



Contents

FAYSAL BANK

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FAYSAL BANK

Our Vision

To be the bank of first choice with the highest ethical principles as our guiding force.





FAYSAL BANK

Our Mission



To excel in providing innovative, value-based banking solutions to meet the changing needs of customers and further strengthen our image of trust and reliability.





FAYSAL BANK

Our Values

Integrity

We will hold fast to the highest standards of ethical conduct to meet our commitments to our customers, employees and shareholders. Above all, we will hold true to our personal commitment and conviction to the truth.

Corporate Governance

Our goal is to respond to a rapidly changing business environment in a timely manner, to improve corporate citizenship and transparency by reinforcing our ethical standards and building a relationship of trust with customers and stakeholders.

Corporate Social Responsibility

We believe that the highest standards of engagement must not be only with our stakeholders, employees or customers but also within the community in which we work and live. We abide by the laws of Pakistan in which we do business, we strive to be a good corporate citizen and take full responsibility of all our actions.

Responsible Communication

We commit to creating a dignified workplace based on honest, open and respectful communication. We first listen with the intent to understand and then communicate ideas, results and information forthrightly.

Excellence

We are committed to the highest level of personal & professional excellence and operate with a goal of continuous improvement.

Teamwork

As a team, we play to win from the smallest unit to the enterprise as a whole. We achieve far more as a team than as individuals.

Respect

We appreciate our diversity and believe that respect – for our employees, customers, stakeholders, and all those with whom we interact – is an essential element of all positive and productive business relationships. We treat everyone as we wish to be treated, with dignity and respect.

Quality Service

The 'moment of truth' is impacted through every employee's interaction. The essence of quality service is embodied through every interaction that we have, within ourselves and with our customers.



Milestones & Achievements 2007

FAYSAL BANK



Retail Banking

Faysal Bank continued its growth trends during 2007 and showed expansion all round.

- Thirty new branches were opened during the year bringing our network to 105 branches countrywide and extending our presence in 28 cities. In addition, 6 Sales and Service Centers were opened for customer convenience and facilitation at convenient locations in three major cities of the country.
- Thirty one ATMs were added with a few capable of offering cash deposit facility as well, bringing the total to 81 ATMs .
- During the year, several new retail products were introduced; Deposit products included “Faysal Moavin Saving Account” and “FCY Saving Plus Account”. Some existing products like Faysal Izafa Term Deposits and Faysal Sahulat Current Account were also re-launched with additional benefits and features. For added customer convenience, the bank decided to extend its 9 to 5 non-stop banking from Monday to Saturday, 6 days a week.
- Cash Management business continued to grow and was able to secure Payables Management mandates from Sui Southern Gas Corporation and Adamjee Insurance Company Limited. Both these mandates, among others, were won because of the introduction of Automated Cheque Printing Solution, a product developed and launched by the Cash Management team during late 2006.

- Launched “Pocketmate”, a debit card powered by VISA providing customers with the flexibility and convenience of worldwide acceptability at over 27 million retail outlets. The initial launch was followed by a massive advertising campaign through electronic, print, and outdoor media.

Technology

The bank also continued its policy of upgrading technology to meet the challenges of modern banking.

- During the year the bank achieved the distinction of having successfully completed the mammoth project of changing of the core banking system commenced in 2005 and fully migrated to a modern centralized processing system SYMBOLS acquired from a reputable international vendor and being used by a large number of banks in Europe, Asia, the Middle East, and Africa. With the successful implementation of new centralized database system, the bank also achieved remarkable progress in business process re-engineering, turnaround time and compliance by centralizing many back office functions like cheques clearing, inward and outward remittances, issuance of payorders & drafts, account opening and credit administration.
- Together with a new centralized core banking system, the bank is in the final stages of implementation of Oracle Financials that will give it significant MIS flexibility, ease of operations and improved internal controls.





FAYSAL BANK

Milestones & Achievements 2007

- To address its need for modern technology based banking and for managing a 360 degree view of its customers for better client service, the bank has now embarked upon implementing the world renowned Customer Relationship Management (CRM) solution - Siebels and a full functional Contact Centre.
- The bank has also initiated implementation of Oracle HRMS, a powerful human resource management system for efficient and improved human capital management framework in the bank.
- The bank with the assistance of independent reputable professional consultants, prepared and implemented a detailed Business Continuity Plan (BCP), Disaster Recovery Plan (DRP) and Information System Security policies for its new technology platform under the guidelines provided by the State Bank of Pakistan and ISO 1799 / BS 7799.2:2002. A remote DR site has been implemented in Lahore to provide continued IT support in case of disaster.

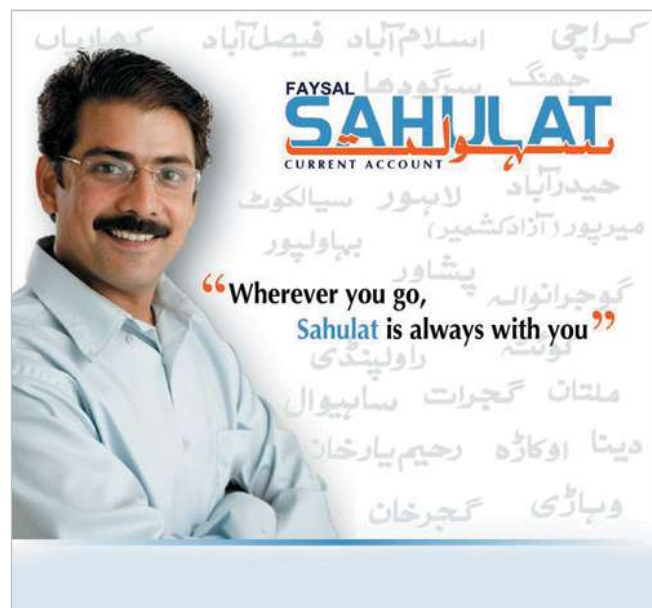
Corporate and Investment Banking Business

Faysal Bank remained active throughout the year and concluded a number of milestone transactions, prominent ones are listed below:-

- Faysal Bank acted as Lead Advisor and Arranger to Pakistan Power Resources for setting up first of its kind rental power project by arranging a Term Loan Facility of PKR 3,882 million for putting up the project and SBLC facility of US\$ 96 million for Water and Power Development Authority to secure rental payment obligations.

Launched “Pocketmate”, a debit card powered by VISA providing customers with the flexibility and convenience of worldwide acceptability at over 27 million merchant outlets.

- Faysal Bank acted as Lead Advisor and Arranger for putting up a Syndicated Long Term Finance Facility of PKR 7,800 million (plus a green-shoe option of PKR 780 million) for setting up a 165 MW Residual Fuel Oil Power Plant for Attock Gen Limited. This is the first Musharaka based project finance transaction ever to be concluded in the power sector of the country. This is also the first IPP project in the country where fuel consumed for power generation was indigenously produced.
- Faysal Bank was also the Lead Advisor & Arranger for the Syndicated Term Finance Facility of PKR 4,000 million for Aisha Steel Mills Limited to setup a Cold Rolling Coil Mill in the downstream Industrial Estate of Pakistan Steel, Bin Qasim Karachi. Three renowned groups i.e. ‘Universal Metal Corporation Japan’, ‘Metal One’





Milestones & Achievements 2007

FAYSAL BANK



(group company of Mitsubishi Corporation Japan) and 'Arif Habib Group' have entered into a Joint Venture to run and operate the proposed steel mill. The company shall primarily be engaged in manufacturing value added steel products such as, Cold Rolled Coils.

- Coastal Refinery Ltd. awarded Faysal Bank the mandate to arrange PKR 820 Syndicated Term Finance Facility for setting up an offshore petroleum terminal - Single Buoy Mooring Jetty which will be installed off shore near Khalifa Point on the Arabian Sea at a depth of approximately 20-22 meter and at a distance of approx 12-15 kms from the shore. The mandate and financial closure was achieved in record time. With the implementation of this project. the country will be able to save precious foreign exchange in shape of lower freight cost.
- JS Investments awarded Faysal Bank the mandate to act as Lead Advisor and Arranger for their IPO of 20% shares i.e. PKR 1.3 billion which was over subscribed.
- The bank was given the mandate to act as Lead Advisor & Arranger for PKR 275 million IPO of Dost Steel Limited. Faysal Bank and Arif Habib Securities jointly underwrote the transaction. The IPO of the company was held on October 22, 2007 and October 23, 2007, which was oversubscribed by more than 7 times.

Agri Business

The Agri Finance Business continued to flourish during the year.

Hallmark of Faysal Bank's role in Agri Financing has been its competitiveness in terms of turnaround time, market penetration, and diversity of operations, offering all Agri Products admissible under SBP's Agri Loan Scheme. During the year, an aggressive media campaign was also launched through print and television highlighting the bank's role in the development of the rural economy of Pakistan.

Human Resources

With Faysal Bank's rapid growth during the last 5 years, in terms of expanding business and network, the number of employees too has increased significantly. The year 2007 was therefore designated as one of reinforcing a performance culture and retention of quality resources. With this end in view, many initiatives were taken both from the core HR and employee development perspective.

- All HR policies of the bank were reviewed and revised in order for them to become more employee friendly and to introduce internationally acceptable HR best practices.
- During the year two Management Conferences were arranged in Karachi and Malaysia. The purpose of these meetings was to introduce the concept of a High Performance Culture and Succession Planning.
- The 'Recruitment, Nomination and Remuneration Committee' (RNRC), comprising of three directors, was constituted in order to provide good corporate governance.



FAYSAL BANK

Milestones & Achievements 2007

- A Management Skill Development Programme was introduced to develop a second line of managers which has shown excellent results.
- A Mentoring Programme was introduced for the bank's Management Trainees (MT) and Trainee Officers (TO) whereby mid and senior level managers act as Mentors to MTs and TOs. This has worked as a motivational and development tool both for the Mentors and their Protégées.
- With the success of the bank's Management Trainee and Trainee Officer programmes to fill the growing need of trained banking resources, a Teller Training Programme was introduced, which is a one year programme, to hire and train educated young men and women to man the cash counters of the bank. In addition, a Front Line Banking Skills Programme, aimed at developing service excellence in branch staff was also introduced.

Awards and Rewards

- The annual report of Faysal Bank for 2006 won the first prize in the Best Corporate Rewards organized by a joint committee of ICAP and ICMAP. This joint committee reviews annual reports of all listed companies with a view to rewarding the best in terms of quality of presentation and financial disclosures.



- Faysal Bank was also awarded 'Certificate of Excellence' in commercial banking category by Management Association of Pakistan (MAP). MAP instituted this award in 1982 with the sole aim to recognize and honor companies showing outstanding performance and demonstrating progressive & enlightened management practices. This award denotes the excellence of Bank's Management and its Corporate Governance Policies.

Faysal Bank was also awarded "Certificate of Excellence" in commercial banking category by Management Association of Pakistan (MAP).

Islamic Banking

Faysal bank has applied for a license for separate 'Islamic banking branches' under the prevailing rules, which is pending with the SBP. The existing branches of the bank under regular commercial banking license continue to operate in strict compliance of the SBP directives as regards to commercial banks.





Internal Committees

Management Committee (MANCOM)

Comprises Divisional Heads and meets quarterly to review the performance of each division vis-a-vis targets set. The Mancom also deliberates and decides on implementation of new business initiatives for the Bank.

Asset & Liability Committee (ALCO)

Comprises P&CEO, DCEO, Treasurer, Head of Finance, Chief Risk Officer, Head of Investment Banking, Head of Business Development and Country Credit Manager. ALCO meets on a monthly basis to review the regional and overall liquidity mismatch positions and discuss means to rectify the same.

Investment Committee

Comprises P&CEO, DCEO, Head of Investment Banking, Treasurer and Head of Finance & review investment decisions and strategies. The IC meets as and when required.

Information Technology Steering Committee (ITSC)

Comprises Senior Management at Head Office, is headed by DCEO, and meets at least once a month to review major technological initiatives being taken by the bank with a view to improve its service. ITSC is divided into sub-committees to undertake specific initiatives.

Premises Committee

Comprises the Head of General Services, the concerned Regional Head and the DCEO, who meet as and when required to discuss acquisition of new premises for the bank use and also decide on optimum utilization of existing properties.

Insurance Committee

Comprises Chief Information Officer and representatives of General Services, Finance and Operations and takes decisions on requirements and finalises insurance arrangements with insurers.



Board of Directors

H.R.H. Prince Mohamed Al Faisal Al Saud
 Ziad H. Rawashdeh
 Khalid S. Tirmizey
 Graham Roderick Walker
 Mohammed A. Rehman Bucheerei
 Tariq Iqbal Khan
 Sanaullah Qureshi
 Shahid Ahmad

Chairman (Resigned w.e.f. 21/2/2008)
 Chairman (Appointed Chairman on 21/2/2008)
 President & Chief Executive Officer (Acting)
 Director
 Director (Co-opted w.e.f. 31/01/2008)
 Director (Nominee N.I.T)
 Director
 Director

Audit Committee

Tariq Iqbal Khan
 Graham Roderick Walker
 Sanaullah Qureshi

Chairman
 Member
 Member

Board Risk Management Committee

Sanaullah Qureshi
 Shahid Ahmad
 Khalid S. Tirmizey
 Shahid Waqar Mahmood

Chairman
 Member
 Member
 Member and Secretary to the Committee

Recruitment, Nomination & Remuneration Committee

Ziad H. Rawashdeh
 Sanaullah Qureshi
 Shahid Ahmad
 M. Siddique Memon

Chairman
 Member
 Member
 Secretary to the Committee

Board Meetings and Attendance

Attended by / Meeting Date Attended by	15&16/1/07	25/02/07	25/04/07	28/06/07	05/07/07	10/08/07	19/10/07	10/12/07
H.R.H. Prince Mohamed Al Faisal Al Saud	Leave of Absence	✓	Leave of Absence	Leave of Absence	Leave of Absence	Leave of Absence	Leave of Absence	✓
Ziad H. Rawashdeh	Leave of Absence	✓	✓	✓	✓	✓	✓	✓
Farook Bengali	✓	✓	✓	✓	✓	✓	(Resigned w.e.f. 1-10-07)	-
Khalid S. Tirmizey, (P&CEO Acting)	-	-	-	-	-	-	(Appointed P&CEO (Acting) w.e.f 1-10-07)	✓
Khalid Abdullah Janahi	✓	✓	✓	✓	✓	✓	✓	(Resigned w.e.f. 21-11-07)
Dr. Said Sa'ad Al-Martani	Leave of Absence	Leave of Absence	Leave of Absence	Leave of Absence	Leave of Absence	(Resigned w.e.f. 5-7-07)	-	-
Tariq Iqbal Khan	✓	✓	Leave of Absence	✓	✓	✓	✓	Leave of Absence
Sanaullah Qureshi	✓	✓	✓	✓	✓	Leave of Absence	Leave of Absence	✓
Shahid Ahmad	Leave of Absence	✓	✓	Leave of Absence	Leave of Absence	✓	✓	✓
Graham R. Walker	-	-	-	-	-	-	(Co-opted w.e.f 10-9-2007)	✓



Corporate Information

FAYSAL BANK



Head Office Management

Khalid S. Tirmizey
Ahmed Kamran
Taimur Afzal
Mohammad Iqbal
Shahid Waqar Mehmood
Iqbal Ahmed Zubairi
Sohail Nawaz
Arif Hasan Khan
Seemin Shafi
Parvaiz Ahmad
Irfanuddin
Irfan A. Khan
Samih Khan
Mustafa Hamdani
Jamil Irshad
Khawaja Khalil Shah
Ali Raza

President & Chief Executive Officer (Acting)
Chief Information Officer
Country Head - Consumer Finance
Country Head - Finance
Chief Risk Officer
Country Head - Operations
Country Treasurer & Head of Capital Markets
Country Head - Administrative Services
Head of Human Resources
Head of Internal Audit
Head of Compliance
Head of Investment Banking & Corporate Banking Group (South)
Head of Corporate Communications & Business Development
Head of Cash Management & Financial Institution Group
Head of Commercial Banking SME
Country Credit Manager (Acting)
Head of Agri Finance

Southern Region Management

Ahmed Hemani
Masood Jaffri
Riaz Ul Hasan

Regional Head
Area Manager
Area Manager

Central Region Management

Bashir A. Shaikh
Muhammad Idrees
Afzal Haq
Mirza Shauq Hussain

General Manager
Area Manager
Area Manager
Area Manager

Northern Region Management

Sharif Khawar
Umer Kitchlew
Syed Mustafa Aftab Shah

Regional Head
Head of Corporate Banking
Area Manager

Company Secretary & Legal Advisor

Muhammad Siddique Memon

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants



FAYSAL BANK

Head Office Management



(Front Row - L to R) Arif Hasan Khan, Sohail Nawaz, Shahid Waqar Mahmood, Ahmed Kamran, Khalid S. Tirmizey, Mohammad Iqbal, Seemin Shafi, Taimur Afzal.
(Back Row - L to R) Parvaiz Ahmed, Khawaja Khalil Shah, Samih Khan, Mustafa Hamdani, Irfan A. Khan, Iqbal A. Zuberi, Irfanuddin, Siddique Memon.



