacy Ratio [ (a) / (b) x 100 ]</b> |                            | <b>34.03%</b>       |                   | 39.13%              |



## 40. RISK MANAGEMENT

### 40.1 Credit Risk

Credit risk is the risk, which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. Credit risk is managed in terms of lending policy, approved by the board of directors and regulations issued by the SBP. JSBL is exposed to credit risk on loans, term finance, fund placements with financial institutions and certain investment. The bank's strategy is to minimize credit risk through product, geography, and industry and customer diversification. Credit limits are established for all counter-parties after a careful assessment of their credit worthiness. An effective credit granting procedure, which requires pre-sanction evaluation of credit proposal, adequacy of security and pre-disbursement examination of charge documents has been established and managed by risk management group (RMG) at head office. The bank maintains a sound portfolio diversified in nature to counter the risk of credit concentration and further limits risk through diversification of its assets by geographical and industrial sector.

#### 40.1.1 Segmental Information

Segmental information is presented in respect of the class of business and geographical distribution of Advances, deposits, contingencies and commitments.

##### 40.1.1.1 Segment by class of business

|  | December 31, 2007 |              |                   |              |                               |              |
|--|-------------------|--------------|-------------------|--------------|-------------------------------|--------------|
|  | Advances (Gross)  |              | Deposits          |              | Contingencies and Commitments |              |
|  | Rupees<br>in '000 | Percent<br>% | Rupees<br>in '000 | Percent<br>% | Rupees<br>in '000             | Percent<br>% |
| Mining and Quarrying                       | -                 | -            | 18,780            | 0.14         | -                             | -            |
| Textile                                    | 818,313           | 12.41        | 35,445            | 0.26         | 10,296                        | 0.28         |
| Chemical and Pharmaceuticals               | 488,237           | 7.40         | 1,195,207         | 8.74         | 166,755                       | 4.57         |
| CFS Financing                              | 1,992,747         | 30.23        | -                 | -            | -                             | -            |
| Footwear and leather garments              | 60,599            | 0.92         | 42,846            | 0.31         | -                             | -            |
| Automobile and transportation<br>equipment | 2,298             | 0.03         | 1,247,403         | 9.12         | -                             | -            |
| Electronics and electrical<br>appliances   | 662               | 0.01         | 14,329            | 0.10         | 3,394                         | 0.09         |
| Construction                               | -                 | -            | 73,330            | 0.54         | -                             | -            |
| Power, gas, water and sanitary             | -                 | -            | 22,236            | 0.16         | -                             | -            |
| Paper and board                            | -                 | -            | 2,045             | 0.01         | -                             | -            |
| Food                                       | 230,675           | 3.50         | 2,760             | 0.02         | 28,375                        | 0.78         |
| Trust and non-profit organizations         | -                 | -            | 1,231,233         | 9.00         | -                             | -            |
| Wholesale and retail trade                 | 128,560           | 1.95         | -                 | -            | -                             | -            |
| Transport, storage and<br>communication    | 225,000           | 3.41         | -                 | -            | 155,000                       | 4.25         |
| Financial                                  | 40,000            | 0.61         | 319,351           | 2.33         | 3,202,310                     | 87.71        |
| Insurance                                  | -                 | -            | 390,923           | 2.86         | -                             | -            |
| Services                                   | 1,259,741         | 19.11        | 298,621           | 2.18         | 31,470                        | 0.86         |
| Individuals                                | 1,025,225         | 15.55        | 2,613,678         | 19.11        | 2,925                         | 0.08         |
| Others                                     | 321,578           | 4.88         | 6,171,711         | 45.12        | 144,701                       | 1.38         |
|  | <b>6,593,635</b>  | <b>100</b>   | <b>13,679,898</b> | <b>100</b>   | <b>3,745,226</b>              | <b>100</b>   |

December 31, 2006

|  | Advances (Gross)  |              | Deposits          |              | Contingencies and Commitments |              |
|--|-------------------|--------------|-------------------|--------------|-------------------------------|--------------|
|  | Rupees<br>in '000 | Percent<br>% | Rupees<br>in '000 | Percent<br>% | Rupees<br>in '000             | Percent<br>% |
| Chemical and pharmaceuticals               | -                 | -            | 34,354            | 0.48         | -                             | -            |
| Agribusiness                               | -                 | -            | 1                 | -            | 167                           | -            |
| Textile                                    | 38,966            | 2.30         | 27,554            | 0.38         | -                             | -            |
| Construction                               | -                 | -            | 6,787             | 0.09         | 125                           | -            |
| Shoes and leather garments                 | -                 | -            | 276               | -            | -                             | -            |
| Automobile and transportation<br>equipment | -                 | -            | 281,594           | 3.91         | -                             | -            |
| CFS financing                              | 1,193,656         | 70.51        | 191,009           | 2.65         | -                             | -            |
| Electronics and electrical appliances      | -                 | -            | 16,582            | 0.23         | -                             | -            |
| Production and transmission<br>of energy   | -                 | -            | 1,952             | 0.03         | 680                           | 0.02         |
| Power, gas, water and sanitary             | -                 | -            | 3,677             | 0.05         | -                             | -            |
| Paper and board                            | -                 | -            | 1,624             | 0.02         | -                             | -            |
| Food                                       | -                 | -            | 1,342             | 0.02         | -                             | -            |
| Trusts and non-profit organisation         | -                 | -            | 14,909            | 0.21         | 181                           | -            |
| Mining                                     | -                 | -            | 200,000           | 2.78         | -                             | -            |
| Insurance                                  | -                 | -            | 222,122           | 3.09         | -                             | -            |
| Transport, storage and<br>communication    | -                 | -            | -                 | -            | 151,750                       | 3.46         |
| Financial<br>Services                      | -                 | -            | -                 | -            | 4,193,733                     | 95.73        |
| Individuals                                | 342,107           | 20.21        | 2,554,526         | 35.49        | -                             | -            |
| Others                                     | 118,102           | 6.98         | 3,581,759         | 49.76        | 34,079                        | 0.79         |
|  | <b>1,692,831</b>  | <b>100</b>   | <b>7,198,149</b>  | <b>100</b>   | <b>4,380,715</b>              | <b>100</b>   |