Khalid S. Tirmizey
President & Chief Executive Officer (Acting)



FAYSAL BANK

Regional Management



Central Region Management



Bashir A. Sheikh



Muhammad Idrees



Afzal Haq



Mirza Shauq Hussain



Jamil Irshad



Ali Raza



Regional Management

FAYSAL BANK



Southern Region Management



Ahmed Hemani



Riaz ul Hasan



Masood Jaffri

Northern Region Management



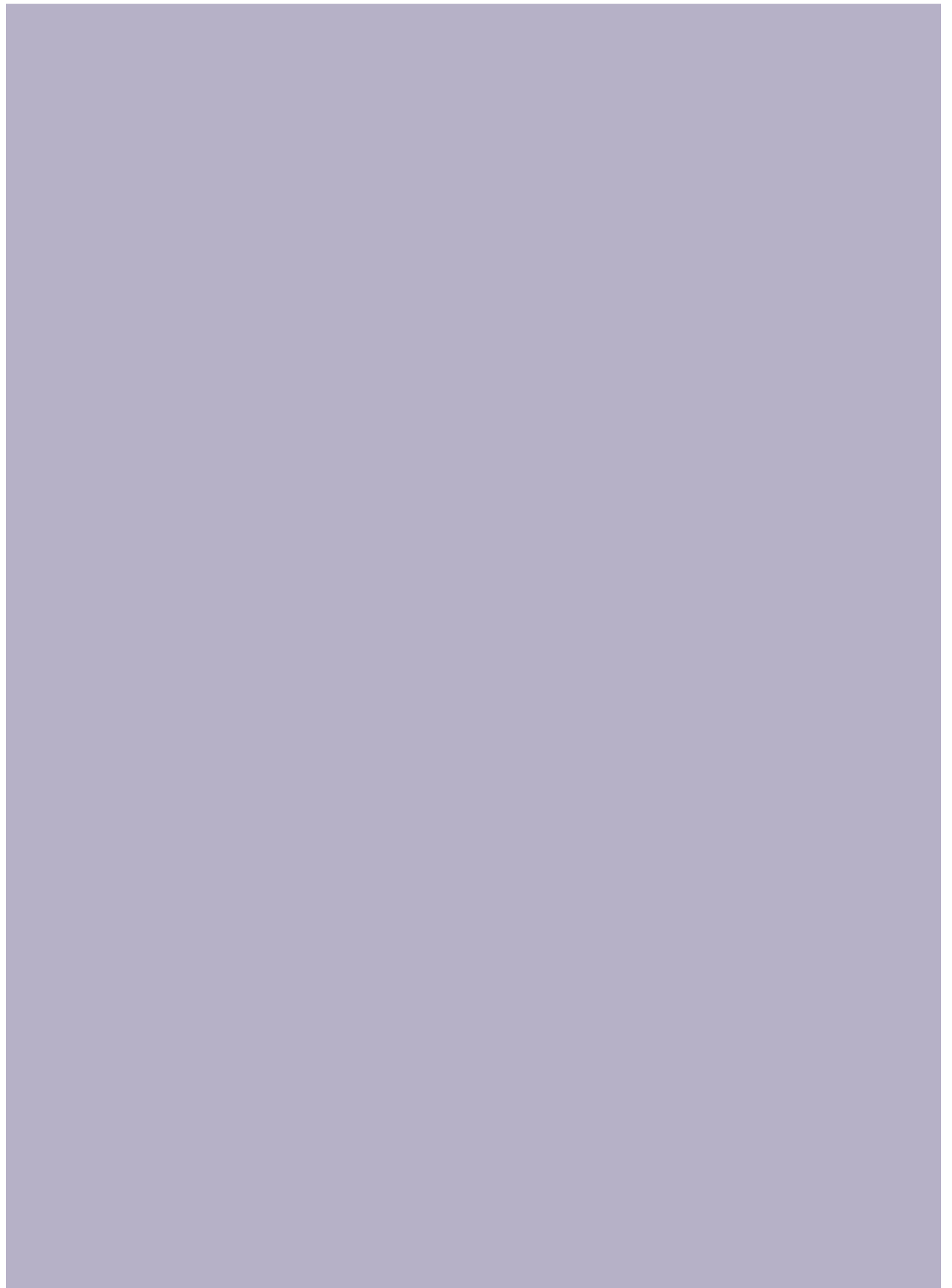
Sharif Khawar



Umer Kichlew



Syed Mustafa Aftab Shah



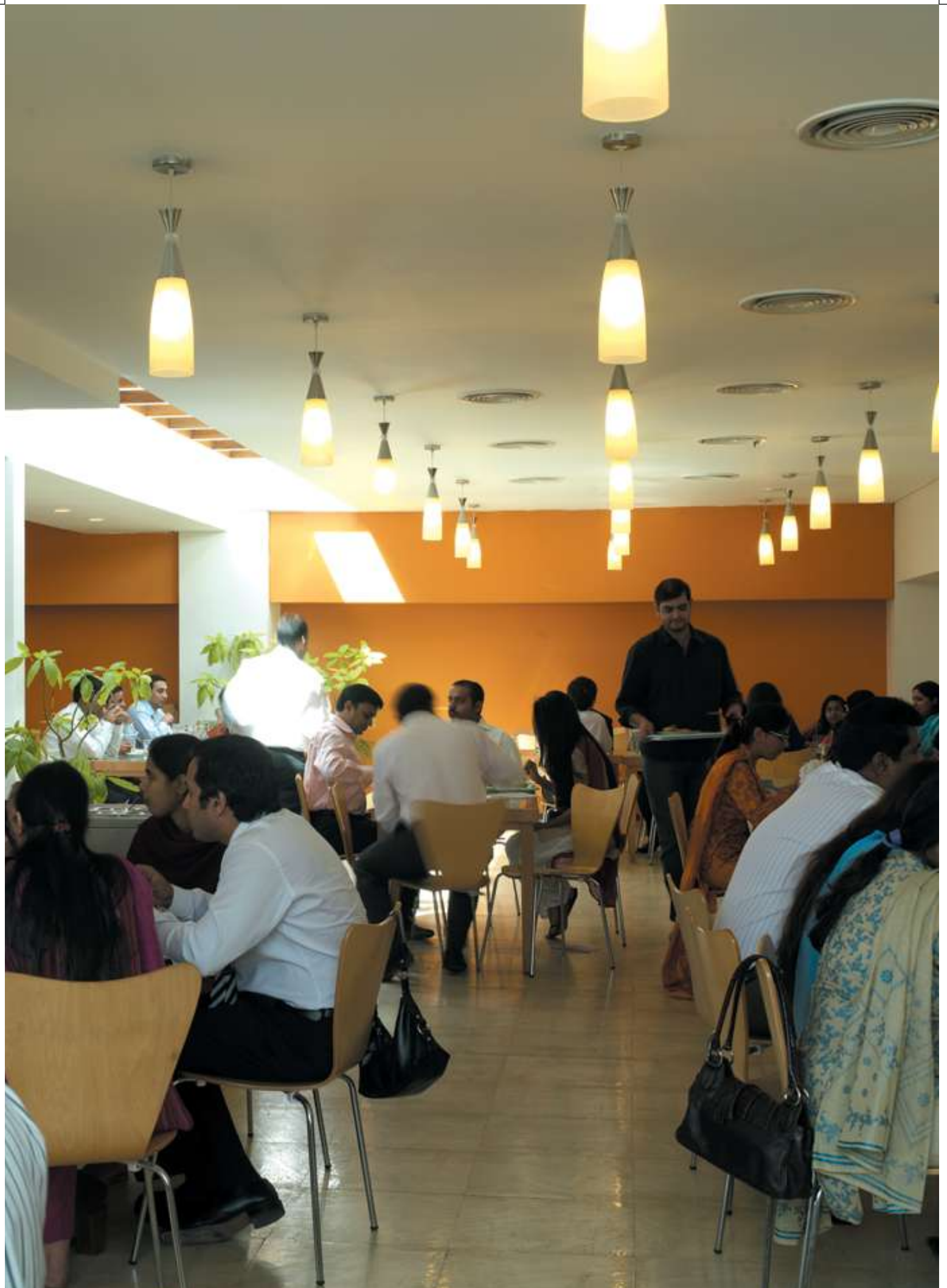


FAYSAL BANK

Raising the ceiling on Ground Breaking Ideas

Innovation has been an integral part of our corporate philosophy and shapes the future of Faysal Bank as a leading corporate entity. Correspondingly, our goal remains to align ourselves with the changing environment and win confidence of our stakeholders through improvement based on inspiration that draws from originality.





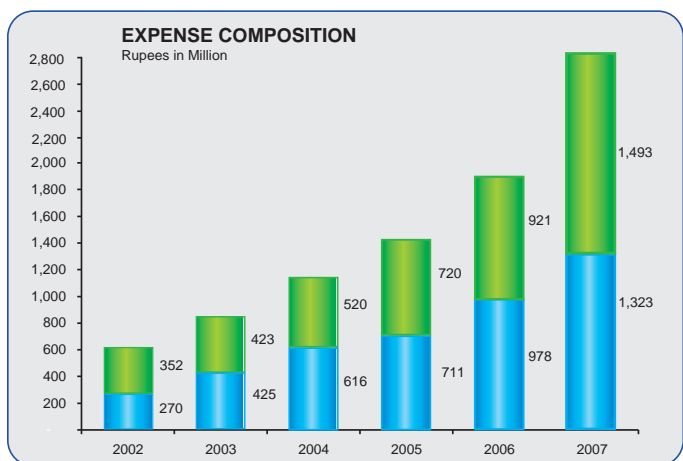
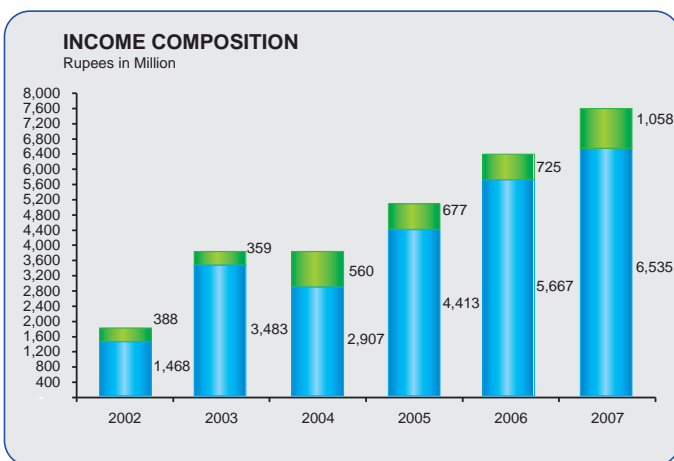
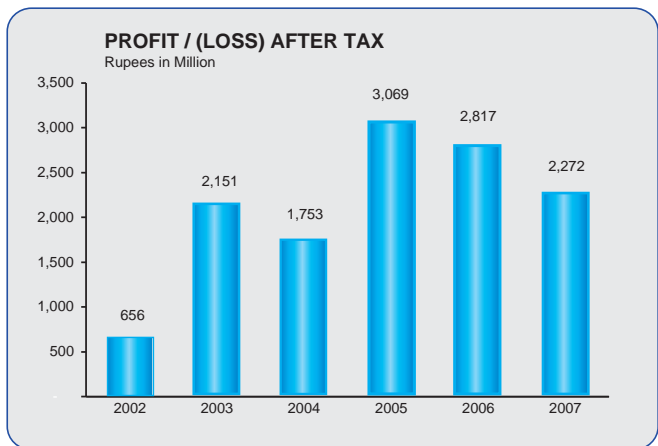
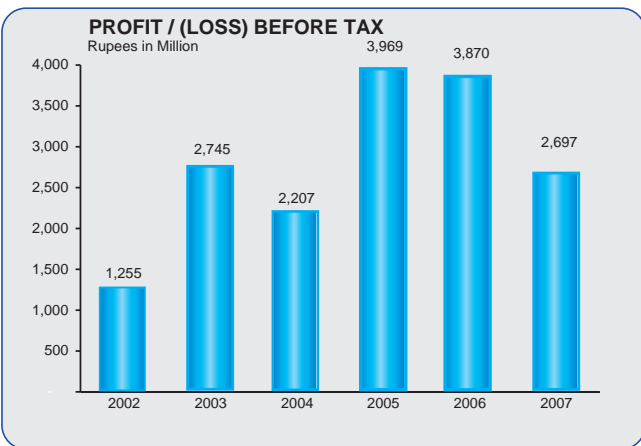


Six Years Financial Summary

FAYSAL BANK

Rupees in Million

	2007	2006	2005	2004	2003	2002
OPERATIONAL RESULTS						
Mark-up / return / interest earned	11,611	9,728	6,338	2,753	2,075	3,046
Mark-up / return / interest expensed	7,459	6,089	3,312	1,118	946	2,167
Fee, commission, brokerage & FX Income	1,058	725	677	560	359	388
Dividend and Capital gains	2,337	1,580	1,385	1,267	2,353	589
Total income	7,593	6,392	5,090	3,467	3,842	1,856
Provisions / Write-off	2,079	622	(310)	124	248	(21)
Operating expenses	2,816	1,899	1,431	1,136	848	622
Operating profit/(loss) before tax and provision	4,777	4,492	3,659	2,331	2,994	1,182
Profit/(loss) before taxation	2,697	3,870	3,969	2,207	2,745	1,255
Profit/(loss) after taxation	2,272	2,817	3,069	1,753	2,151	656
Dividends	% 25	50	35	45	45	17
Bonus shares	% 25	-	30	10	10	-
BALANCE SHEET						
Shareholders' equity	10,345	9,132	8,112	6,251	5,610	4,120
Revaluation Reserves	5,811	4,664	6,148	3,963	2,369	1,144
Deposits	102,067	74,414	74,737	56,460	31,332	24,458
Borrowings from financial institutions	9,996	14,965	15,296	8,478	6,530	5,344
Advances - net of provision	87,346	74,469	62,324	50,542	29,626	21,935
Investments - net of provision	31,553	22,525	24,412	12,334	11,219	6,842
Total assets	141,277	115,470	110,281	78,538	47,606	36,671
OTHERS						
Imports	68,171	70,323	43,836	39,654	22,991	16,766
Exports	52,110	33,815	23,384	18,933	20,293	14,842
FINANCIAL RATIOS						
Capital Adequacy ratio	% 11.76	11.42	13.60	12.20	15.58	15.81
Gross spread ratio (Net mark up income / gross mark-up income)	% 35.75	37.40	47.75	59.39	54.38	28.84
Income / Expense ratio	Times 2.70	3.37	3.56	3.05	4.53	2.98
Return on Average Equity (ROE)	% 23.33	32.67	42.74	29.57	44.22	16.33
Return on Average Assets (ROA)	% 1.77	2.50	3.25	2.78	5.11	1.67
Advances / Deposit Ratio (Average)	% 91.69	91.71	86.03	91.32	92.42	81.60
Total assets turnover ratio / Fixed assets turnover ratio (Total assets / Fixed assets)	Times 56.17	51.57	63.89	67.80	46.20	53.46
Price Earning ratio	% 15.37	9.10	8.89	7.23	4.43	5.85
Earning per share (EPS) - as reported in each year	Rs. 4.29	6.65	8.33	6.02	8.12	2.48
Net Assets per share	Rs. 30.50	32.56	38.70	35.07	30.13	19.88
Market value per share	Rs. 65.95	60.50	74.10	43.50	36.00	14.50
Dividend Yield Ratio (Cash Dividend)	% 3.79	8.26	4.72	10.34	12.50	11.72
Dividend pay out ratio (Cash Dividend)	% 58.27	75.19	42.01	74.75	55.42	68.55
Book value per share	Rs. 19.53	21.55	22.02	21.46	21.19	15.56
Book value per share - including Surplus/(Deficit) on revaluation	Rs. 30.62	32.56	38.70	35.08	30.13	19.88
Number of employees	1,759	1,463	1,068	899	722	461
Number of branches	105	75	56	50	722	461

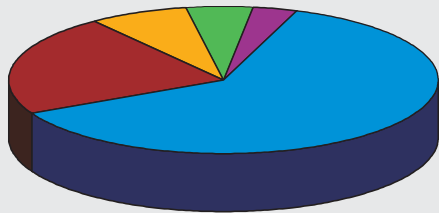


■ Fee, commission, brokerage & FX income
■ Fund based income

■ Employee Cost
■ Other Cost

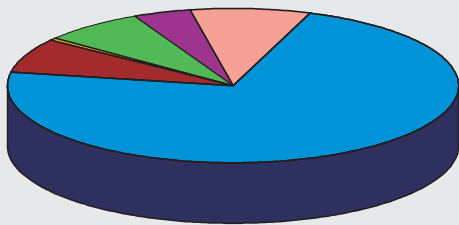


Balance Sheet Composition **FAYSAL BANK**



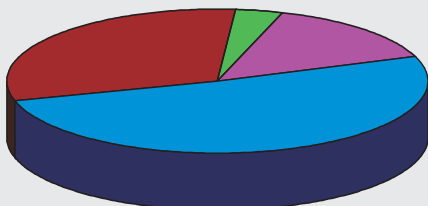
ASSETS

	Rs in Million	%
Advances	87,346	61.8
Investments	31,553	22.3
Cash & Bank Balances	10,580	7.5
Lending to Financial Institutions	7,078	5.0
Other assets	4,720	3.3
	<u>141,277</u>	<u>100.0</u>



LIABILITIES & EQUITY

	Rs in Million	%
Deposits & other accounts	102,067	72.2
Borrowing from Financial Institutions	9,996	7.1
Sub-ordinated loans	1,000	0.7
Shareholders' equity	10,345	7.3
Revaluation Reserves	5,811	4.1
Other Liabilities	12,058	8.5
	<u>141,277</u>	<u>100.0</u>

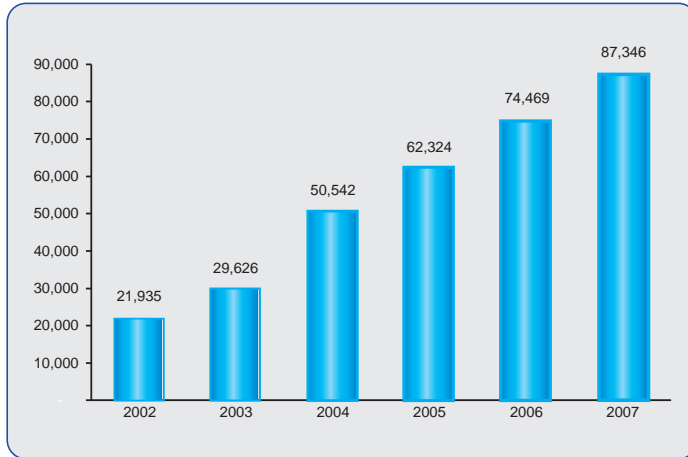


SHAREHOLDER'S EQUITY

	Rs in Million	%
Share Capital	5,296	51.2
Statutory Reserve	3,177	30.7
Capital Market Reserve	390	3.8
Unappropriated Profit	1,482	14.3
	<u>10,345</u>	<u>100.0</u>

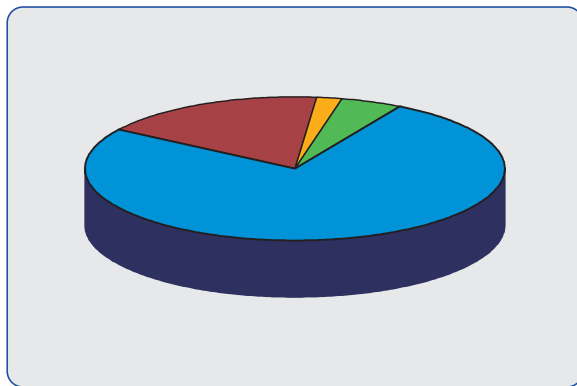


Rs in Million



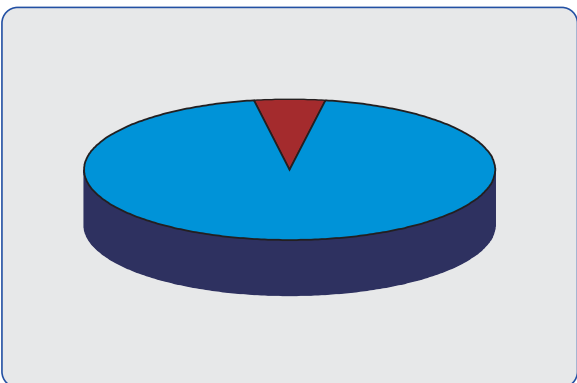
Advances Growth

Year	%
2002	(9)
2003	35
2004	70
2005	23
2006	19
2007	17



Advances Categorization

	Rs in Million	%
Loans, cash credits and running finances	68,955	78.9
Net investment in finance lease	15,886	18.2
Bills discounted & purchased	1,782	2.0
Reverse Repo transactions	4,393	5.0
	<u>91,016</u>	<u>104.2</u>
Provisions	<u>(3,670)</u>	<u>(4.2)</u>
	<u><u>87,346</u></u>	<u><u>100.0</u></u>



Advances by Currency

	Rs in Million	%
Local currency	82,500	94.5
Foreign currency	4,846	5.5
	<u><u>87,346</u></u>	<u><u>100.0</u></u>

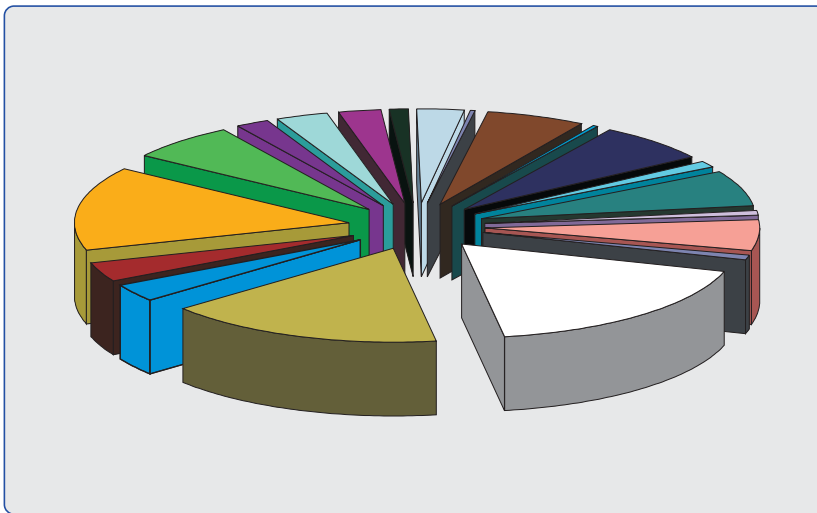


Segment information

FAYSAL BANK

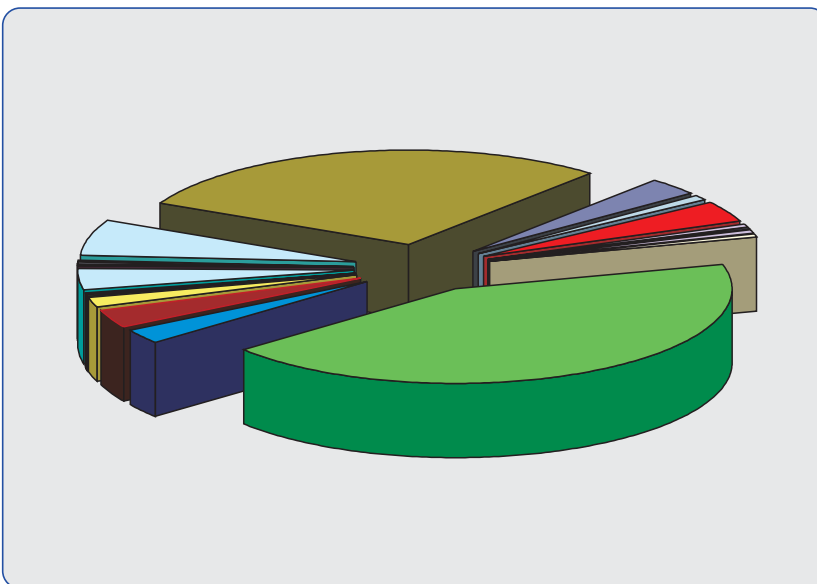


Advances



	Rs in Million	%
Chemical & Pharmaceuticals	2,733	3.13
Agribusiness	2,806	3.21
Textile	12,628	14.46
Cement	5,575	6.38
Sugar	1,624	1.86
Construction	2,782	3.18
Ready made garments	2,085	2.39
Shoes and leather garments	1,144	1.31
Transportation, Road and Air	2,384	2.73
Automobile and transportation equipment	222	0.25
Financial	5,096	5.83
Oil Refining / Marketing	198	0.23
Distribution / Trading	5,871	6.72
Electronics & Electrical Appliances	943	1.08
Production and transmission of energy	5,369	6.15
Iron & Steel	747	0.86
Food Industries	4,670	5.35
Paper & Board	640	0.73
Individuals	15,589	17.85
Others	14,240	16.30
Total	87,346	100.00

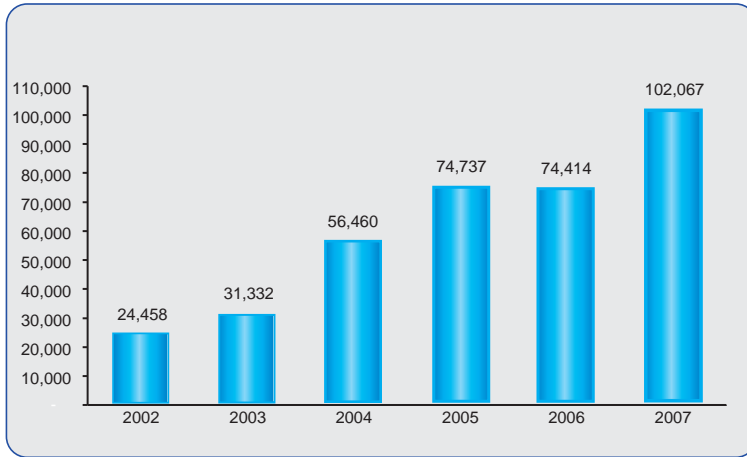
Deposits



	Rs in Million	%
Chemical & Pharmaceuticals	1,585	1.55
Agribusiness	2,032	1.99
Textile	1,091	1.07
Cement	302	0.30
Sugar	37	0.04
Construction	2,487	2.44
Ready made garments	136	0.13
Shoes and leather garments	234	0.23
Automobile and transportation equipment	168	0.16
Financial	3,911	3.83
Oil Refining / Marketing	19,278	18.89
Distribution / Trading	1,962	1.92
Electronics & Electrical Appliances	565	0.55
Production and transmission of energy	2,391	2.34
Iron & Steel	428	0.42
Synthetic & Rayon	59	0.06
Food Industries	312	0.31
Paper & Board	431	0.42
Individuals	28,329	27.76
Others	36,328	35.59
Total	102,067	100.00

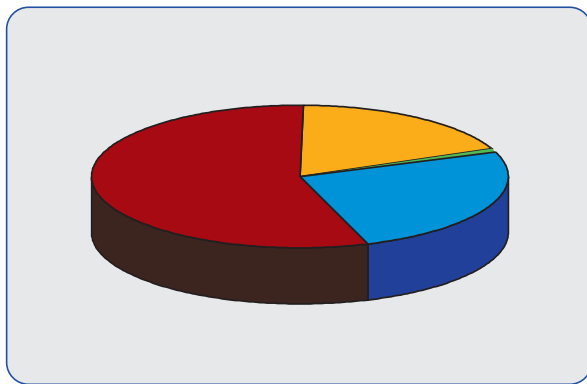


Rs in Million



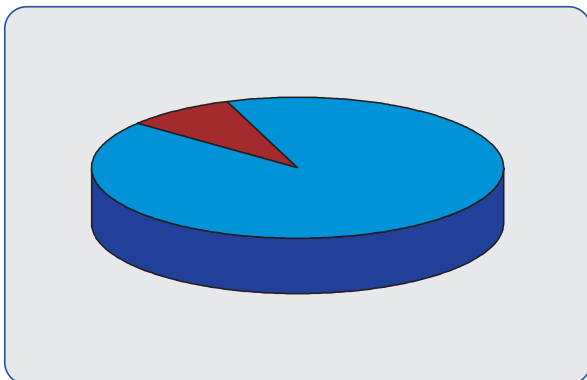
Deposits Growth

Year	%
2002	(23)
2003	28
2004	80
2005	32
2006	(0.4)
2007	37



Deposits Categorization

	Rs in Million	%
Savings	25,848	25.3
Term	56,601	55.5
Current and margin accounts	18,908	18.5
Financial institutions	710	0.7
	<u>102,067</u>	<u>100.0</u>

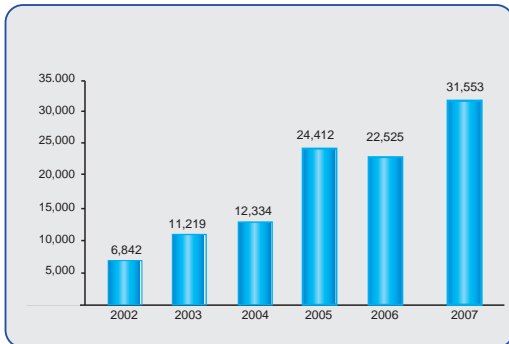


Deposits by Currency

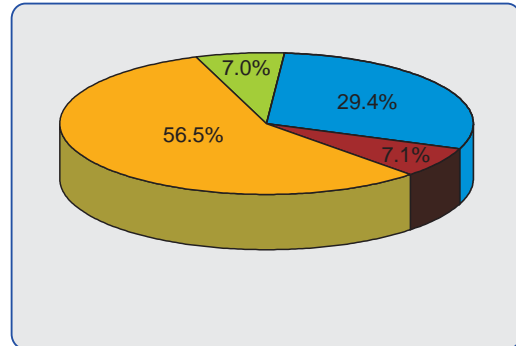
	Rs in Million	%
Local currency	93,286	91.4
Foreign currency	8,781	8.6
	<u>102,067</u>	<u>100.0</u>



Investments, Earning per share and Maturity profile

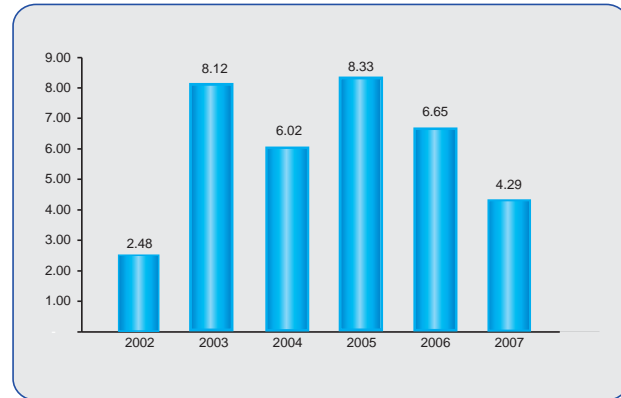


Investments (Rupees in Million)



Breakup of investments in 2007

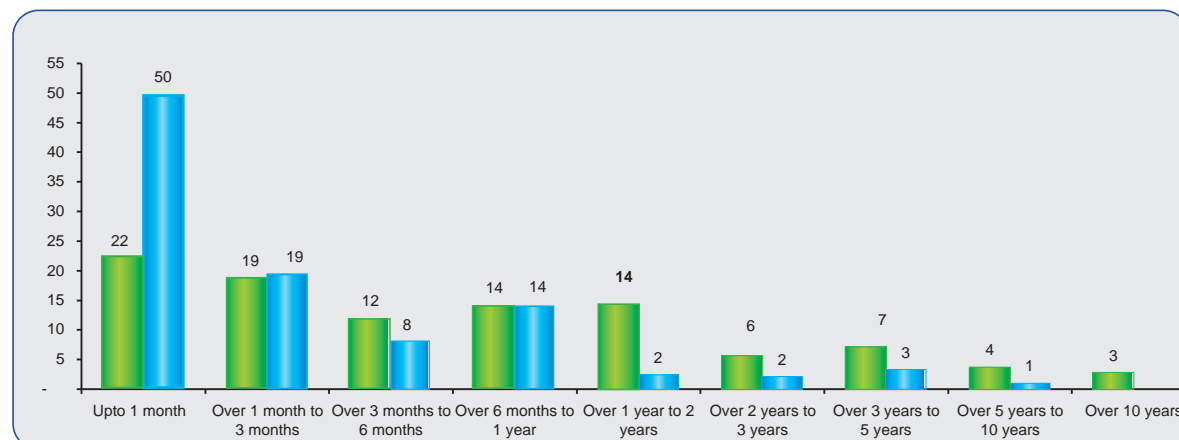
■ Shares / Other Units ■ NIT ■ TFCs / Bonds ■ Government Securities



Earning per share

Rupees

2002	2.48
2003	8.12
2004	6.02
2005	8.33
2006	6.65
2007	4.29



Maturity Profile Percentages (as per International According Standard)

Assets
Liabilities

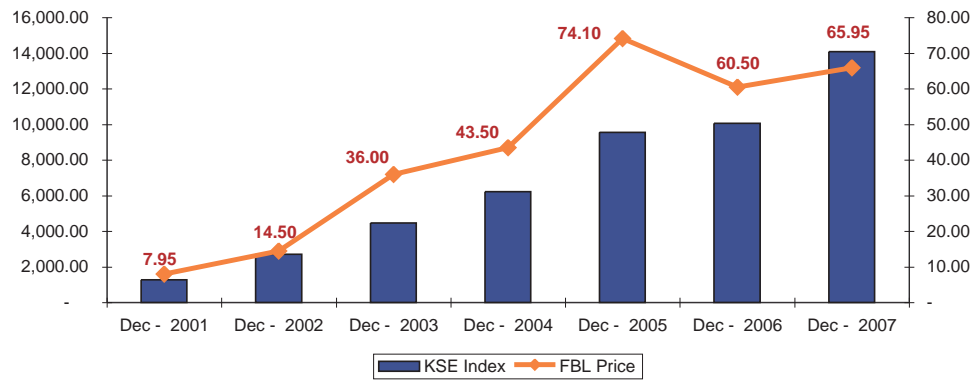


FBL Share price movement 2007 Vs 2006



Highest Achieved During 2007: Rs. 80.25 (2006: Rs 91.00)

FBL PRICE VS KSE INDEX (2001 -2007)





Building on Solid Foundations

FAYSAL BANK

Our corporate governance is translated into a set of best practices by comprehensive policies, procedures and systems put into place and run by a portfolio of highly experienced and dedicated team. This combination has helped us build further on solid foundations over the years and achieve the critical mass of growth.