40.1.1.2 Segment by sector

December 31, 2007

|                     | Advances (Gross)  |              | Deposits          |              | Contingencies and Commitments |              |
|---------------------|-------------------|--------------|-------------------|--------------|-------------------------------|--------------|
|                     | Rupees<br>in '000 | Percent<br>% | Rupees<br>in '000 | Percent<br>% | Rupees<br>in '000             | Percent<br>% |
| Public / Government | -                 | -            | 1,835,658         | 13.42        | 51,258                        | 1.37         |
| Private             | 6,593,635         | 100          | 11,844,240        | 86.58        | 3,693,968                     | 98.63        |
|                     | <b>6,593,635</b>  | <b>100</b>   | <b>13,679,898</b> | <b>100</b>   | <b>3,745,226</b>              | <b>100</b>   |



**December 31, 2006**

|                     | Advances (Gross) |            | Deposits         |            | Contingencies and Commitments |            |
|---------------------|------------------|------------|------------------|------------|-------------------------------|------------|
|                     | Rupees           | Percent    | Rupees           | Percent    | Rupees                        | Percent    |
|                     | in '000          | %          | in '000          | %          | in '000                       | %          |
| Public / Government | -                | -          | 13,275           | 0.18       | 10,217                        | 0.23       |
| Private             | 1,692,831        | 100        | 7,184,874        | 99.82      | 4,370,498                     | 99.77      |
|                     | <u>1,692,831</u> | <u>100</u> | <u>7,198,149</u> | <u>100</u> | <u>4,380,715</u>              | <u>100</u> |

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

|   | December 31, 2007        |                          | December 31, 2006   |                          |
|---|--------------------------|--------------------------|---------------------|--------------------------|
|   | -----Rupees in '000----- |                          |                     |                          |
|   | Classified Advances      | Specific Provisions Held | Classified Advances | Specific Provisions Held |
| Textile                                 | 70,642                   | 70,642                   | 75,737              | 75,737                   |
| Automobile and transportation equipment | 2,298                    | 2,298                    | 2,298               | 2,298                    |
| Electronics and electrical appliances   | 662                      | 662                      | 662                 | 662                      |
| Individuals                             | 899                      | 899                      | 899                 | 899                      |
| Other                                   | 69,103                   | 39,103                   | 29,103              | 29,103                   |
|   | <u>143,604</u>           | <u>113,604</u>           | <u>108,699</u>      | <u>108,699</u>           |

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

|                     |                |                |                |                |
|---------------------|----------------|----------------|----------------|----------------|
| Public / Government | -              | -              | -              | -              |
| Private             | 143,604        | 113,604        | 108,699        | 108,699        |
|                     | <u>143,604</u> | <u>113,604</u> | <u>108,699</u> | <u>108,699</u> |

**40.1.1.5 Geographical Segment Analysis**

|          | December 31, 2007     |                     | December 31, 2006     |                     |
|----------|-----------------------|---------------------|-----------------------|---------------------|
|          | Total assets employed | Net assets employed | Total assets employed | Net assets employed |
| Pakistan | <u>20,327,752</u>     | <u>5,193,807</u>    | <u>12,545,455</u>     | <u>3,003,808</u>    |

  

|          | December 31, 2007    |                               | December 31, 2006    |                               |
|----------|----------------------|-------------------------------|----------------------|-------------------------------|
|          | Loss before taxation | Contingencies and commitments | Loss before taxation | Contingencies and commitments |
| Pakistan | <u>(62,221)</u>      | <u>3,745,226</u>              | <u>(406)</u>         | <u>4,380,715</u>              |



#### 40.2 Market Risk

Market risk is the risk that the value of the on and off balance sheet positions of the bank will be adversely affected by movements in market rates or prices such as interest rate, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and capital. Management recognizes that the bank may be exposed to market risk in variety of ways. Market risk exposure may be explicit in portfolio of securities/equities and foreign currencies that are actively traded. Conversely it may be implicit such as interest rate risk due to mismatch of loans and deposits. Besides market risk may also arise from activities categorized as off balance sheet items. JSBL has introduced market risk limits for treasury operations.

##### 40.2.1 Foreign Exchange Risk

Currency risk arises where the value of financial instruments changes due to changes in foreign exchange rates. In order to manage currency risk exposure the bank enters into ready, spot forward and swap transactions with SBP and in the interbank market. The bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placement with SBP and foreign currencies assets and liabilities. The net open position is managed within the statutory limits, as fixed by SBP. Counter parties limit are also fixed to limit risk concentration. Appropriate segregation of duties exists between the front and back office functions while compliance with the net open position limit is independently monitored on an ongoing basis.