FAYSAL BANK

Notice Of The Thirteenth Annual General Meeting

Notice is hereby given that the 13th Annual General Meeting of Faysal Bank Limited will be held on Friday, March 28, 2008 at 9:00 a.m. at Jinnah Auditorium, Institute of Bankers of Pakistan, Moulvi Tamizuddin Khan Road, Karachi, to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the Extra-Ordinary General Meeting held on September 29, 2007.
2. To receive and adopt Audited Accounts (stand-alone and consolidated) of Faysal Bank Ltd. for the year ended December 31, 2007 together with Directors' and Auditors' Reports thereon and Statement of Compliance with the Code of Corporate Governance.
3. To elect seven (07) Directors of Faysal Bank Limited for a period of three years commencing from April 10, 2008 in accordance with the provisions of the Companies Ordinance, 1984. The names of retiring Directors are as under:

1. Mr. Ziad H. Rawashdeh
2. Mr. Graham R. Walker
3. Mr. Mohammad A. Rahman Bucheerei
4. Mr. Khalid S. Tirmizey (Acting)
5. Mr. Tariq Iqbal Khan
6. Mr. Sanaullah Qureshi
7. Mr. Shahid Ahmad

The Board of Directors at its meeting held on February 21, 2008 has fixed the number of Directors to be elected at this meeting is Seven (07). The retiring Directors shall be eligible to offer themselves for re-election in accordance with applicable regulations.

4. To approve as recommended by the Board of Directors 25 % Final Cash Dividend. The said Final Cash Dividend is in addition to 25% Interim Bonus Shares already issued.
5. To appoint Auditors for the ensuing financial year 2008 at a remuneration to be mutually agreed between P&CEO and the auditors. (The present Auditors, KPMG Taseer Hadi & Co., Chartered Accountants being eligible offer themselves for re-appointment). The Board of Directors recommends their appointment as Auditors of the Bank for year 2008.
6. Any other business with the permission of the Chair.

SPECIAL BUSINESS

1. To consider modifications/amendments in Memorandum & Articles of Association of the Bank subject to approval from State Bank of Pakistan, Stock Exchanges and other Regulators with changes, if any, as may be suggested by them and accepted by Board of Directors and pass the following Resolution as Special Resolution, with or without amendments.

RESOLVED that modifications/amendments in Memorandum & Articles of Association of the Bank subject to approval from State Bank of Pakistan, Stock Exchanges and other Regulators with changes, if any, as may be suggested by them and accepted by Board of Directors, be and is hereby approved.

2. To consider and approve fee for attending Board Meetings and Board Committees Meeting by the Board of Directors and pass following Resolution as Special Resolution; with or without amendments.

RESOLVED that subject to amendments in Memorandum & Articles of Association of the Bank approved by the Regulators and shareholders, payment of a fee of Rs. 50,000/- for attending Board meeting and Board Committees meeting by Directors entitled as per applicable laws and Regulations and as amended time to time, be and is hereby approved.

by the order of the Board

M. SIDDIQUE MEMON
Company Secretary &
Legal Advisor

Karachi: March 01, 2008



Notice Of The Thirteenth Annual General Meeting

NOTES

1. The Share Transfer Books of the Bank will remain closed from Friday, March 21, 2008 to Friday, March 28, 2008 (both days inclusive).
2. All Members are entitled to attend and vote at the Meeting.
3. A member entitled to attend, and vote at the Meeting is entitled to appoint another member as a proxy to attend, speak and vote for him/her.
4. An instrument of proxy applicable for the meeting is being provided with the notice sent to members. Further copies of the instrument of proxy, if required may be obtained from the Registered Office of the Bank during normal office hours or photocopy of the same may be used for the purpose.
5. An instrument of proxy and a Power of Attorney or other authority (if any) under which it is signed, or notarized copy of such Power of Attorney must be valid and deposited at the Registered Office of the Bank not less than 48 hours before the time of the Meeting.
6. In case of Proxy for an individual beneficial Owner of CDC, attested copies of beneficial owner's CNIC or passport, Account and Participant's I.D. numbers must be deposited alongwith the Form of Proxy. In case of Proxy for corporate members, he/she should bring the usual documents required for such purpose.
7. Shareholders are requested to notify change in their address, if any Statement of Material Facts under Section 160(1)(b) of the Companies Ordinance, 1984 relating to said Special Business.

This statement sets out the material facts concerning the following Special Business to be transacted at the Thirteenth Annual General Meeting of Shareholders of Faysal Bank Limited to be held on Friday, March 28, 2008.

1. To consider modifications/amendments in Memorandum & Articles of Association of the Bank subject to approval from State Bank of Pakistan, Stock Exchanges and other Regulators with changes, if any, as may be suggested by them and accepted by Board of Directors

The proposed amendments in Memorandum & Articles of Association have become necessary for existing FBL operations to carry out Conventional Banking as well as Islamic Banking through proposed Islamic Banking branches. The proposed amendments in Memorandum & Articles of Association have been approved by the Board of Directors at its meeting held on February 21, 2008 subject to approval from State Bank of Pakistan, Stock Exchanges, other Regulators and shareholders of the Bank with changes, if any, as may be suggested by the Regulators and accepted by the Board of Directors. The details of existing and proposed amendments in Memorandum & Articles of Association are submitted herewith.

2. To consider and approve fee to attending Board Meetings and Board Committees Meetings by the Board of Directors.

As per existing practice amongst various Banks and reputed Companies in Pakistan, the Board of Directors at its meeting held on February 21, 2008 at Dubai has recommended, subject to approval of amendments/modifications in Memorandum & Articles of Association of the Bank, a fee of Rs. 50,000/- be paid to each Director, Faysal Bank Limited for attending meeting of Board and Board Committees with restrictions/reservations, if any under any applicable laws and Regulations.

Existing and Proposed Amendments in Memorandum and Articles of Association



FAYSAL BANK

Sr. No.	Clause No.	Existing Text	Proposed amended text by Bank Legal Advisor
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I - MEMORANDUM OF ASSOCIATION

1.	OBJECTS III	The Company shall promote, foster and develop the application of Islamic principles, laws and injunctions to the transactions of financial, banking and related business affairs including the investment of funds for the purpose of compensation for the financial consequences of defined risks or losses, and to promote investment in companies, enterprises and concerns which shall themselves be engaged in business activities as are acceptable in terms of Islamic principles, laws and injunctions and in no event such business activities as is prohibited by Islamic Sharia'a and determined by the Religious Board constituted under the Articles of Association of the Company. Within these broad parameters, the objects for which the Company is established are to undertake all or any of the following business in or outside Pakistan. THE PROVIDING ACCEPTING OF FINANCING AND ANY OTHER ACTIVITIES AND INSTRUMENTS REFERRED TO HEREUNDER SHALL BE UNDERTAKEN BY THE COMPANY ONLY IF THE SAME ARE STRICTLY PERMISSIBLE BY ISLAMIC SHARIA'A AS INTERPRETED AND APPROVED BY THE COMPANY'S RELIGIOUS BOARD.	"The Company shall carry on the business of banking and undertake financial transactions as permitted under the applicable laws of Pakistan including, but not limited to, the Banking Companies Ordinance 1962, the Companies Ordinance, 1984, the Financial Institutions (Recovery of Finances) Ordinance, 2001 (including any amendment and/or re-enactment of any such Ordinances) and all other applicable laws, rules and regulations, and the rules, directions and circulars of the State Bank of Pakistan as in force from time to time. Without limiting in any manner the generality of the aforesaid, the Company shall carry out Banking Business including opening of stand alone Branches for Islamic Banking in terms of relevant Laws and applicable Regulations of State Bank of Pakistan promulgated and/or amended from time to time. The said stand alone Branches for Islamic Banking to conform to the Islamic principles and injunctions and its all financial and banking transactions as are specifically intended to be undertaken in accordance with applicable Laws and Regulations.
	Sub Para 4 of Clause III	Object: The providing of finance as defined in the Banking Tribunals Ordinance, 1984.	Object: The providing of finance as defined in the Financial Institutions (Recovery of Finances) Ordinance 2001 or any re-enactment thereof."

II - ARTICLES OF ASSOCIATION

	Article 2	PRELIMINARY	PRELIMINARY
		Interpretation (b) "Authority" means the Corporate Law Authority constituted under the Companies Ordinance	Interpretation (b) "Commission" means the Securities and Exchange Commission of Pakistan constituted under the Securities and Exchange Commission of Pakistan Act, 1997."
	New Article 2 (ia) [as proposed]		Object: "Executive Director" means a Director of the Company who is a paid employee or executive of the Company or, where the State Bank Requirements so require, of a company/group where the sponsor shareholders of the Company have substantial interest in terms of the State Bank Requirements.
	New Article 2 (ka) [as proposed]		"Non Executive Director" means a Director of the Company who is not an Executive Director.
	New Article 2 (va) [as proposed]		"State Bank Requirements" means the rules, prudential and other regulations, circulars, directives, notifications and orders issued by the State Bank from time to time for compliance by banks in Pakistan."
	Article 2 (e)	(e) "Chief Executive" means the Chief Executive for the time being of the Company.	(e) "Chief Executive Officer" means the Chief Executive Officer for the time being of the Company.



Existing and Proposed Amendments in Memorandum and Articles of Association

Sr. No.	Clause No.	Existing Text	Proposed amended text by Bank Legal Advisor
	New Article 2(bb)		<p>Interpretation:</p> <p>(bb)</p> <p>'Islamic Branches' means stand alone Branches for Islamic Banking opened by the company under applicable Laws and existing Regulations of SBP and amendments made thereto from time to time.</p>
	Article 9	<p>CAPITAL AND SHARES</p> <p>Company to determine terms and conditions for further issue:</p> <p>In addition to and without derogating from the powers for that purpose conferred on the Directors under these Articles and to any exercise of such powers, the Company in General Meeting may determine that any shares (whether forming part of the original capital or of any increased capital of the Company) shall be offered to such persons (whether members or holders of debentures of the Company or not) at a premium or at par or subject to compliance with the provisions of Section 84 of the Companies Ordinance at a discount and such General Meeting shall determine and with full power to give to any person (whether a member of the Company or not) the option to call for or to allot shares of any class of the Company either at a premium or at par or subject as aforesaid at a discount, such option being exercisable at such times and for such consideration as may be directed by such General Meeting, may make any other provisions whatsoever for issue, allotment or disposal of any shares.</p>	<p>CAPITAL AND SHARES</p> <p>Company to determine terms and conditions for further issue:</p> <p>In addition to and without derogating from the powers for that purpose conferred on the Directors under the Companies Ordinance and these Articles (in particular Article 41) and to any exercise of such powers, the Company may, in General Meeting, determine, subject to Section 86 of the Companies Ordinance, that any shares (whether forming part of the original capital or of any increased capital of the Company) shall be offered to any persons and at a premium or at par or, subject to compliance with the provisions of Section 84 of the Companies Ordinance, at a discount as such General Meeting shall determine and with full power to give to any person the option to call for the allotment of the shares of any class of the Company either at a premium or at par or, subject as aforesaid, at a discount, such option being exercisable at such times and for such consideration as may be directed by such General Meeting, and may make any other provisions whatsoever for issue, allotment or disposal of any shares.</p>
	Article 11	<p>No purchase of or loan on the Company's shares:</p> <p>No part of the funds of the company shall be employed in the purchase of its share (unless so permitted by law in connection with employees stock option scheme), or shall not provide any loan or guarantee or security whether directly or indirectly to any person for the purchase of its own shares or the shares of its holding company.</p>	<p>No purchase of or loan on the Company's shares:</p> <ol style="list-style-type: none"> 1. No part of the funds of the Company shall be employed in the purchase of the shares of the Company other than in accordance with Section 95A of the Companies Ordinance. 2. The Company shall not provide any loan or guarantee or security, whether directly or indirectly, to any person for the purchase of the shares of the Company or for the purchase of the shares of the holding company of the Company, except for the purchase of any shares under an employees stock option scheme introduced by the Company, subject to the proviso to sub-section (2) to section 95 of the Companies Ordinance.
	Article 16	<p>Shares at the Disposal of Directors:</p> <p>Subject to the provisions of these Articles, the shares shall be under the control of the Directors, who may allot or otherwise dispose of the same to such persons, on such terms and conditions, and at such times, as the Directors deem fit and give to any person the right of any issue of shares either at par or at a premium or at a discount (subject to the provisions of section 84 of the Companies Ordinance) and for such time and for such consideration as the Directors deem fit. Provided that upon the issue of any further shares the Directors shall comply with the conditions, if any, of the Controller of Capital Issues and the provisions of sections 68 to 73 and 86 of the Companies Ordinance.</p>	<p>Shares at the Disposal of Directors:</p> <p>Subject to the provisions of these Articles, the shares shall be under the control of the Directors, who may allot or otherwise dispose of the same to such persons, on such terms and conditions, and at such times, as the Directors deem fit and give to any person the right of any issue of shares either at par or at a premium or at a discount (subject to the provisions of section 84 of the Companies Ordinance) and for such time and for such consideration as the Directors deem fit, provided that upon the issue of any further shares, to the extent applicable the Directors shall comply with the provisions of Sections 68 to 73 and 86 of the Companies Ordinance.</p>

Existing and Proposed Amendments in Memorandum and Articles of Association



FAYSAL BANK

Sr. No.	Clause No.	Existing Text	Proposed amended text by Bank Legal Advisor
	Article 25	<p style="text-align: center;">CERTIFICATES</p> <p>Lost or worn out certificates:</p> <p>If any certificate be worn out, defaced, mutilated, torn or rendered useless, then upon production of the same to the Directors they may order the same to be cancelled and may issue a new certificate in lieu thereof and if any certificate be lost or destroyed then upon proof thereof to the satisfaction of the Directors, and on such indemnity as the Directors deem adequate being given, new certificate in lieu thereof shall be given to the party entitled to such lost or destroyed certificate (s), against payment of such sum, if any, as the Directors may fix from time to time.</p>	<p style="text-align: center;">CERTIFICATES</p> <p>Lost or worn out certificates:</p> <p>If any certificate be worn out, defaced, mutilated, torn or rendered useless, then upon production of the same to the Directors they may order the same to be cancelled and may issue a new certificate in lieu thereof and if any certificate be lost or destroyed then upon proof thereof to the satisfaction of the Directors, and on such indemnity as the Directors deem adequate being given, new certificate in lieu thereof shall be given to the party entitled to such lost or destroyed certificate(s), against payment of such sum, as the Director may fix from time to time. A new certificate shall be issued within 45 days from the date of completion of all requisite requirements by the applicant for the issuance of a duplicate certificate and such date shall be considered as the date of the application.</p>
	Article 27 (iv)	<p>Transfer of Shares:</p> <p>iv). If the Company refused to register the transfer of any shares the Company shall, within thirty days from the date on which the instruments of transfer is lodged with the Company, send to the transferee notice of the refusal.</p>	<p>Transfer of Shares:</p> <p>iv) If the Company refuses to register the transfer of any shares the Company shall, within thirty days or where the transferee is a central depository, within five days from the date on which the instruments of transfer is lodged with the Company, send to the transferee notice of the refusal.</p>
	Article 41	<p style="text-align: center;">ALTERATION OF CAPITAL</p> <p>Offer of new shares :</p> <p>Where the Directors decide to increase the capital of the Company by the issue of further shares then except where otherwise required by any consent order obtained by the Company under the Capital issues (Continuance of Control) Act 1947 or except where it may be legally permissible to issue share otherwise than in the manner set out in this Article, such shares shall be offered to the Members strictly in proportion to the existing shares held by each Member, and such offer shall be made by notice specifying the number of shares to which the offer, if not accepted, will be deemed to be declined. Such offer shall be accompanied by a circular duly signed by the Directors or any officer of the Company authorized by them, in the form described by the Authority containing material information about the affairs of the company, latest statement of accounts and setting forth the necessity for issue of further capital. The circular shall specify a date by which the offer, if not accepted, will be deemed to be declined.</p>	<p style="text-align: center;">ALTERATION OF CAPITAL</p> <p>Offer of new shares:</p> <p>Where the Directors decide to increase the capital of the Company by the issue of further shares, such shares shall be offered, subject to the first proviso to Sub-section (1) of Section 86 of the Companies Ordinance, to the Members strictly in proportion to the existing shares held by each Member, and such offer shall be made by notice specifying the number of shares to which the offer, if not accepted, will be deemed to be declined. Such offer shall be accompanied by a circular duly signed by the Directors or any officer of the Company authorized by them, in the form described by the Commission containing material information about the affairs of the Company, latest statement of accounts and setting forth the necessity for issue of further capital. The circular shall specify a date by which the offer, if not accepted, will be deemed to be declined. The further issue of capital shall be in accordance with provisions of Section 86 of the Companies Ordinance and Rule (5) of the Companies (Issue of Capital) Rules 1996.</p>
	Article 43	<p style="text-align: center;">ALTERATION OF CAPITAL</p> <p>Fractional Shares:</p> <p>The fractional shares shall not be offered to the Members becoming entitled to such fractional shares on the issue of new shares. All fractions less than a share shall be consolidated and disposed of by the Company and all the proceeds from such disposition shall be paid to such of the entitled shareholders as may have accepted the offer for new shares.</p>	<p style="text-align: center;">ALTERATION OF CAPITAL</p> <p>Fractional Shares:</p> <p>The fractional shares shall not be offered to the Members becoming entitled to such fractional shares on the issue of new shares. All fractions less than a share shall be consolidated and disposed of by the Company, through the Company Secretary, and all the proceeds from such disposition shall be paid to Charitable Institution-“Waqf Faisal”, or to such other charitable institution as the Directors may determine.</p>



Existing and Proposed Amendments in Memorandum and Articles of Association

Sr. No.	Clause No.	Existing Text	Proposed amended text by Bank Legal Advisor
	Article 52	<p>POWER TO OBTAIN FINANCE</p> <p>Power to obtain finance:</p> <p>The Directors may from time to time at their discretion obtain finance or any sum or sums of money for the purposes of the Company provided that such mode of finance is permissible under Islamic Sharia'a as determined by the Company's Religious Board.</p>	<p>POWER TO OBTAIN FINANCE</p> <p>Power to obtain finance:</p> <p>The Directors may from time to time at their discretion obtain finance or borrow any sum or sums of money for the purposes of the Company, subject to the Memorandum of Association and all applicable laws.</p>
	Article 65	<p>STATUTORY AND GENERAL MEETING</p> <p>Annual General Meeting:</p> <p>Subject to Section 158 of the Companies Ordinance, the First Annual General Meeting of the Company shall be held within eighteen months from the date of incorporation of the Company and thereafter once at least in every calendar year, within a period of six months following the close of the financial year at such time and place as may be determined by the Directors provided that no more than 15 months shall be allowed to elapse between two Annual General Meetings.</p>	<p>STATUTORY AND GENERAL MEETING</p> <p>Annual General Meeting:</p> <p>Subject to Section 158 of the Companies Ordinance, an Annual General Meeting of the Company shall be held once at least in every calendar year, within a period of three months following the close of the financial year at such time and place as may be determined by the Directors provided that no more than 15 months shall be allowed to elapse between two Annual General Meetings</p>
	Article 72	<p>PROCEEDINGS AT THE GENERAL MEETINGS</p> <p>Quorum at the General Meetings:</p> <p>Three Members present personally who represent not less than twenty-five per cent of the total voting power either of their own account or as proxies shall be a quorum for a General Meeting and no business shall be transacted at any General Meeting unless the quorum be present at the commencement of the meeting.</p>	<p>PROCEEDINGS AT THE GENERAL MEETINGS</p> <p>Quorum at the General Meetings:</p> <p>Not less than ten (10) Members present personally who represent not less than twenty five per cent of the total voting power either of their own account or as proxies shall be a quorum for a General Meeting and no business shall be transacted at any General Meeting unless the quorum is present at the commencement of the meeting.</p>
	Article 101	<p>DIRECTORS</p> <p>Eligibility of the Directors:</p> <p>(b) is not of sound mind;</p>	<p>DIRECTORS</p> <p>Eligibility of the Directors:</p> <p>(b) is of unsound mind;</p>
		g)	g)
		has betrayed lack of judiciary behavior and a declaration to this effect has been made by the court under Section 217 of the Companies Ordinance at any time during the preceding five years;	has betrayed lack of fiduciary behavior and a declaration to this effect has been made by the court under Section 217 of the Companies Ordinance at any time during the preceding five years;
			(i) has been convicted by a Court of competent jurisdiction as defaulter in repayment of loan to a financial institution, a banking company, a Development Financial Institution or a Non-Banking Financial Institution.
			(j) is a member of a Stock Exchange engaged in the business of brokerage, or is a spouse of such member.
			(k) is a person whose name is not borne on the register of National Tax Payers except where such person is a non-resident.
			(l) does not meet the criteria of "Fit and Proper Test" as prescribed from time to time by the State Bank of Pakistan for appointment of President/Chief Executive Officer and Directors of a bank .

Existing and Proposed Amendments in Memorandum and Articles of Association



FAYSAL BANK

Sr. No.	Clause No.	Existing Text	Proposed amended text by Bank Legal Advisor
	Article 104	<p>Remuneration of the Directors</p> <p>The remuneration of a Director other than the Chief Executive or a whole time working Director, for attending meeting shall be such sum as may be fixed by the Directors but shall not exceed Rupees five hundred per meeting or subject to any such conditions as the Controller of Capital Issues may impose from time to time.</p>	<p>Remuneration of the Directors</p> <p>Subject to the State Bank Requirements and approval of the shareholders in a General Meeting on a pre or post facto basis, the remuneration of a Director other than the Chief Executive Officer or an Executive Director for attending meetings of the Board and Committees of Directors shall be such sum as may be fixed by the Directors.</p>
	Article 105	<p>Remuneration of Chief Executive / Directors:</p> <p>The terms and conditions and remuneration of the Chief Executive, whole time working Directors and also of any other Director being willing and called upon to perform extra services or make any special exertion for any of the purposes of the Company shall be determined by the Directors.</p>	<p>Remuneration of Chief Executive Officer / Directors:</p> <p>Subject to the State Bank Requirements, the terms and conditions and remuneration of the Chief Executive Officer and of whole time working Directors shall be determined by the Directors.</p>
	Article 107	<p>Directors may fill up casual vacancies:</p> <p>Any casual vacancy occurring among the elected Directors may be filled up by the Directors, but a person so appointed shall hold office maximum for the remainder of the term of the Director in whose place he is appointed.</p>	<p>Directors may fill up casual vacancies:</p> <p>Any casual vacancy occurring among the elected Directors may be filled up within 30 days by the Directors, but a person so appointed shall hold office maximum for the remainder of the term of the Director in whose place he is appointed.</p>
	Article 108 (c)	<p>The Directors vacating office :</p> <p>he or any firm of which he is a partner or any private company of which he is a director without the approval of the Company in General Meeting accepts or holds any office of profit under the Company other than that of a Chief Executive or a legal or technical adviser or a banker; or</p>	<p>The Directors vacating office:</p> <p>he or any firm of which he is a partner or any private company of which he is a Director without the approval of the Company in General Meeting accepts or holds any office of profit under the Company other than that of a Chief Executive Officer or a legal or technical adviser or a banker; or</p>
	Article 114	<p>Conditions on which the Directors may hold office of profit:</p> <p>A Director of the Company or any firm of which such Director is a partner or a private Company of which such Director is a director may, with the consent of the Company in General Meeting, accept or hold any office of profit under the Company other than that of a Chief Executive or a legal or technical advisor or a banker.</p>	<p>Conditions on which the Directors may hold office of profit:</p> <p>Subject to the State Bank Requirements, a Director of the Company or any firm of which such Director is a partner or a private Company of which such Director is a director may, with the consent of the Company in General Meeting, accept or hold any office of profit under the Company other than that of a Chief Executive Officer or a legal or technical advisor or a banker. Notwithstanding the foregoing, except for any remuneration paid to the Non Executive Directors or the Chairman for attending meetings of the Directors or of Committees of Directors, no additional payment or perquisites shall be paid to any Non Executive Director or the Chairman. Furthermore, no consultancy or allied work will be awarded to the Non Executive Directors or to the firms/institutions/companies etc. in which they hold substantial interest (as described in the State Bank Requirements).</p>
	Article 121	<p>Chief Executive</p> <p>The Chief Executive to hold office till the first Annual General Meeting:</p> <p>The first Chief Executive, appointed not later than the fifteenth day after the date of the Company's incorporation, shall unless he earlier resigns or otherwise ceases to hold office, hold office up to the first Annual General Meeting of the Company.</p>	<p>Deleted</p>



Existing and Proposed Amendments in Memorandum and Articles of Association

Sr. No.	Clause No.	Existing Text	Proposed amended text by Bank Legal Advisor
	Article 122	<p>Term of Office of the subsequent Chief Executive:</p> <p>Within fourteen days from the date of election of the Directors or the office of the Chief Executive falling vacant, as the case may be, the Directors shall appoint any person, including an elected Director, to be the Chief Executive, but such appointment shall be for a period not exceeding three years from the date of appointment.</p>	<p>Term of Office of the Chief Executive Officer:</p> <p>Within fourteen days from the date of election of the Directors or the office of the Chief Executive Officer falling vacant, as the case may be, the Directors shall, subject to the State Bank Requirements, appoint any person, including an elected Director, to be the Chief Executive Officer, but such appointment shall be for a period not exceeding three years from the date of appointment.</p>
	Article 123	<p>Eligibility of the Chief Executive:</p> <p>No person who is ineligible to become a Director shall be appointed or continued as the Chief Executive except as permitted by Section 187 of the Companies Ordinance.</p>	<p>Eligibility of the Chief Executive Officer:</p> <p>No person who is ineligible to become a Director shall be appointed or continue as the Chief Executive Officer except as permitted by Section 187 of the Companies Ordinance and no person who is ineligible to be a Chief Executive Officer under the State Bank Requirements shall be appointed or continue as the Chief Executive Officer of the Company.</p>
	Article 124	<p>Removal of the Chief Executive:</p> <p>The Directors by resolution passed by not less than three fourth of the total number of the Directors for the time being, or the Company by a Special Resolution, may remove the Chief Executive before the expiration of his term of office notwithstanding anything contained in these Articles or in any agreement between the Company and such Chief Executive.</p>	<p>Removal of the Chief Executive Officer:</p> <p>The Directors by resolution passed by not less than three fourths of the total number of the Directors for the time being, or the Company by a Special Resolution, may remove the Chief Executive Officer before the expiration of his term of office notwithstanding anything contained in these Articles or in any agreement between the Company and such Chief Executive Officer.</p>
	Article 125	<p>Meeting of the Directors</p> <p>The Chairman may on his own motion and shall on the written request of at least two Directors, convene a meeting of the Directors, for the despatch of business, and the Directors may adjourn and otherwise regulate their meetings and proceedings as they think fit. The Directors shall meet at least twice a year.</p>	<p>Meeting of the Directors:</p> <p>The Chairman may on his own motion and shall on the written request of at least two Directors, convene a meeting of the Directors, for the despatch of business, and the Directors may adjourn and otherwise regulate their meetings and proceedings as they think fit. The Directors' meetings shall be held as per the provisions of the Ordinance, directives and circulars of the Commission, State Bank Requirements and other applicable Laws and Regulations.</p>
	Article 131 (b)	<p>(b)</p> <p>The Directors may, as the business of the Company require, constitute an Executive Committee composed of a minimum of two Directors including at least one Director representing Faysal Islamic Bank of Bahrain E.C. on the Board of Directors of the Company, fix its terms of reference and delegate powers as the Directors may deem fit. The Executive Committee may be reconstituted by the Directors whenever deemed fit by them. The Chairman of the Executive Committee shall be a Director representing Faysal Islamic Bank of Bahrain E.C.</p>	<p>Revised Article 131(b)</p> <p>The Directors may, as the business of the Company require and in accordance with the State Bank Requirements, constitute specialised committee(s) composed of a minimum of two Directors, fix the terms of reference of such specialised committee(s) and delegate powers thereto as the Directors may deem fit. These specialised committee(s) may be reconstituted by the Directors whenever deemed fit by them.</p>
	Article 132	<p>Appointment of Religious Board</p> <p>The Directors shall nominate, constitute and maintain a Religious Board composed of atleast three persons who are acknowledged experts in Islamic principles, laws and injunctions. Members of the Religious Board shall be designated by the Directors and may be removed by them at any time.</p>	<p>Appointment of Shariah Advisor:</p> <p>The Directors:</p> <ol style="list-style-type: none"> may appoint a Shariah Advisor who is sufficiently knowledgeable in Islamic principles, laws and injunctions; may approve the terms of reference of the Shariah Advisor; may at any time remove a Shariah Advisor and appoint another in his place; and shall fill a casual vacancy in the office of a Shariah Advisor.

Existing and Proposed Amendments in Memorandum and Articles of Association



FAYSAL BANK

Sr. No.	Clause No.	Existing Text	Proposed amended text by Bank Legal Advisor
	Article 133	<p>Responsibilities of the Religious Board:</p> <p>(a) The Religious Board shall have general responsibility to ensure that the Company's investment and activities (and those of its subsidiaries or controlled affiliates) conform to Islamic principles, laws and injunctions. The Religious Board shall have the power to examine the Directors, officers and employees concerned of the Company for the purpose and may demand any information it may require. More particularly, the Religious Board shall make all determinations concerning Islamic principles, laws and injunctions required to ensure compliance with Clause III of the Company's Memorandum of Association and the Directors, officers and employees shall conform to such determination and be entitled to rely on any such determination. Any such determination shall be binding on all shareholders and members. In no event any party transacting business with the Company be obliged to enquire into the conformity of such business to Islamic principles, laws and injunctions or the application or otherwise of the terms of the opening paragraph of clause III of the Memorandum of Association of the Company on the objects contained in paragraph 1 to 40 of the said clause against any third party transacting business with the Company.</p>	Deleted
		<p>(b) The Religious Board shall report within six months of the close of the fiscal year of the Company in writing to the effect that it has discharged its obligations hereunder to ensure that the Company's investments and activities (and those of its subsidiaries or controlled affiliates) conform to Islamic principles, laws and injunctions.</p>	Deleted
	Article 134	<p>Approvals by the Religious Board</p> <p>The Directors shall adopt operating procedures to ensure that all types of investments and activities are submitted to the Religious Board for approval before these are undertaken by the Company.</p>	Deleted
	Article 151	<p>Annual accounts:</p> <p>The directors shall, as required by the Ordinances, cause to be prepared and to be laid before the Members in General Meeting a Profit and Loss Account, Balance Sheet and reports including auditors' report, made up to a date not more than six months before the date of the meeting, giving a true and fair view of the state of affairs of the Company.</p>	<p>Annual Accounts:</p> <p>The Directors shall, as required by the Ordinances, cause to be prepared Annual Accounts and to be laid before the Members in General Meeting a Profit and Loss Account, Balance sheet and reports (including Directors' and auditors' reports and any other documents as are required to be attached to the Balance Sheet by the State Bank Requirements or any other law, rules and/or regulations), made up to a date not earlier than the date of the meeting by more than three months or as may be required by any Law or regulations, giving a true and fair view of the state of affairs of the Company.</p>
	Article 154	<p>Half Yearly Accounts:</p> <p>The company shall within two months of the close of the first half of its year of account prepare and send to the Members and Stock Exchange, the financial statements in accordance with the provisions of section 245 of the Companies Ordinance.</p>	<p>Quarterly Accounts:</p> <p>The Company shall prepare a profit and loss account for and balance sheet as at the end of the first, second and third quarter of its financial year and shall transmit the same to the Members and to the Stock Exchanges in which the shares of the Company are listed within such period as is prescribed by the Companies Ordinance and any other applicable legal requirements including posting of Accounts on Bank's Website.</p>
	Article 156 (a)	<p>A notice may be given by the Company to any Member either personally or by sending it by post to him to his registered address of (if he has no registered address in Pakistan) to the address, if any within Pakistan supplied by him to the Company for the giving of notices to him.</p>	<p>“(a) A notice may be given by the Company to any Member either personally or by courier or by sending it by post to him to his registered address or (if he has no registered address in Pakistan) to the address, if any, within Pakistan supplied by him to the Company for giving of notices to him.”</p>



FAYSAL BANK

Review Report To The Members On Statement Of Compliance With Best Practices Of Code Of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Faysal Bank Limited to comply with Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan, Listing Regulation No 37 of the Karachi Stock Exchange and Chapter XIII of the Lahore Stock Exchange where the Bank is listed.

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

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

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

Dated: February 21, 2008
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants



FAYSAL BANK

Statement Of Compliance With Code Of Corporate Governance

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

1. Faysal Bank Limited encourages representation of independent non-executive Directors and Directors representing minority interests on its Board of Directors as applicable under the Code. At present the Board includes three non-executive nominee Directors of FBL Sponsors; one Executive President & CEO (Acting); two Independent Directors and one NIT Nominee Director. The Bank will reconstitute new Board in Annual General Meeting to be held in March 2008. The new Board will be constituted effective from April 10, 2008 when the three year term expire and will be in compliance with the Fit & Proper Test as per SBP's BPRD circular No. 04 of 2007 dated April 23, 2007.
2. None of the Directors in Faysal Bank is serving as a Director in more than ten listed companies, including this Bank, except Mr. Tariq Iqbal Khan (NIT Nominee Director) who has been exempted by SECP in this respect.
3. All resident Directors of the Bank are registered taxpayers and to best of our knowledge none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFII or being a member of a stock exchange has been declared as a defaulter.
4. Casual vacancies occurring during the year were duly filled in with the approval of State Bank of Pakistan.
5. The bank has adopted a 'Statement of Ethics and Business Practices', which has been signed by all Directors and Employees of the Bank.
6. The Board has adopted a vision/mission statement, overall corporate strategy and significant policies for the Bank.
7. All powers of the Board have been duly exercised and decisions on material transaction, including appointment and determination of remuneration and terms and conditions of employment of President & CEO are approved by the Board and/ or its authorized committees.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose. The Board held eight (08) meetings in the year 2007 including one in every quarter. Written notice of the Board meetings, along with agenda and working papers, were circulated seven (07) days before the meetings. The minutes of the meetings were appropriately recorded and were timely circulated to all concerned.
9. The directors of Faysal Bank Limited are professionally qualified and experienced persons and are well aware of their duties and responsibilities. Further an orientation course for Directors was conducted by the Bank to apprise all Directors of their duties and responsibilities.
10. The Board approves appointment of CFO and Company Secretary while Head of Internal Audit is appointed by Audit Committee including their remuneration and terms and conditions of employment.
11. The Directors' Report for this year has been prepared in compliance with the requirements of Code and fully describes the salient matters required to be disclosed.
12. All financial statements of the Bank were duly endorsed by the President & CEO (Acting) and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all applicable corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.
16. The audit committee held five meetings including one in every quarter prior to approval of quarterly and final results of the Bank as required by the Code. The terms of reference of Audit Committee have been framed and approved by the Board and has been advised to the committee for compliance.