|                      | <b>December 31, 2007</b> |                    |                                    |  |
|----------------------|--------------------------|--------------------|------------------------------------|--|
|                      | <b>Assets</b>            | <b>Liabilities</b> | <b>Off-balance<br/>sheet items</b> | <b>Net foreign<br/>currency<br/>Exposure</b> |
|                      | -----Rupees in '000----- |                    |                                    |  |
| Pakistan rupee       | 19,866,418               | 13,980,904         | (693,621)                          | 5,191,893                                    |
| United States dollar | 351,466                  | 996,898            | 645,370                            | (62)   |
| Great Britain pound  | 66,344                   | 59,874             | (5,476)                            | 994  |
| Euro                 | 39,998                   | 95,735             | 55,828                             | 91   |
| Other currencies     | 3,526                    | 534                | (2,101)                            | 891  |
|                      | <b>461,334</b>           | <b>1,153,041</b>   | <b>693,621</b>                     | <b>1,914</b>                                 |
|                      | <b>20,327,752</b>        | <b>15,133,945</b>  | <b>-</b>                           | <b>5,193,807</b>                             |

|                      | <b>December 31, 2006</b> |                    |                                    |  |
|----------------------|--------------------------|--------------------|------------------------------------|--|
|                      | <b>Assets</b>            | <b>Liabilities</b> | <b>Off-balance<br/>sheet items</b> | <b>Net foreign<br/>currency<br/>Exposure</b> |
|                      | -----Rupees in '000----- |                    |                                    |  |
| Pakistan rupee       | 11,187,287               | 7,406,089          | (753,993)                          | 3,027,205                                    |
| United States dollar | 1,204,441                | 1,980,778          | 749,284                            | (27,053)                                     |
| Great Britain pound  | 51,580                   | 53,414             | 4,271                              | 2,437  |
| Euro                 | 100,127                  | 100,732            | 301                                | (304)  |
| Other currencies     | 2,020                    | 634                | 137                                | 1,523  |
|                      | <b>1,358,168</b>         | <b>2,135,558</b>   | <b>753,993</b>                     | <b>(23,397)</b>                              |
|                      | <b>12,545,455</b>        | <b>9,541,647</b>   | <b>-</b>                           | <b>3,003,808</b>                             |



#### **40.2.2 Equity position Risk**

Investments in equity are generally regarded as riskier relative to fix income securities owing to the inherent volatility of stock market prices. The risk forms various factors and the bank mitigates these risks through diversification and capping maximum exposures in a single sector / company and compliance with SECP corporate governance rules. The bank follows a delivery verses payment settlement system thereby minimizing risk available risk in relation to settlement risk.

**40.2.3 Mismatch of Interest Rate Sensitive and Liabilities**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The bank is exposed to interest/mark-up rate risk as a result of mismatches or gaps in the amount of interest/mark up based assets and liabilities that mature or re-price in a given period. The bank manages this risk by matching/re-pricing of assets and liabilities. The bank is not excessively exposed to interest/mark-up rate risk as its assets and liabilities are repriced frequently. The assets and liabilities committee (ALCO) of the bank monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the bank.

| December 31, 2007                                     |             |               |                   |                   |                         |                   |                   |                   |                    |                |   |
|---|-------------|---------------|-------------------|-------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|---|
| Effective Yield Interest rate                         | Total       | Up to 1 Month | Over 1 to 3 Month | Over 3 to 6 Month | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years | Non-interest bearing financial instrument |
|   |             |               |                   |                   |                         |                   |                   |                   |                    |                |   |
| <b>On-balance sheet financial instruments</b>         |             |               |                   |                   |                         |                   |                   |                   |                    |                |   |
| <b>Assets</b>   |             |               |                   |                   |                         |                   |                   |                   |                    |                |   |
| Cash and balances with treasury banks                 | 3,71-4,72   | 977,235       | 67,965            | -                 | -                       | -                 | -                 | -                 | -                  | -              | 909,270                                   |
| Balances with other banks                             | 2,60-3,56   | 254,079       | 125,031           | -                 | -                       | -                 | -                 | -                 | -                  | -              | 129,048                                   |
| Lending to financial institutions                     | 9,85-11,15  | 3,601,211     | 3,151,211         | 450,000           | -                       | -                 | -                 | -                 | -                  | -              | -   |
| Investments   | 8,98-13,51  | 6,109,536     | 46,056            | 1,407,561         | 1,980,958               | 214,094           | 67,952            | 144,904           | 641,090            | -              | 771,200                                   |
| Advances  | 5,00-18,00  | 6,475,963     | 5,373,424         | 48,983            | 267,334                 | 210,331           | 249,008           | 237,000           | 54,612             | 15,912         | -   |
| Other assets  | 11,00-11,40 | 731,873       | 200,000           | -                 | -                       | -                 | -                 | -                 | -                  | -              | 531,873                                   |
|   |             | 18,149,897    | 8,963,687         | 1,906,544         | 2,248,292               | 424,425           | 316,960           | 381,904           | 695,702            | 15,912         | 2,341,391                                 |
| <b>Liabilities</b>                                    |             |               |                   |                   |                         |                   |                   |                   |                    |                |   |
| Bills payable   |             | 727,179       | -                 | -                 | -                       | -                 | -                 | -                 | -                  | -              | 727,179                                   |
| Borrowings  | 9,25-9,37   | 481,147       | 9,992             | -                 | -                       | -                 | -                 | -                 | -                  | -              | -   |
| Deposits and other accounts                           | 1,00-12,75  | 13,679,898    | 8,581,778         | 1,862,119         | 1,016,476               | 108,000           | -                 | -                 | -                  | -              | 1,676,839                                 |
| Other liabilities                                     |             | 245,721       | -                 | -                 | -                       | -                 | -                 | -                 | -                  | -              | 245,721                                   |
|   |             | 15,133,945    | 8,591,770         | 1,862,119         | 1,016,476               | 108,000           | -                 | -                 | -                  | -              | 2,649,739                                 |
| <b>On-balance sheet financial instruments</b>         |             | 3,015,952     | 371,917           | 1,000,703         | 1,231,816               | 316,425           | 316,960           | 381,904           | 695,702            | 15,912         | (308,348)                                 |
| Forward lendings                                      |             | -             | -                 | -                 | -                       | -                 | -                 | -                 | -                  | -              | -   |
| Forward borrowings                                    |             | -             | -                 | -                 | -                       | -                 | -                 | -                 | -                  | -              | -   |
| <b>Off-balance sheet gap</b>                          |             | -             | -                 | -                 | -                       | -                 | -                 | -                 | -                  | -              | -   |
| <b>Total Yield/Interest Risk Sensitivity Gap</b>      |             | 371,917       | 1,000,703         | (1,007,039)       | 1,231,816               | 316,425           | 316,960           | 381,904           | 695,702            | 15,912         | -   |
| <b>Cumulative Yield/Interest Risk Sensitivity Gap</b> |             | 371,917       | 1,372,620         | 365,581           | 1,597,397               | 1,913,822         | 2,230,782         | 2,612,686         | 3,308,388          | 3,324,300      | -   |

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| Effective<br>Yield<br>Interest<br>rate                | Total            | Up to 1<br>Month   | Over 1<br>to 3<br>Month | Over 3<br>to 6<br>Month | Over 6<br>Months to<br>1 Year | Over 1<br>to 2<br>Years | Over 2<br>to 3<br>Years | Over 3<br>to 5<br>Years | Over 5<br>to 10<br>Years | Above<br>10 Years | Non-interest<br>bearing<br>financial<br>instrument |
|---|------------------|--------------------|-------------------------|-------------------------|-------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|-------------------|--|
|   |                  |                    |                         |                         |                               |                         |                         |                         |                          |                   |  |
| <b>On-balance sheet financial instruments</b>         |                  |                    |                         |                         |                               |                         |                         |                         |                          |                   |  |
| <b>Assets</b>   |                  |                    |                         |                         |                               |                         |                         |                         |                          |                   |  |
| Cash and balances with treasury banks                 | 1,912,648        | 203,301            | -                       | -                       | -                             | -                       | -                       | -                       | -                        | -                 | 1,709,347  |
| Balances with other banks                             | 1,463,280        | 982,118            | 150,000                 | -                       | -                             | -                       | -                       | -                       | -                        | -                 | 331,162  |
| Lending to financial institutions                     | 2,825,912        | 2,650,912          | 175,000                 | -                       | -                             | -                       | -                       | -                       | -                        | -                 | -  |
| Investments   | 2,582,096        | 8                  | 22,524                  | 130,111                 | 1,292,570                     | 200,094                 | 39,857                  | 156,977                 | 51,913                   | -                 | 688,042  |
| Advances  | 1,692,831        | 1,338,609          | 148,043                 | 39,588                  | 140,761                       | 22,260                  | 2,856                   | 714                     | -                        | -                 | -  |
| Other assets  | 130,611          | 25,535             | -                       | -                       | -                             | -                       | -                       | -                       | -                        | -                 | 105,076  |
|   | 10,607,378       | 5,200,483          | 495,567                 | 169,699                 | 1,433,331                     | 222,354                 | 42,713                  | 157,691                 | 51,913                   | -                 | 2,833,627  |
| <b>Liabilities</b>                                    |                  |                    |                         |                         |                               |                         |                         |                         |                          |                   |  |
| Bills payable   | 610,623          | -                  | -                       | -                       | -                             | -                       | -                       | -                       | -                        | -                 | 610,623  |
| Borrowings  | 800,005          | 800,005            | -                       | -                       | -                             | -                       | -                       | -                       | -                        | -                 | -  |
| Deposits and other accounts                           | 7,198,149        | 5,301,196          | 929,338                 | 386,291                 | 338,956                       | 2,500                   | 10,000                  | 229,868                 | -                        | -                 | -  |
| Other liabilities                                     | 932,870          | -                  | -                       | -                       | -                             | -                       | -                       | -                       | -                        | -                 | 932,870  |
|   | 9,541,647        | 6,101,201          | 929,338                 | 386,291                 | 338,956                       | 2,500                   | 10,000                  | 229,868                 | -                        | -                 | 1,543,493  |
| <b>On-balance sheet financial instruments</b>         | <b>1,065,731</b> | <b>(900,718)</b>   | <b>(433,771)</b>        | <b>(216,592)</b>        | <b>1,094,375</b>              | <b>219,854</b>          | <b>32,713</b>           | <b>(72,177)</b>         | <b>51,913</b>            | <b>-</b>          | <b>1,290,134</b>                                   |
| Forward lendings                                      | 95,000           | 95,000             | -                       | -                       | -                             | -                       | -                       | -                       | -                        | -                 | -  |
| Forward borrowings                                    | -                | -                  | -                       | -                       | -                             | -                       | -                       | -                       | -                        | -                 | -  |
| <b>Off-balance sheet gap</b>                          | <b>95,000</b>    | <b>95,000</b>      | <b>-</b>                | <b>-</b>                | <b>-</b>                      | <b>-</b>                | <b>-</b>                | <b>-</b>                | <b>-</b>                 | <b>-</b>          | <b>-</b>   |
| <b>Total Yield/Interest Risk Sensitivity Gap</b>      | <b>(805,718)</b> | <b>(433,771)</b>   | <b>(216,592)</b>        | <b>1,094,375</b>        | <b>219,854</b>                | <b>32,713</b>           | <b>(72,177)</b>         | <b>51,913</b>           | <b>-</b>                 | <b>-</b>          | <b>-</b>   |
| <b>Cumulative Yield/Interest Risk Sensitivity Gap</b> | <b>(805,718)</b> | <b>(1,239,489)</b> | <b>(1,456,081)</b>      | <b>(361,706)</b>        | <b>(141,852)</b>              | <b>(109,139)</b>        | <b>(181,316)</b>        | <b>(129,403)</b>        | <b>(129,403)</b>         | <b>(129,403)</b>  | <b>-</b>   |

#### 40.3 Liquidity Risk

Liquidity risk is the risk that the bank will not be able to raise funds to meet its commitments. The bank's "Asset and Liability Management Committee" manages the liquidity position on a continuous basis.