FAYSAL BANK

Statement Of Compliance With Code Of Corporate Governance

17. The Audit Committee members also met with External Auditors of the Bank without CFO and Head of Internal Audit and with Head of Internal Audit and other members of the Internal Audit function as required under the provisions of Code of Corporate Governance.
18. The Board has set up an effective Internal Audit function. The Bank's Internal Audit Manual is approved by the Board of Directors. The staff of Internal Audit Department are suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank and they are involved in the internal audit function on a full time basis. The Internal Audit resources are being reviewed and enhanced regularly to meet continuous business growth.
19. The statutory auditors of the Bank have confirmed that
 - i) they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan;
 - ii) they or any of the partners of the firm, their spouses and minor children do not hold shares of Faysal Bank Limited or its associates; and
 - iii) the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code and Prudential Regulation No. XXIX have been complied with.

Dubai
Dated: February 21, 2008

Khalid S. Tirmizey
President & CEO (Acting)

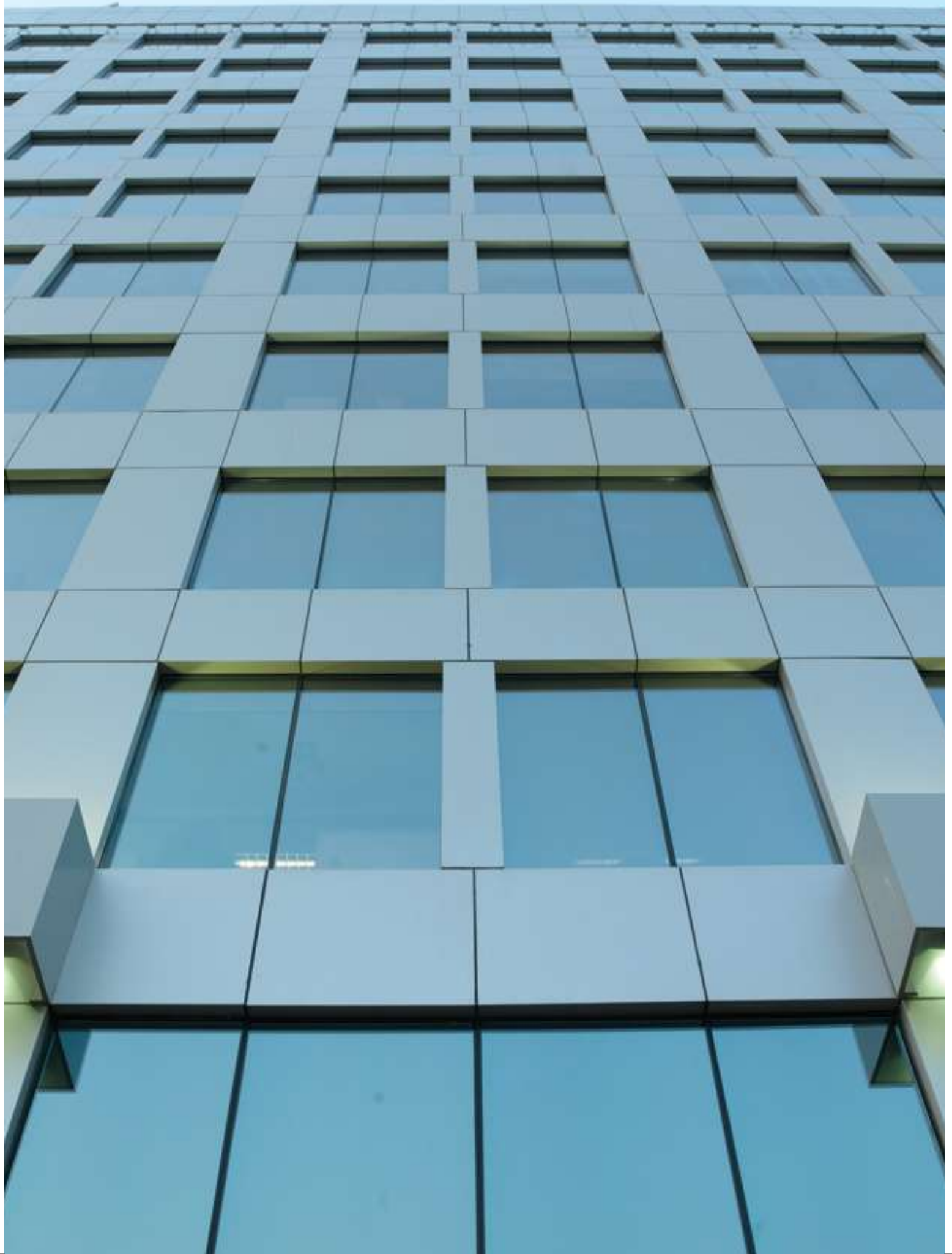


Our Pillars of Strength

FAYSAL BANK

We adhere to the highest standards of integrity with a maximum degree of commitment. Our core values are a reflection of this fundamental principle and we remain dedicated to keep measures of our corporate governance firmly within the dictates of our ethical practices.







Directors' Report

FAYSAL BANK



As Salam O Alaikum Wa Rahmatullah Wa Baraktouh

On behalf of the Board of Directors, I am pleased to present the Thirteenth Annual Report of Faysal Bank Limited along with the audited financial statements and the Auditors' Report thereon for the year ended December 31, 2007.

ECONOMIC REVIEW

Pakistan's economy continued to show resilience and strong performance. It grew by 7% in 2006-07 and is expected to grow by over 6% in 2007-08, which is one of the highest in the region. Investment, a key determinant of growth reached a record level of 23% of GDP. This was mainly caused by higher FDI, and a remarkable surge in investments in the local stock market and GDRs issues. In absolute terms, Pakistan received USD 5.1 billion of FDI during FY07, which was 46% higher than FY06. Another encouraging aspect was the remarkable growth of 19.4% YoY in workers' remittances during FY07 to reach USD 5.5 billion. However, higher commodity prices and a rising oil import bill are pushing inflation and the current account deficit.

Monetary Policy: SBP responded by keeping a tight monetary stance. It increased the discount rate by 50 basis points to 10% in July 2007, followed by another increase by 50 basis points in January 2008. The SBP's latter move was against the global trend of reducing interest rate. The US Fed Reserves reduced the interest rate by 1.25% in the second half of January 2008 to bring down the rate to 3%. The SBP also increased the Cash Reserve Ratio (CRR) by 100 basis points to 8% to siphon off excess liquidity from the domestic inter-bank market. The action was taken to limit the supply of money in the market and to reduce inflation which remained high during the last fiscal year.

Fiscal Policy: The fiscal deficit during the year remained at the level of 4.3% of GDP slightly higher than the budgeted target of 4.2% despite the massive increase of 18.6% in tax collection by the Central Board of Revenue (CBR). The strong CBR performance was mainly due to a 48.2% YOY rise in direct tax collection. Total revenue in FY07 was Rs 1,298 billion while the total expenditure was Rs 1,675.5 billion. The increase is resultant of higher public spending on development budget and larger expenditure on account of relief and rehabilitation of earthquake affected areas. During and beyond the later six months of the calendar year 07, government is having to restructure its development expenditure to meet the increasing expense on oil and food subsidy.

Political Situation: Political challenges also remained in the limelight during the year. Recent elections have been one of the most watched for in our history. Though the political environment is likely to remain unstable for a while, we believe law and order situation is the most important conduit of its influence on the economic activity. As far as the economic policies of different political parties are concerned, these are not easily distinguishable. Privatization, deregulation and focus on foreign investment are the main pillars of economic policies of all the leading parties.

Capital Markets: The stock market continued to remain volatile during the year due to disturbed political conditions, yet it managed to gain volumes in spurts in between and the KSE-100 index closed at 14,076 at the year end, up 40% compared to the close as at December 31, 2006.

Banking Sector Review: Banking Industry in Pakistan continued to perform well during FY07. Its deposit base increased by 20.90% as compared to 16.20% the previous year.



The growth in the consumer loans slowed down to 19.5% compared to 43.8% in FY06; this was infact the lowest during the preceding four years. The major factors adversely affecting the growth were increase in lending rates, high credit standards, restrained lending by banks in order to streamline their risk, and mandatory use of credit profile of the borrowers through the use of credit information bureau (CIB) of the SBP. Net NPLs/Net loans have also increased as a result of which banks have recently modified their credit policies in consumer financing sector. The declining trend in appetite for loans and consequent liquidity are directing towards a slide in interest rates, which will contain growth in banking sector profitability.

BANK'S PERFORMANCE

By the grace of God, your bank continued to exhibit strong performance in 2007. Bank's strategy and its execution were aptly tuned to positively respond to the challenges of the operating environment. The bank made commendable progress to firmly establish its leadership in the market in all areas including business, operations, risk management and corporate governance.

On the business front, we continued to outpace the market growth in both deposits and advances. Deposits increased to PKR 102 billion, 37% against the market growth of 18% (Deposit growth is impressive, though in line with the changing industry trends, a portion of the incremental deposits pertain to whole-sale price sensitive deposits). Advances increased to PKR 87 billion, 17% against industry growth of 10%. As credit off take slowed in response to the restrictive monetary stance of SBP, we focused on innovation and service delivery to attain growth and increase in our market share. On the Corporate and Investment Banking side, we successfully undertook syndicated transactions worth PKR 91 billion (details given under milestones and achievements) in high growth segments such as Physical Infrastructure, Steel, Power and Services. We continued to bring "first of its kind" transactions to the market such as arranging of off shore financing for the country's first rapid deployment power plant, Pakistan Power Resource. We also achieved targeted growth in SME.

As a part of our diversification strategy, this year we focused on Agri finance. Our approach to this area is comprehensive covering all facets of agri financing. A complement of 39 dedicated officers posted in 26 branches are playing an instrumental role not only in enhancing our business but also in imparting training and creating awareness amongst the farming community. The bank had also launched an impressive print and electronic media campaign highlighting FBL's role in the development of rural economy of Pakistan. Our efforts in this area have been duly acknowledged by the Governor SBP, Dr. Shamshad Akhtar, which is indeed very encouraging.

Prudent business practices allowed the bank to continue to play its prominent role in the Consumer Finance business. While several other players shied away from growth in the auto and other consumer segments, FBL's presence in the market was reassuring, which also

The bank had also launched an impressive print and electronic media campaign highlighting FBL's role in the development of rural economy of Pakistan.

helped us in gaining further ground in this highly competitive business.

We continued to expand our population coverage and have reenergized our services suite through rationalizing, re-branding (with added features) and introducing new products. During the year we increased our network by 30 modern and customer centric branches and 6 service centers. Now we are present in 28 cities through 105 branches. We also increased our ATM network to 81 by adding another 31 ATMs during the year, a few of which are capable of providing real time cash deposit facility as well. We introduced "Faysal Moavin" checking account, and "FCY Saving Plus Account". Our current account "Faysal Sahulat" and Term deposits "Faysal Izafa" were also relaunched with added features to become integral part of our deposit product portfolio. We have also successfully launched "Pocket mate" - VISA debit card, and have thus become one of the few banks offering plastic with international acceptability. Market has given a very positive response to these initiatives/offerings.

Technology is a key element of our strategy. During the year we successfully completed migration to SYMBOLS, which commenced in 2005. The bank is in the final stages of implementation of Oracle Financials and has embarked upon the rollout of Oracle HRMS and Siebels (a CRM solution). This enhanced technology platform allows the bank to centralize many processing functions giving cost efficiency and control effectiveness. It has also allowed implementation of reliable Business Continuity (BCP) and Disaster Recovery Plans (DRP).

We believe "Service Quality" is the most important competitive edge in our business. Keeping this in mind, we had declared 2007 as the "Year of Service Excellence". In this regard: a service enhancement plan was developed and implemented, a service manual was developed and disseminated across the staff, complaint management process was revamped, 24/7 call center was established and frequency of service monitoring related activities has been increased significantly.

OPERATING RESULTS

Our efforts are well reflected in our financial performance and FBL remains a highly rewarding investment for its shareholders. Adjusting for non-recurring/one-off items, bank's profit after tax increased by 15%.



Directors' Report

FAYSAL BANK

FINANCIAL HIGHLIGHTS

	2007	2006
	Rupees in million	
Operating Profit	4,777	4,492
Provision for non-performing advances	<u>2,079</u>	<u>622</u>
Profit before tax	2,698	3,870
Provision for taxation	<u>426</u>	<u>1,053</u>
Profit after tax	2,272	2,817
Un-appropriated profit brought forward	1,816	1,911
Profit available for appropriation	<u>4,088</u>	<u>4,728</u>
Appropriations:		
• Transfer to statutory reserve	455	563
• Transfer to capital market reserve	33	-
• Bonus shares issued - final 2006 Nil (2005 @ 15%)	-	553
• Bonus shares issued - interim 2007 25%(2006 @ Nil)	1,059	-
• Cash dividend - final 2006 @25% (2005 @ 25%)	<u>1,059</u>	<u>737</u>
- interim Nil (2006 @ 25%)	-	1,059
	<u>2,606</u>	<u>2,912</u>
Unappropriated profit carried forward	1,482	1,816
Earning per share - Rupees	4.29	5.32

Non-adjusting events:

Transfer to Capital Market reserve	-	33
Proposed final cash dividend 25%(2006: @25%)	1,324	1,059

Current year results cannot be fairly compared with 2006 unless the large unusual/one-offs are neutralized. For instance, SBP withdrew the benefit of FSV (collaterals) in making provisions resulting alone in additional provisions of Rs.1,825 million. Accordingly, following is the position without unusual items:

	2007	2006
	Rupees in million	
Profit After Tax as per P&L	2,272	2,817
Additional Provision required due to Amendment by SBP in provisioning requirements/specific one-off last year	1,825	173
Unrecognized Realized suspended income	-	(161)
10% redemption of NIT Units resulting in capital gains of	(762)	-
Gain on sale of one-off property sold	-	(213)
Compensation income on delayed income Tax Refunds	-	(117)
One off item in Admin Expenses	304	-
Tax effect related to unusual items as above (approx)	<u>(700)</u>	<u>60</u>
Adjusted Normal Profit After Tax	<u>2,939</u>	<u>2,559</u>

Increase over 2006 15%

The total assets and the advances portfolio shows an impressive growth of over 22% and 17% to Rs.141 billion and Rs.87 billion respectively. However, the increase in investments and Lending to FIs of 40% and 53% respectively predominantly represented the

Based on superior performance, Faysal Bank Limited has been assigned the highest short term rating of A1+ (A One Plus) and AA (Double A) for the long term by JCR-VIS (credit rating company)

deployment of incremental wholesale deposits. The surplus on revaluation of investments has also increased by Rs 1.1 billion mainly due to increase in unit price (from Rs 44.85 to Rs 59.75) of NIT. This enhancement is reflected as increase in investments and surplus on revaluation.

On the liability side deposits have grown by 37% to Rs 102 billion (2006: Rs 74 billion) and borrowings from financial institutions have reduced by 33% to Rs 10 billion (2006: Rs 15 billion).

The Bank successfully made IPO of Rs.250 million (Tier II capital) which together with the Pre-IPO of Rs.750 million effected last year aggregated to Rs 1 billion.

Core capital and reserves of the bank at the close of December 31, 2007 are positioned at Rs 10 billion as against Rs 9 billion at December 31, 2006.

CREDIT RATING

Based on superior performance, Faysal Bank Limited has been assigned the highest short term rating of A1+ (A One Plus) and AA (Double A) for the long term by JCR-VIS (credit rating company). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments. It is pertinent here to note that the other major credit rating company of Pakistan, PACRA has also assigned the same ratings to the Bank.

CORPORATE GOVERNANCE

(i) The Bank has implemented the requirements of the Code of Corporate Governance (the Code) relevant to the year ended December 31, 2007. A prescribed statement by the management along with the auditors' review report thereon forms part of this Annual Report.

(ii) Statement under clause xix of the Code:

a. The financial statements prepared by the management of the Bank present fairly the state of affairs, the results of its operations,



- b. Proper books of account of the bank have been maintained.
- c. Appropriate accounting policies have consistently been applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.
- d. International Financial Reporting Standards, as applicable to banks in Pakistan, have been followed in preparation of financial statements without any material departure.
- e. The system of internal control is sound in design and has been effectively implemented and monitored. Measures are being considered to further strengthen it.
- f. There are no doubts about the bank continuing as a going concern.
- g. There has been no material departure from the best practices of corporate governance as detailed in the listing regulations.
- h. Summarised key operating and financial data of the last six years is tabulated on the initial pages of this Annual Report.
- i. The value of investment of provident and gratuity funds are Rs. 50.16 million and Rs.28.39 million respectively as per the audited financial statements.
- j. The details of Board Meetings held and attended by the directors' forms part of this Annual Report.
- k. The prescribed pattern of shareholding is given as part of this Annual Report. The movement in the directors' shareholding if any is disclosed in the footnote to the pattern of shareholding.

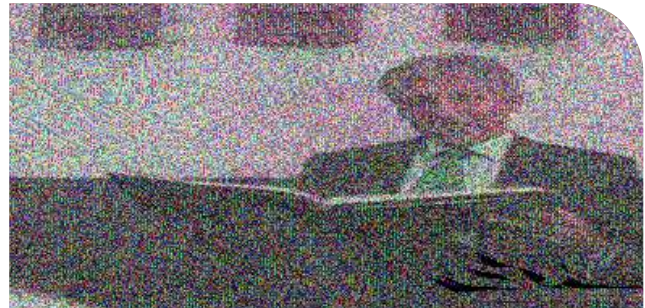
STATEMENT OF INTERNAL CONTROLS

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

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

Further, recognizing it to be an ongoing process, the bank has issued revised internal control policy guidelines on COSO pattern in November 2007 and is actively pursuing additional measures towards strengthening Internal Controls through adoption of guidelines issued by SBP on the subject on a regular basis. As for the evaluation of controls, the bank engaged renowned consultants who have issued the gap report during year under review. The bank has issued various amendments in relevant SOPs to address these gaps. Moreover, formal mechanism is in place to ensure continuous review of processes and effective existence of required controls.