##### 40.3.1 Maturity of Assets and Liabilities

|   | December 31, 2007 |                    |                    |                         |                   |                   |                   |                    |                  |
|---|-------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|------------------|
|   | Up to 1 Month     | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years   |
| <b>Assets</b>                                       |                   |                    |                    |                         |                   |                   |                   |                    |                  |
| Cash and balances with treasury banks               | 977,235           | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Balances with other banks                           | 254,079           | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Lending to financial institutions                   | 3,601,211         | 490,000            | 100,000            | -                       | -                 | -                 | -                 | -                  | -                |
| Investments   | 6,109,536         | 1,407,561          | 1,222,351          | 1,980,958               | 214,094           | 67,952            | 144,904           | 960,471            | -                |
| Advances  | 6,475,963         | 5,373,424          | 19,359             | 267,334                 | 210,331           | 249,008           | 237,000           | 54,612             | 15,912           |
| Other assets  | 2,291,467         | 668,213            | 16,645             | 24,675                  | 103,897           | 2,809             | -                 | -                  | 1,463,624        |
| Operating fixed assets                              | 491,736           | 7,021              | 22,562             | 46,925                  | 93,823            | 51,600            | 103,200           | 85,411             | 67,152           |
| Deferred tax assets                                 | 126,525           | -                  | -                  | -                       | -                 | -                 | -                 | 126,525            | -                |
|   | <b>20,327,752</b> | <b>10,402,428</b>  | <b>1,972,190</b>   | <b>2,319,892</b>        | <b>622,145</b>    | <b>371,369</b>    | <b>485,104</b>    | <b>1,227,019</b>   | <b>1,546,688</b> |
| <b>Liabilities</b>                                  |                   |                    |                    |                         |                   |                   |                   |                    |                  |
| Bills payable                                       | 727,179           | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Borrowings  | 481,147           | 471,155            | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Deposits and other accounts                         | 13,679,898        | 434,686            | 1,862,119          | 1,016,476               | 108,000           | -                 | -                 | -                  | -                |
| Sub-ordinated loans                                 | -                 | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Liabilities against assets subject to finance lease | -                 | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Other liabilities                                   | 245,721           | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Deferred tax liabilities                            | -                 | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
|   | <b>15,133,945</b> | <b>11,241,509</b>  | <b>1,862,119</b>   | <b>1,016,476</b>        | <b>108,000</b>    | <b>371,369</b>    | <b>485,104</b>    | <b>1,227,019</b>   | <b>1,546,688</b> |
| <b>Net assets</b>                                   | <b>5,193,807</b>  | <b>(839,081)</b>   | <b>1,066,349</b>   | <b>1,303,416</b>        | <b>514,145</b>    | <b>371,369</b>    | <b>485,104</b>    | <b>1,227,019</b>   | <b>1,546,688</b> |
| Share capital                                       | 5,106,337         |                    |                    |                         |                   |                   |                   |                    |                  |
| Statutory reserve                                   | 7,086             |                    |                    |                         |                   |                   |                   |                    |                  |
| Unappropriated profit                               | 27,928            |                    |                    |                         |                   |                   |                   |                    |                  |
| Surplus on revaluation of assets                    | 52,456            |                    |                    |                         |                   |                   |                   |                    |                  |
|   | <b>5,193,807</b>  |                    |                    |                         |                   |                   |                   |                    |                  |

December 31, 2006

|   | Up to 1<br>Month | Over 1<br>to 3<br>Months | Over 3<br>to 6<br>Months | Over 6<br>Months to<br>1 Year | Over 1<br>to 2<br>Months | Over 2<br>to 3<br>Months | Over 3<br>to 5<br>Months | Over 5<br>to 10<br>Months | Above<br>10 Years |
|---|------------------|--------------------------|--------------------------|-------------------------------|--------------------------|--------------------------|--------------------------|---------------------------|-------------------|
| <b>Assets</b>                                       |                  |                          |                          |                               |                          |                          |                          |                           |                   |
| Cash and balances with treasury banks               | 1,912,648        | -                        | -                        | -                             | -                        | -                        | -                        | -                         | -                 |
| Balances with other banks                           | 1,313,280        | 150,000                  | -                        | -                             | -                        | -                        | -                        | -                         | -                 |
| Lending to financial institutions                   | 2,825,912        | 175,000                  | -                        | -                             | -                        | -                        | -                        | -                         | -                 |
| Investments   | 2,582,096        | 22,524                   | 130,111                  | 1,668,986                     | 511,720                  | 39,857                   | 156,977                  | 51,913                    | -                 |
| Advances  | 1,692,831        | 1,338,609                | 39,588                   | 140,761                       | 22,260                   | 2,856                    | 714                      | -                         | -                 |
| Other assets  | 1,662,854        | 192,717                  | 6,513                    | -                             | -                        | -                        | -                        | -                         | 1,463,624         |
| Operating fixed assets                              | 379,584          | -                        | -                        | 191,681                       | 42,208                   | 42,208                   | 103,487                  | -                         | -                 |
| Deferred tax assets                                 | 26,250           | -                        | -                        | -                             | -                        | -                        | -                        | -                         | -                 |
|   | 12,545,455       | 7,434,424                | 176,212                  | 2,001,428                     | 576,188                  | 84,921                   | 261,178                  | 51,913                    | 1,463,624         |
| <b>Liabilities</b>                                  |                  |                          |                          |                               |                          |                          |                          |                           |                   |
| Bills payable                                       | 610,623          | -                        | -                        | -                             | -                        | -                        | -                        | -                         | -                 |
| Borrowings  | 800,005          | -                        | -                        | -                             | -                        | -                        | -                        | -                         | -                 |
| Deposits and other accounts                         | 7,198,149        | 929,338                  | 350,005                  | 338,956                       | 2,500                    | 10,000                   | 229,868                  | -                         | -                 |
| Sub-ordinated loans                                 | -                | -                        | -                        | -                             | -                        | -                        | -                        | -                         | -                 |
| Liabilities against assets subject to finance lease | -                | -                        | -                        | -                             | -                        | -                        | -                        | -                         | -                 |
| Other liabilities                                   | 932,870          | -                        | -                        | -                             | -                        | -                        | -                        | -                         | -                 |
| Deferred tax liabilities                            | -                | -                        | -                        | -                             | -                        | -                        | -                        | -                         | -                 |
|   | 9,541,647        | 929,338                  | 350,005                  | 338,956                       | 2,500                    | 10,000                   | 229,868                  | -                         | -                 |
| <b>Net assets</b>                                   | <u>3,003,808</u> | <u>(246,556)</u>         | <u>(173,793)</u>         | <u>1,662,472</u>              | <u>573,688</u>           | <u>74,921</u>            | <u>31,310</u>            | <u>51,913</u>             | <u>1,463,624</u>  |
| Share Capital                                       | 3,004,225        |                          |                          |                               |                          |                          |                          |                           |                   |
| Accumulated loss                                    | (417)            |                          |                          |                               |                          |                          |                          |                           |                   |
| Share Capital                                       | <u>3,003,808</u> |                          |                          |                               |                          |                          |                          |                           |                   |