The Management feels confident that through adoption of above



measures, the bank's internal control environment is maintained at a satisfactory level.

RISK MANAGEMENT FRAMEWORK

Abreast with recent developments in risk management, the Bank has strengthened its risk management setup. Under the revisited setup, a Board level sub committee, Board Risk Management Committee has been constituted to oversee risk management of the Bank at macro level. Chief Risk Officer of the Bank, reporting to Board Risk Management Committee, is responsible for managing credit, market & operational risk whereas liquidity risk management shall continue to be performed by Asset Liability Management Committee (ALCO), of which Chief Risk Officer is an essential member. A detailed Risk Management Policy was approved by the Board of Directors setting the broad guidelines for the management for taking risk exposures.

Credit Risk Management Department is responsible for conducting independent risk reviews as per mandate provided by the Board Risk Management Committee. In accordance with requirements of State Bank of Pakistan, a comprehensive Internal Risk Rating Model was developed in-house, which has since been implemented in all significant credit areas. Pricing decisions have been systematically correlated with the level of risk being taken, maintaining trade-off between risk and return.

A Treasury Mid Office was also constituted during the year, which is responsible for independent day-to-day monitoring of treasury operations of the Bank. Market Risk Management Committee (MRMC) was constituted during December 2007.

Operational Risk Management function has now been brought within the ambit of risk management department which works under operational risk management policies approved by the Board of Directors. In accordance with policy requirements, operational loss database was developed whereas certain major amendments have been incorporated in the system of Risk and Control Self Assessment (RCSA) and Key Risk Indicators (KRIs).

Keeping in view the Basel stipulations for better risk management, Basel implementation function was assigned to Country Risk Management division, under the direct supervision of Chief Risk Officer.



Directors' Report

FAYSAL BANK

As regards meeting of regulatory deadlines for Basel-II implementation, the bank has achieved deadline of December 31, 2007 for implementation of the Standardized Approach, whereas the bank is in process of appointing external consulting firm to advise the bank toward implementation of the Advanced Approaches. With significant advancement in the area of internal modeling, both related to credit risk and market risk, which the bank has developed in-house and with the assistance of consultants of international repute, the management is confident that regulatory deadline of January 1, 2010 for implementation of advanced approaches shall be accomplished. It goes without saying that the implementation of advanced approaches will be subject to regulatory approvals.

HOLDING COMPANY

Ithmaar Bank B.S.C., an Investment Bank listed in Bahrain is the ultimate holding company of Faysal Bank. However, DMI Group continues to be a major shareholder of Ithmaar Bank B.S.C. with 42% stake.

SUBSIDIARY COMPANY

Faysal Bank has one subsidiary Faysal Management Services (Pvt.) Limited (FMSL) with 60% holding. Till last year Fayzan Manufacturing Modaraba (FMM) managed by FMSL was also a subsidiary. However on completing its term FMM was liquidated during the year. All winding up formalities have been completed except for issuance of winding up certificate by Registrar of Modaraba.

Due to winding up of modaraba, FMSL is now expected to launch another venture in near future. Last year FMSL had earned dividend income of Rs.56.88 million and management fee of Rs. 2.7 million from FMM. The profit before and after tax amounted to Rs.14.44 million (2006: Rs. 59.12 million) and Rs. 10.13 million (2006: Rs. 54.98 million) respectively. FMSL declared dividends of Rs. 40.95 million (2006: Rs. 20.88 million) during the year.

BOARD MEETINGS AND ATTENDANCE

The details about number of Board meetings and attendance by directors during the year 2007 have been appended separately as part of corporate information.

FUTURE OUTLOOK

We are hugely optimistic on the future prospects of our business. Pakistan remains one of the low banked markets in the region. This coupled with SBP initiated conducive regulatory environment has created a host of opportunities going forward. Foreign investors and reputable global institutions have also expressed their confidence in the market by making an entry in the country's banking sector. Given the commitment of its sponsors, infrastructure, technology platform

Our operating plan envisages expansion in branch network by another 24 branches, 4 sub branches, and 5 Sales & Service centers.

and franchise value, FBL is very well positioned to capitalize on these opportunities. We also believe that changing dynamics of the industry are positively supportive to FBL's position in the industry.

In 2008 our focus remains on prudent growth, cost efficiencies, effective controls, continued investment in technology & infrastructure and further deepening of the culture of diligence and corporate responsibility.

Our operating plan envisages expansion in branch network by another 24 branches, 4 sub branches, and 5 Sales & Service centers. We have also applied for license for dedicated Islamic branches. We are ready to leverage our technology platform by launching a host of technology enabled products and services. These initiatives would give us access to bigger customer segments and will add convenience to our customers' experiences.

AUDITORS

The present auditors, Messrs KPMG Taseer Hadi & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment. The directors endorse the recommendations of the Audit Committee for the reappointment of Messrs KPMG Taseer Hadi & Co., Chartered Accountants, as the auditors for the financial year 2008.

ACKNOWLEDGEMENT

On behalf of the Board and the management, I would like to express my sincere thanks to the customers and shareholders of the Bank for the confidence they continue to repose in us. Sincere thanks is due to the management and staff of the bank who whole heartedly worked hard for the improvement of the bank's performance and good corporate governance. I would like to also express my appreciation to the State Bank of Pakistan for its continued support and guidance.

Allah the Almighty is the Purveyor of all Success.

Dubai
Dated: February 21, 2008

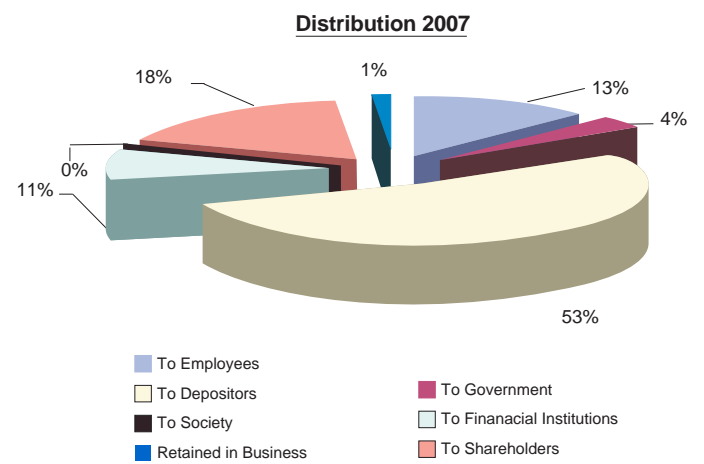
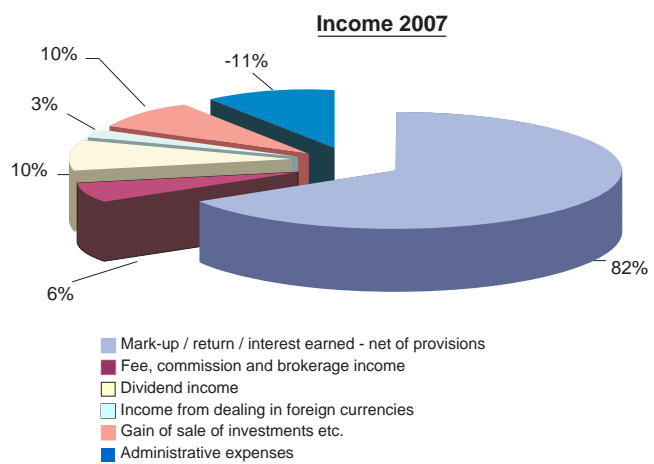
President & CEO (Acting)

On behalf of the Bo



	2007 Rs. '000	%	2006 Rs. '000	%
Mark-up / return / interest earned - net of provisions	9,531,737	82	9,106,439	84
Fee, commission and brokerage income	743,913	6	603,667	6
Dividend income	1,221,217	10	1,249,522	11
Income from dealing in foreign currencies	313,597	3	120,992	1
Gain of sale of investments etc.	1,162,418	10	778,416	7
	12,972,882		11,859,036	
Administrative expenses	1,318,028	(11)	978,265	(9)
Value Added	11,654,854	100	10,880,771	100
Distributed as follows:				
To Employees as remuneration	1,493,035	13	921,176	8
To Government as income tax	425,719	4	1,053,768	10
To Depositors as profit on investments	6,179,693	53	4,699,154	43
To Financial Institutions as profit on borrowings	1,279,699	11	1,390,101	13
To Society as donations	4,600	0	-	-
To Shareholders as dividends / bonus	2,118,577	18	2,348,859	22
Retained in Business as reserves and retained profits	153,531	1	467,713	4
	11,654,854	100	10,880,771	100

	Public Sector		Private Sector		Total	
	2007	2006	2007	2006	2007	2006
Advances	1,148,481	1,006,806	86,197,920	73,461,838	87,346,401	74,468,644
Investments	29,750,436	16,298,918	1,802,672	6,226,440	31,553,108	22,525,358
Placements / Lendings - SBP	5,193,412	6,415,624	12,465,173	8,283,619	17,658,585	14,699,243
	36,092,329	23,721,348	100,465,765	87,971,897	136,558,094	111,693,245





Auditor's Report to the Members

FAYSAL BANK

We have audited the annexed balance sheet of Faysal Bank Limited as at 31 December 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (herein-after referred to as the 'financial statements') for the year ended 31 December 2007, in which are incorporated the unaudited certified returns from the branches except for 15 branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit.

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

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

We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of financing covered more than 60% of the total financing of the bank, we report that:

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

Date: February 21, 2008
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants



FAYSAL BANK

Opening Doors to Limitless Possibilities



We open doors to limitless possibilities for our stakeholders by providing banking solutions that deliver results through meticulous planning, focus on specific objectives, setting priorities right, and putting in place strategies and processes that help yield better growth with higher returns.



Faysal Bank Limited
Balance Sheet
As at December 31, 2007



FAYSAL BANK

	<i>Note</i>	2007	2006
		Rupees '000	
ASSETS			
Cash and balances with treasury banks	8	6,872,032	7,207,998
Balances with other banks	9	3,708,451	2,883,040
Lendings to financial institutions	10	7,078,102	4,608,205
Investments	11	31,553,108	22,525,358
Advances	12	87,346,401	74,468,644
Operating fixed assets	13	2,514,959	2,239,392
Deferred tax assets - net		-	-
Other assets	14	2,204,368	1,537,764
		141,277,421	115,470,401
LIABILITIES			
Bills payable	15	2,406,927	4,516,125
Borrowings from financial institutions	16	9,995,855	14,965,037
Deposits and other accounts	17	102,067,422	74,413,641
Sub-ordinated loans	18	1,000,000	-
Liabilities against assets subject to finance lease	19	7,827	14,664
Deferred tax liabilities - net	20	2,691,466	1,839,860
Other liabilities	21	6,951,421	5,924,440
		125,120,918	101,673,767
NET ASSETS		<u>16,156,503</u>	<u>13,796,634</u>
REPRESENTED BY			
Share capital	22	5,296,445	4,237,157
Reserves	23	3,567,033	3,079,527
Unappropriated profit		1,481,668	1,815,643
		10,345,146	9,132,327
Surplus on revaluation of assets	24	5,811,357	4,664,307
		<u>16,156,503</u>	<u>13,796,634</u>
CONTINGENCIES AND COMMITMENTS	25		

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

Acting President & CEO

Director

Director

Director



FAYSAL BANK

Faysal Bank Limited Profit and Loss Account

For the year ended December 31, 2007

	<i>Note</i>	2007	2006
		Rupees '000	
Mark-up / return / interest earned	27	11,610,781	9,728,046
Mark-up / return / interest expensed	28	7,459,392	6,089,255
Net mark-up / interest income		4,151,389	3,638,791
Provision against non-performing loans and advances	12.5	1,797,432	517,027
Provision for consumer loans - general	12.6	74,537	105,305
Provision / (Reversal) for diminution in the value of investments	11.3	207,075	(792)
Bad debts written off directly	12.7	-	67
		<u>2,079,044</u>	<u>621,607</u>
Net mark-up / interest income after provisions		2,072,345	3,017,184
Non mark-up / interest income			
Fee, commission and brokerage income		743,913	603,667
Dividend income		1,221,217	1,249,522
Income from dealing in foreign currencies		313,597	120,992
Gain on sale of securities	29	1,115,613	330,061
Unrealised gain on revaluation of investments classified as held for trading		2,984	647
Other income	30	43,821	447,708
Total non mark-up / interest income		<u>3,441,145</u>	<u>2,752,597</u>
		5,513,490	5,769,781
Non mark-up / interest expenses			
Administrative expenses	31	2,799,747	1,866,584
Other provisions	14.3	6,061	-
Other charges	32	9,855	32,857
Total non mark-up / interest expenses		<u>2,815,663</u>	<u>1,899,441</u>
		2,697,827	3,870,340
Extraordinary items / unusual items		-	-
Profit before taxation		2,697,827	3,870,340
Taxation - Current	33	282,381	383,442
- Prior years		(48,433)	93,118
- Deferred		191,771	577,208
		<u>425,719</u>	<u>1,053,768</u>
Profit after taxation		2,272,108	2,816,572
Unappropriated profit brought forward		1,815,643	1,911,246
Profit available for appropriation		<u>4,087,751</u>	<u>4,727,818</u>
Basic and diluted earnings per share - Rupees	34	<u>4.29</u>	<u>5.32</u>

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

Acting President & CEO

Director

Director

Director

Faysal Bank Limited
Cash Flow Statement
For the year ended December 31, 2007



FAYSAL BANK

<i>Note</i>	2007	2006
	Rupees '000	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	2,697,827	3,870,340
Less: Dividend income	(1,221,217)	(1,249,522)
Profit on available for sale securities	(1,333,820)	(1,631,964)
	<u>142,790</u>	<u>988,854</u>
Adjustments for :		
Depreciation / Amortisation	339,198	193,784
Provision against non-performing advances	1,797,432	517,027
Provision for consumer loans - general	74,537	105,305
Provision / (Reversal) for diminution in value of investments	207,075	(792)
Provision for other assets	6,061	-
Bad debts written off directly	-	67
Unrealised gain on revaluation of held-for-trading financial instruments	(2,984)	(647)
Gain on disposal of fixed assets	(3,171)	(320,295)
Finance charges on leased assets	725	1,529
Exchange gains	(349,848)	(220,005)
	<u>2,069,025</u>	<u>275,973</u>
	2,211,815	1,264,827
(Increase) / Decrease in operating assets		
Lendings to financial institutions	(1,669,897)	6,134,636
Held-for-trading securities	26,960	(26,960)
Advances	(14,749,726)	(12,767,535)
Other assets (excluding advance taxation)	(676,151)	(67,957)
	<u>(17,068,814)</u>	<u>(6,727,816)</u>
Increase / (Decrease) in operating liabilities		
Bills payable	(2,109,198)	3,322,816
Borrowings from financial institutions	(4,969,182)	(330,693)
Deposits	27,653,718	(323,076)
Other liabilities (excluding provision for taxation)	1,793,867	1,093,831
	<u>22,369,268</u>	<u>3,762,878</u>
	7,512,269	(1,700,111)
Income tax (paid) / refund received	(250,182)	961,051
Net cash flow from operating activities	<u>7,262,087</u>	<u>(739,060)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	(7,451,916)	424,838
Dividends received	1,228,194	1,244,903
Profit received on available for sale securities	1,330,329	1,625,564
Fixed capital expenditure	(634,972)	(836,216)
Sale proceeds from disposal of fixed assets	23,378	449,422
Net cash flow from investing activities	<u>(5,504,987)</u>	<u>2,908,511</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Payments of lease obligations	(7,562)	(9,414)
Sub-ordinated loan	250,000	750,000
Dividends paid	(1,059,941)	(1,781,605)
Net cash used in financing activities	<u>(817,503)</u>	<u>(1,041,019)</u>
Increase in cash and cash equivalents	939,597	1,128,432
Cash and cash equivalents at beginning of the year	10,091,038	8,742,601
Effects of exchange rate changes on cash and cash equivalents	349,848	220,005
Cash and cash equivalents at beginning of the year	10,440,886	8,962,606
Cash and cash equivalents at end of the year	<u>11,380,483</u>	<u>10,091,038</u>

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

Acting President & CEO

Director

Director

Director



FAYSAL BANK

Faysal Bank Limited
Statement of Changes In Equity
 For the year ended December 31, 2007

Share capital	Reserves				Unappropriated profit	Total	
	Capital		Statutory reserve	Revenue			
	Share premium	Reserve for issue of bonus shares		Capital market reserve			
----- Rupees ' 000 -----							
Balance as at December 31, 2005	3,684,484	-	-	2,159,754	356,457	1,911,246	8,111,941
Changes in equity for 2006:							
Final dividend for the year ended December 31, 2005 at Rs. 2.00 per share approved subsequent to the year end	-	-	-	-	-	(736,897)	(736,897)
Transfer to reserve for issue of bonus shares @ 15% approved subsequent to the year end (i.e. December 31, 2005)	-	-	552,673	-	-	(552,673)	-
Bonus shares issued - final 2005	552,673	-	(552,673)	-	-	-	-
Profit after tax for the year ended December 31, 2006	-	-	-	-	-	2,816,572	2,816,572
Interim cash dividend @ Rs. 2.50 per share	-	-	-	-	-	(1,059,289)	(1,059,289)
Transfer to statutory reserve	-	-	-	563,316	-	(563,316)	-
Balance as at December 31, 2006	4,237,157	-	-	2,723,070	356,457	1,815,643	9,132,327
Changes in equity for 2007:							
Final dividend for the year ended December 31, 2006 at Rs. 2.50 per share approved subsequent to the year end	-	-	-	-	-	(1,059,289)	(1,059,289)
Transfer to capital market reserve	-	-	-	-	33,085	(33,085)	-
Profit after tax for the year ended December 31, 2007	-	-	-	-	-	2,272,108	2,272,108
Transfer to reserve for issue of bonus shares	-	-	1,059,288	-	-	(1,059,288)	-
Issue of bonus shares	1,059,288	-	(1,059,288)	-	-	-	-
Transfer to statutory reserve	-	-	-	454,421	-	(454,421)	-
Balance as at December 31, 2007	5,296,445	-	-	3,177,491	389,542	1,481,668	10,345,146

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

Acting President & CEO

Director

Director

Director



1. STATUS AND NATURE OF BUSINESS

Faysal Bank Limited was incorporated in Pakistan on October 3, 1994 as a public limited company under the Companies Ordinance, 1984. Its shares are listed on Karachi and Lahore Stock Exchanges. The bank is engaged in Commercial, Consumer and Investment banking activities. The bank has a branch network of 105 branches (2006: 75 branches) and operates 5 (2006: Nil) service centres.