#### 40.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. Operations Risk is generally managed effectively and the bank operates in a controlled manner, With the evolution of Operations Risk Management into a separate distinct discipline, the bank's strategy is to further strengthen its risk management system along new industry standards.

The operational Risk Management Manual addresses enterprise wide risk drivers inclusive of technology infrastructure, software hardware and IT security.

At the more detailed level, while procedures are generally documented, the bank has utilized the services of a professional organization to document revised procedures manuals and implement best practices throughout the bank. This project is in the completion stages.

The bank's Business Continuity Plan (BCP) includes risk management strategies to mitigate inherent risk and prevent interruption of mission critical services caused by disaster event. The bank's further strengthening Operational Risk Management infrastructure through establishment of a separate Operational and Risk Control Unit.

#### 41. RECLASSIFICATIONS

Following corresponding figures have been reclassified for the purpose of better presentation:

| Reclassification from                 | Reclassification to  | Amount<br>Rupees in '000 |
|---------------------------------------|--|--------------------------|
| Investment in associates              | Available for sale investments                                 | 423,413                  |
| Investment in Ordinary shares         | Investment in Preference shares                                | 109,645                  |
| Deposits - Customers current account  | Deposits - Financial institutions<br>non remunerative deposits | 2,700                    |
| Fixed assets - Furniture and fixtures | Fixed assets - lease hold<br>improvements                      | 14,668                   |

#### 42. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 29, 2008

#### 43. GENERAL

**43.1** The figure in the financial statements have been rounded off to the nearest thousand.

**43.2** Comparatives in the profit and loss account represent transactions for one day subsequent to obtaining banking license and effective date of amalgamation.

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

Jahangir Siddiqui  
Chairman

Naveed Qazi  
President and Chief Executive

Rafique R. Bhimjee  
Director

Basir Shamsie  
Director



## SHAREHOLDER'S STATISTICS

As at December 31, 2007

PATTERN OF SHAREHOLDING  
FORM 34  
THE COMPANIES ORDINANCE 1984  
(Section 236(1) and 464)

| No. of Shareholders | Shareholdings |        | Total Shares Held |
|---------------------|---------------|--------|-------------------|
|                     | From          | To     |                   |
| 226                 | 1             | 100    | 7,598             |
| 1453                | 101           | 500    | 580,848           |
| 1315                | 501           | 1000   | 1,225,108         |
| 3022                | 1001          | 5000   | 8,533,842         |
| 836                 | 5001          | 10000  | 6,518,532         |
| 396                 | 10001         | 15000  | 5,094,831         |
| 184                 | 15001         | 20000  | 3,296,186         |
| 148                 | 20001         | 25000  | 3,420,389         |
| 91                  | 25001         | 30000  | 2,604,918         |
| 26                  | 30001         | 35000  | 857,609           |
| 60                  | 35001         | 40000  | 2,277,606         |
| 29                  | 40001         | 45000  | 1,260,325         |
| 76                  | 45001         | 50000  | 3,727,914         |
| 13                  | 50001         | 55000  | 692,210           |
| 19                  | 55001         | 60000  | 1,110,215         |
| 16                  | 60001         | 65000  | 1,018,504         |
| 9                   | 65001         | 70000  | 610,014           |
| 28                  | 70001         | 75000  | 2,062,025         |
| 3                   | 75001         | 80000  | 234,124           |
| 10                  | 80001         | 85000  | 826,170           |
| 6                   | 85001         | 90000  | 524,782           |
| 7                   | 90001         | 95000  | 652,445           |
| 26                  | 95001         | 100000 | 2,582,262         |
| 12                  | 100001        | 105000 | 1,234,273         |
| 4                   | 105001        | 110000 | 432,200           |
| 6                   | 110001        | 115000 | 680,819           |
| 3                   | 115001        | 120000 | 357,000           |
| 10                  | 120001        | 125000 | 1,237,800         |
| 3                   | 125001        | 130000 | 383,028           |
| 1                   | 130001        | 135000 | 133,500           |
| 8                   | 135001        | 140000 | 1,105,909         |
| 3                   | 140001        | 145000 | 431,250           |
| 14                  | 145001        | 150000 | 2,097,500         |
| 3                   | 150001        | 155000 | 454,988           |
| 2                   | 155001        | 160000 | 317,341           |
| 1                   | 160001        | 165000 | 165,000           |
| 3                   | 165001        | 170000 | 504,169           |
| 1                   | 170001        | 175000 | 175,000           |
| 2                   | 175001        | 180000 | 355,000           |
| 2                   | 180001        | 185000 | 365,288           |
| 3                   | 185001        | 190000 | 561,100           |



| No. of Shareholders | Shareholdings |         | Total Shares Held |
|---------------------|---------------|---------|-------------------|
|                     | From          | To      |                   |
| 1                   | 190001        | 195000  | 194,400           |
| 9                   | 195001        | 200000  | 1,797,000         |
| 2                   | 200001        | 205000  | 405,339           |
| 2                   | 210001        | 215000  | 427,042           |
| 1                   | 215001        | 220000  | 218,700           |
| 5                   | 220001        | 225000  | 1,124,790         |
| 2                   | 225001        | 230000  | 454,500           |
| 2                   | 235001        | 240000  | 474,354           |
| 3                   | 240001        | 245000  | 732,104           |
| 7                   | 245001        | 250000  | 1,750,000         |
| 3                   | 250001        | 255000  | 762,263           |
| 1                   | 255001        | 260000  | 260,000           |
| 1                   | 260001        | 265000  | 265,000           |
| 4                   | 270001        | 275000  | 1,089,280         |
| 1                   | 275001        | 280000  | 278,000           |
| 1                   | 280001        | 285000  | 281,500           |
| 1                   | 290001        | 295000  | 290,475           |
| 5                   | 295001        | 300000  | 1,498,712         |
| 2                   | 300001        | 305000  | 606,000           |
| 1                   | 345001        | 350000  | 350,000           |
| 1                   | 355001        | 360000  | 360,000           |
| 1                   | 370001        | 375000  | 375,000           |
| 2                   | 380001        | 385000  | 764,830           |
| 1                   | 395001        | 400000  | 396,195           |
| 1                   | 400001        | 405000  | 400,250           |
| 1                   | 415001        | 420000  | 419,281           |
| 1                   | 460001        | 465000  | 464,590           |
| 4                   | 495001        | 500000  | 2,000,000         |
| 1                   | 515001        | 520000  | 515,500           |
| 1                   | 565001        | 570000  | 569,000           |
| 1                   | 635001        | 640000  | 637,500           |
| 1                   | 645001        | 650000  | 650,000           |
| 1                   | 655001        | 660000  | 656,930           |
| 2                   | 665001        | 670000  | 1,335,500         |
| 1                   | 690001        | 695000  | 690,750           |
| 1                   | 715001        | 720000  | 720,000           |
| 1                   | 725001        | 730000  | 729,000           |
| 1                   | 740001        | 745000  | 745,000           |
| 2                   | 745001        | 750000  | 1,500,000         |
| 1                   | 795001        | 800000  | 800,000           |
| 1                   | 800001        | 805000  | 801,913           |
| 1                   | 825001        | 830000  | 825,173           |
| 1                   | 935001        | 940000  | 939,000           |
| 1                   | 1030001       | 1035000 | 1,031,500         |
| 1                   | 1095001       | 1100000 | 1,100,000         |
| 1                   | 1260001       | 1265000 | 1,264,500         |
| 1                   | 1315001       | 1320000 | 1,316,581         |



| No. of Shareholders | Shareholdings |           | Total Shares Held         |
|---------------------|---------------|-----------|---------------------------|
|                     | From          | To        |                           |
| 1                   | 1445001       | 1450000   | 1,450,000                 |
| 1                   | 1825001       | 1830000   | 1,829,000                 |
| 1                   | 1865001       | 1870000   | 1,867,500                 |
| 1                   | 2085001       | 2090000   | 2,088,000                 |
| 2                   | 2995001       | 3000000   | 6,000,000                 |
| 1                   | 3250001       | 3255000   | 3,253,500                 |
| 1                   | 6000001       | 6005000   | 6,002,732                 |
| 1                   | 6745001       | 6750000   | 6,750,000                 |
| 1                   | 7820001       | 7825000   | 7,820,231                 |
| 1                   | 7825001       | 7830000   | 7,829,400                 |
| 1                   | 15640001      | 15645000  | 15,640,463                |
| 1                   | 20000001      | 20005000  | 20,000,001                |
| 1                   | 20140001      | 20145000  | 20,140,632                |
| 1                   | 20745001      | 20750000  | 20,746,513                |
| 1                   | 21645001      | 21650000  | 21,646,000                |
| 1                   | 33165001      | 33170000  | 33,169,500                |
| 1                   | 238420001     | 238425000 | 238,423,204               |
| <b><u>8,185</u></b> |               |           | <b><u>510,633,750</u></b> |

| <u>Categories Of Shareholders</u>  | <u>Shares Held</u> | <u>Percentage</u> |
|--|--------------------|-------------------|
| <b>Banks, Development Financial Institutions, Non Banking Finance Companies.</b> | 8,650,429          | 1.70              |
| <b>Insurance Companies</b>   | 23,894,441         | 4.68              |
| <b>Directors, Chief Executive Officer, And Their Spouse And Minor Children</b>   |                    |                   |
| Mr. Jahangir Siddiqui  | 1                  |                   |
| Mr. Mazhar-ul-haq Siddiqui   | 801,914            |                   |
| Mr. Maqbool Ahmed Soomro   | 14                 |                   |
| Mr. Ashraf Nawabi  | 1                  |                   |
| Mr. Rafique R.Bhimjee  | 82,012             |                   |
| Syed Amjad Ali   | 1                  |                   |
| Mr. Basir Shamsie  | 1                  |                   |
| Mr. Naveed Qazi  | 3,000,000          |                   |
| Mrs. Akhter Jabeen   | 218,700            |                   |
| Mrs. Hafsa Shamsie   | 273,600            |                   |
|  | -----              |                   |
|  | 4,376,244          | 0.86              |
| <b>Associated Companies, Undertaking And Related Parties.</b>                    |                    |                   |
| Jahangir Siddiqui & Co. Limited  | 293,238,704        |                   |
| American Express Bank Limited  | 20,000,001         |                   |
|  | -----              |                   |
|  | 313,238,705        | 61.34             |
| <b>Modarabas And Mutual Funds.</b>   | 2,045,858          | 0.40              |
| <b>NIT And ICP</b>   |                    |                   |
| IDBP (ICP Unit)  | 5,467              |                   |
| Investment Corp. Of Pakistan   | 972                |                   |
| National Bank Of Pakistan, Trustee Deptt.  | 40,887,145         |                   |
|  | -----              |                   |
|  | 40,893,584         | 8.01              |
| <b>Foreign Investors</b>   | 2,162,571          | 0.42              |
| <b>Others</b>  | 20,449,154         | 4.00              |
| <b>Individual</b>  |                    |                   |
| <b>Local – Individuals</b>   | 94,922,764         | 18.59             |
|  | -----              |                   |
| <b>Grand totals :</b>  | 510,633,750        | 100.00            |
|  | =====              | =====             |
| <b>Shareholder / CDC Beneficial Owners Holding Shares 10 % Or More:</b>          |                    |                   |
| Jahangir Siddiqui & Co. Limited  | 293,238,704        |                   |



**Details of transaction carried out by Directors, Chief Executive Officer (CEO) Chief Financial Officer (CFO), Company Secretary and their spouses and minor children during the period from January 1, 2007 to December 31, 2007**

|                               | <b>Holding</b> | <b>Right Shares<br/>Subscribed*</b> | <b>Sale</b> | <b>Rate</b> | <b>Holding</b> |
|-------------------------------|----------------|-------------------------------------|-------------|-------------|----------------|
| Mr. Mazharul Haq Siddiqui     | 534,610        | 267,304                             | -           | 10          | 801,914        |
| Mr. Maqbool Ahmed Soomro      | 10             | 4                                   | -           | 10          | 14             |
| Mr. Rafique R. Bhimjee        | 54,675         | 27,337                              | -           | 10          | 82,012         |
| Mr. Naveed Qazi               | 2,000,000      | 1,000,000                           | -           | 10          | 3,000,000      |
| Mr. Muhammad Yousuf Amanullah | 50,000         | 25,000                              | -           | 10          | 75,000         |
| Mrs. Akhter Jabeen Siddiqui   | 145,800        | 72,900                              | -           | 10          | 218,700        |
| Mrs. Hafsa Shamsie            | 182,400        | 91,200                              | -           | 10          | 273,600        |

\*The aforesaid Right Shares were subscribed by the Chief Executive Officer, Chief Financial Officer, Company Secretary and the Directors named above in accordance with their respective entitlements as exiting shareholders of the Company.



JS Bank Limited

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## FORM OF PROXY

2nd Annual General Meeting

The Company Secretary  
JS Bank Limited  
Shaheen Commercial Complex  
Dr. Ziauddin Ahmed Road  
P.O. Box 4847 Karachi-74200, Pakistan

I/We \_\_\_\_\_ of \_\_\_\_\_ being member(s) of  
**JS Bank Limited**, holding \_\_\_\_\_ Ordinary Shares as per Registeres Folio No./CDC  
/A/c No. (For members who have shares in CDS) \_\_\_\_\_ hereby appoint Mr./  
Ms. \_\_\_\_\_ of (full address) \_\_\_\_\_  
\_\_\_\_\_ or failing him/her Mr./Ms.  
\_\_\_\_\_ of (full address) \_\_\_\_\_,  
as my / our proxy to attend, act and vote for me / us and on my / our  
behalf at the 2nd Annual General Meeting of the Company to be held on March 29, 2008 and / or any adjournment thereof.  
As witness my / our hand / seal this \_\_\_\_\_ day of \_\_\_\_\_, 2008. Signed by \_\_\_\_\_  
\_\_\_\_\_ in the presence of (name & address) \_\_\_\_\_  
\_\_\_\_\_

Witness:

1. Name \_\_\_\_\_

Signature \_\_\_\_\_

Address \_\_\_\_\_  
\_\_\_\_\_

CNIC or \_\_\_\_\_

Passport No. \_\_\_\_\_

2. Name \_\_\_\_\_

Signature \_\_\_\_\_

Address \_\_\_\_\_  
\_\_\_\_\_

CNIC or \_\_\_\_\_

Passport No. \_\_\_\_\_



The signature should agree with the specimen registered with the Company.

### Important:

1. A member of the Company entitled to attend and vote may appoint another members as his/her proxy to attend and vote instead of him/her
2. This Proxy form, duly completed and signed, must be received at the Office of the Company situated at Shaheen Commercial Complex Dr. Ziauddin Ahmed Road, Karachi-74200 not less than 48 hours before the time of holding the meeting.
3. No person shall act as proxy unless he /she himself is a member of the Company, except that a Corporation may appoint a person who is not a members.
4. If a member appoints more than one proxy and/ or more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.
5. Beneficial Owner of the physical shares and the shares registered in the name of Central Depository Company of Pakistan Ltd. (CDC) and / or their proxies are required to produced their original computerised National Identity Card (CNIC or Passport for identification purpose at the time of attending meeting. The form of proxy must be submit with the company within the stipulated time, duly witnessed by two persons whose names, addresses and CNIC numbers must be mentioned on the form, along with attested copies of CNIC or the passport of the beneficial owner and the proxy. In case of corporate entity, the Board of Directors' Resolution /Power of Attorney with specimen signature shall be submitted (unless it has been provided earlier along with proxy form to the Company).

AFFIX  
CORRECT  
POSTAGE

The Company Secretary  
**JS Bank Limited**  
Shaheen Commercial Complex  
Dr. Ziauddin Ahmed Road  
P.O. Box 4847  
Karachi-74200, Pakistan