The Registered Office (Head Office) of the bank is located at Shahra-e-Faisal, Karachi.

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

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan 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 and in substance are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

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

The State Bank of Pakistan 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). Accordingly, the requirements of these standards and their relevant interpretations (issued by the Standards Interpretation Committee - SICs, and the International Financial Reporting Interpretations Committee - IFRICs) have not been considered in the preparation of these financial statements. However, the investments have been classified in accordance with the categories prescribed by the State Bank of Pakistan through various circulars.

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

4. BASIS OF MEASUREMENT

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

- Derivative financial instruments are measured at fair value; and
- Investments classified as held for trading and available-for-sale are also measured at fair values.

5. FUNCTIONAL AND PRESENTATION CURRENCY

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

6. USE OF ESTIMATES AND JUDGEMENTS

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

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

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

**7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****7.1 Financial assets and liabilities**

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

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

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

7.2 Cash and cash equivalents

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

7.3 Lendings to / borrowings from financial institutions

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

(a) Sale under repurchase obligation

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

(b) Purchase under resale obligation

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

(c) Other borrowings

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

7.4 Investments

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

(a) Held for trading (HFT)

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

(b) Held to maturity (HTM)

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

(c) Available-for-sale (AFS)

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

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

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

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

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

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

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

7.5 Advances

These are stated net of specific and general provision.

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

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

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

7.6 Operating fixed assets

Owned

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

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

Capital work in progress is stated at cost.

Assets subject to finance lease

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

Intangibles

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

Subsequent costs

Renewals and improvements are included in an asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. All other expenses are charged to income during the financial period in which they are incurred.

Depreciation and amortisation

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

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

Impairment of operating fixed assets

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

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

7.7 Operating leases

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

7.8 Taxation

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

Current

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

*Deferred*

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

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

7.9 Deposits

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

7.10 Provisions and Impairment

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

The carrying amount of the bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, an impairment loss is recognised in the profit and loss account.

7.11 Staff retirement benefits

The bank operates:

- a) an approved funded gratuity scheme for all its permanent employees. Contributions are made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to income. Cumulative net unrecognised actuarial gains and losses at the end of the previous year are charged or credited to income over the expected average remaining working lives of the employees.
- b) an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the bank and the employees at the rate of 10 percent of basic salary.

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

7.12 Revenue recognition

- a) Profit and return on regular advances and investments is recognised on accrual basis. Profit on classified advances and investments is recognised on receipt basis. Gains and losses on termination and documentation charges are recognised on receipt basis.
- b) Fee, commission and brokerage income is recognised when earned.
- c) Dividend income from investments is recognised when the bank's right to receive the dividend is established.
- d) Gains and losses on sale of investments and operating fixed assets are recognised in the profit and loss account, when the risks and rewards of ownership are transferred.
- e) All exchange differences are recognised in income.

7.13 Dividends and appropriation to reserves

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

7.14 Derivative financial instruments

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

7.15 Foreign currencies

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

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

7.16 Off Setting

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

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

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7.17 Segment Reporting

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

7.17.1 Business Segments

Corporate finance

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

Trading and Sales

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

Retail banking

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

Commercial banking

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

7.17.2 Geographical segment

The bank conducts all its operations in Pakistan.

	Note	2007	2006
8. CASH AND BALANCES WITH TREASURY BANKS			
		Rupees '000	
In hand			
- local currency		1,190,472	607,804
- foreign currency		334,029	121,752
With State Bank of Pakistan in			
- local currency current account	8.1	4,302,738	4,854,587
- foreign currency current account	8.2	434,975	386,701
- foreign currency deposit account	8.3	455,699	1,192,336
With National Bank of Pakistan in			
- local currency current account		154,119	44,288
- local currency deposit account		-	530
		<u>6,872,032</u>	<u>7,207,998</u>

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

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

8.3 This represents special cash reserve maintained with SBP under the requirements of BSD Circular No. 09 of 2007 dated December 03, 2007 and local USD clearing account maintained with SBP to facilitate USD Clearing. Profit rates on these balances are fixed on monthly basis by SBP. Profit ranging between 3.71% to 4.72% per annum (2006: 3.39% to 4.39% per annum) was earned during the year.

	Note	2007	2006
9. BALANCES WITH OTHER BANKS			
		Rupees '000	
In Pakistan			
- Current accounts		18,583	223,720
- Deposit accounts		-	43
Outside Pakistan			
- Current accounts		869,753	2,367,734
- Deposit accounts	9.1	2,820,115	291,543
		<u>3,708,451</u>	<u>2,883,040</u>



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- 9.1 As of December 31, 2007, there were no placements with associated companies. As at the previous year end, term placement of USD 1.75 million was made with associated company @ 5.75% per annum.

	<i>Note</i>	2007	2006
Rupees '000			
10. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	10.2	800,000	-
Repurchase agreement lendings (Reverse Repo)	10.3	4,578,102	3,808,205
Certificates of investment	10.4	1,700,000	800,000
		<u>7,078,102</u>	<u>4,608,205</u>
10.1 Particulars of lending			
In local currency		7,078,102	4,608,205
In foreign currencies		-	-
		<u>7,078,102</u>	<u>4,608,205</u>

- 10.2 Call money lendings have been extended to banks at rates ranging from 9.8% to 10.0% per annum (2006:Nil), maturing upto March, 2008.

10.3 Securities held as collateral against lendings to financial institutions

	2007			2006		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
----- Rupees '000 -----						
Market Treasury Bills - note 10.3.1	2,504,602	-	2,504,602	3,208,205	-	3,208,205
Pakistan Investments Bonds - note 10.3.2	2,073,500	-	2,073,500	600,000	-	600,000
	<u>4,578,102</u>	<u>-</u>	<u>4,578,102</u>	<u>3,808,205</u>	<u>-</u>	<u>3,808,205</u>

- 10.3.1 Market Treasury Bills have been purchased under resale agreements at rates ranging from 8.90% to 9.95% (2006: 8.68% to 9.40% per annum) with maturities up to March 2008. The market value of these securities is Rs. 2.56 billion (2006 : Rs 3.23 billion).
- 10.3.2 Pakistan Investment Bonds have been purchased under resale agreements at the rates ranging from 9.30% to 9.55% per annum (2006: 8.95% to 9.25% per annum) with maturities up to March 2008. The market value of these securities is Rs. 2.19 billion (2006 : Rs. 643 million).
- 10.4 These represent placements in certificates of investments with banks and financial institutions at rates ranging from 10.4% to 11.0% per annum (2006: 12.6% to 13.5% per annum) with maturities up to March 2008.

Notes to the Financial Statements

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11. INVESTMENTS

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

11.1 Investments by type

	2007			2006		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
----- Rupees '000 -----						
Held for trading securities						
Fully paid up ordinary shares	-	-	-	26,960	-	26,960
Available-for-sale securities						
Market Treasury Bills	16,899,271	-	16,899,271	7,003,298	348,375	7,351,673
Pakistan Investment Bonds	1,174,945	-	1,174,945	1,192,927	-	1,192,927
Units of open ended mutual funds						
- National Investment (Unit) Trust - note 11.2.4	2,670,544	-	2,670,544	2,895,623	-	2,895,623
- Pakistan Income Fund	-	-	-	7,928	-	7,928
- Faysal Balanced Growth Fund	80,374	-	80,374	152,638	-	152,638
- Faysal Income & Growth Fund	-	-	-	250,000	-	250,000
- Faysal Savings Growth Fund	207,411	-	207,411	-	-	-
- NAFA Cash Fund	-	-	-	50,000	-	50,000
- KASB Liquid Fund	-	-	-	15,002	-	15,002
Fully paid up ordinary shares / modaraba certificates / units of closed end mutual funds	1,421,466	-	1,421,466	2,382,526	-	2,382,526
Fully paid up preference shares	517,677	-	517,677	485,427	-	485,427
Term finance certificates and bonds	2,350,039	-	2,350,039	3,086,067	-	3,086,067
	25,321,727	-	25,321,727	17,521,436	348,375	17,869,811
Subsidiary						
Shares of Faysal Management Services (Private) Ltd.	108,000	-	108,000	108,000	-	108,000
Associate						
Shares of Faysal Asset Management Ltd.	15,000	-	15,000	15,000	-	15,000
Investments at cost	25,444,727	-	25,444,727	17,671,396	348,375	18,019,771
Provision for diminution in the value of investments – note 11.3	(280,313)	-	(280,313)	(73,238)	-	(73,238)
Investments (Net of Provisions)	25,164,414	-	25,164,414	17,598,158	348,375	17,946,533
Surplus on revaluation of available for sale securities (net) - note 24	6,388,694	-	6,388,694	4,580,614	1,195	4,581,809
Deficit on revaluation of held for trading financial instruments - note 11.5	-	-	-	(2,984)	-	(2,984)
Total investments at market value	31,553,108	-	31,553,108	22,175,788	349,570	22,525,358



	2007	2006
	Rupees '000	
11.1.1 Strategic Investments		
Available-for-sale securities - Listed		
Fully paid up ordinary shares /modaraba certificates / units of closed end mutual funds	238,981	235,890
Units of open ended mutual funds	80,374	100,000
Available-for-sale securities - Unlisted		
Fully paid up ordinary shares	966,936	966,936
Subsidiary	108,000	108,000
Associate	15,000	15,000
	1,409,291	1,425,826
Provision for diminution in the value of investments	(160,440)	-
	1,248,851	1,425,826
Surplus on revaluation of investments	133,960	69,261
	1,382,811	1,495,087

Strategic investments are those which the bank makes with the intention of holding them for a long term duration and are marked as such at the time of investment. Disposals of such investments can only be made subject to fulfillments of criteria prescribed by SBP in the Prudential Regulations. The exposure limits for equity investments prescribed by SBP does not apply to these investments. Further, as per SBP instructions in BPD Circular Letter No.16 of 2006 dated August 01, 2006, investments marked as strategic have a minimum retention period of 5 years from the original purchase date, however, these can be sold before the stipulated period with the prior permission of SBP.

	Note	2007	2006
		Rupees '000	
11.2 Investments by segment			
Federal Government Securities			
- Market Treasury Bills	11.2.1	16,899,271	7,351,673
- Pakistan Investment Bonds	11.2.2	1,174,945	1,192,927
Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units			
- Listed companies/ modarabas/ mutual funds		452,743	1,440,763
- Unlisted companies		1,091,723	1,091,723
Fully Paid up Preference Shares			
- Listed companies		492,677	366,427
- Unlisted companies		25,000	119,000
Term Finance Certificates and Bonds			
- Listed TFCs		1,443,237	1,987,313
- Unlisted TFCs	11.2.3	906,802	1,098,754
Open ended Mutual Fund Units		2,958,329	3,371,191
		25,444,727	18,019,771
Provision for diminution in the value of investments	11.3	(280,313)	(73,238)
Investments (Net of Provisions)		25,164,414	17,946,533
Surplus on revaluation of available-for-sale securities	24	6,388,694	4,581,809
Deficit on revaluation of held for trading financial instruments	11.5	-	(2,984)
Total investments at market value		31,553,108	22,525,358

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- 11.2.1** Market Treasury Bills have a tenor of one year. Bank's yield on these instruments ranges from 9.0% to 9.4% per annum (2006: 8.8% per annum) with maturities up to September 2008.
- 11.2.2** Pakistan Investment Bonds are for period of 10 years. Bank's return on these investments ranges from 4.6% to 6.3% per annum (2006: 4.6% to 6.3% per annum) with maturities from June 30, 2013 to December 31, 2013.
- 11.2.3** This represents unlisted Term Finance Certificates (TFCs) of Rs. 0.907 billion (2006: Rs. 1.098 billion) which have been issued by Dewan Cement Limited (formerly Pakland Cement Limited) and Dewan Hattar Cement Limited (formerly Saadi Cement Limited). In the current year both the entities were merged under the name of Dewan Cement Limited. These TFCs are in the process of being re-structured for which creditors approval has been obtained. Under the proposed terms of re-structuring, the company is offering early settlement of Series B TFCs and exchange of TFCs Series A with new listed TFCs.

According to the directives issued by the State Bank of Pakistan (SBP) vide letter no. BPD/PU-22/22.03/15749/2005/8720 dated July 14, 2005, the above TFCs are classified as investments.

- 11.2.4** This includes 150,268,315 NIT Units (2006:166,964,780 NIT units) covered under letter of comfort (LOC) dated December 14, 2007 issued by the Federal Government with an expiry / renewal date of December 31, 2008.

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

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

- 11.2.5** The term of Fayzan Manufacturing Modaraba, previously classified as a subsidiary of the bank ended on September 27, 2006 and the investment of the bank was repaid. The liquidator conducted the final meeting on December 12, 2007 to approve liquidators account of Fayzan Manufacturing Modaraba. All winding up legal requirements have been completed as at December 31, 2007, except for issuance of winding up certificate which is awaited from the Registrar of Modarabas.

	Note	2007	2006
Rupees '000			
11.3 Particulars of provision for diminution in the value of investments			
Opening balance		73,238	74,030
Charge for the year	11.3.1	239,137	-
Reversals		(32,062)	(792)
		207,075	(792)
Closing balance		280,313	73,238

- 11.3.1** This includes provision of Rs.160 million recognised in respect of the difference between carrying value and break-up value of investment in Sukh Chayn Gardens (Pvt.) Ltd, and Rs. 58.625 million being prepayment discount involved in respect of unlisted term finance certificates of Dewan Cement Ltd. as referred to in note 11.2.3.

	2007	2006
Rupees '000		
11.3.2 Particulars of Provision in respect of Type and Segment		
Available-for-sale securities		
Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units		
- Listed companies / modarabas / mutual funds	50,670	71,460
- Unlisted companies	162,218	1,778
Term Finance Certificates and Bonds		
- Listed TFCs	8,800	-
- Unlisted TFCs	58,625	-
	280,313	73,238

11.4 Quality of Available-for-Sale Securities

The details regarding the quality of available-for-sale securities is contained in Annexure 1, which forms an integral part of these financial statements.

	2007	2006
Rupees '000		
11.5 Unrealised Gain / (Loss) on revaluation of investments classified as held for trading		
Fully paid up ordinary shares	-	(2,984)
	-	(2,984)



	Note	2007	2006
Rupees '000			
12. ADVANCES			
Loans, cash credits, running finances, etc. – In Pakistan		68,955,681	57,978,082
Net investment in finance lease – In Pakistan	12.2	15,885,502	13,840,587
		84,841,183	71,818,669
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan	12.3	790,852	648,577
Payable outside Pakistan		991,364	479,450
		1,782,216	1,128,027
		86,623,399	72,946,696
Margin Financing / reverse repo transactions		4,392,879	3,337,322
Provision for non-performing advances	12.5	(3,348,257)	(1,568,291)
Provision for consumer loans - general	12.6	(321,620)	(247,083)
		87,346,401	74,468,644
12.1 Particulars of advances			
12.1.1 In local currency		82,500,881	73,798,985
In foreign currency		4,845,520	669,659
		87,346,401	74,468,644
12.1.2 Short term (for upto one year)		56,578,273	45,478,028
Long term (for over one year)		30,768,128	28,990,616
		87,346,401	74,468,644

12.2 Net investment in finance lease	2007				2006			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	----- Rupees '000 -----							
Lease rentals receivable	6,195,668	9,521,760	27,533	15,744,961	3,554,752	10,664,256	-	14,219,008
Residual value	643,043	3,019,995	6,608	3,669,646	750,052	2,250,157	-	3,000,209
Minimum lease payments	6,838,711	12,541,755	34,141	19,414,607	4,304,804	12,914,413	-	17,219,217
Financial charge for future periods	(1,511,987)	(2,014,059)	(3,059)	(3,529,105)	(1,381,720)	(1,996,910)	-	(3,378,630)
Present value of minimum lease payments	5,326,724	10,527,656	31,082	15,885,502	2,923,084	10,917,503	-	13,840,587

12.3 This includes receivable of a customer discounted by the bank. The balance outstanding at December 31, 2007 amounts to Rs. 45.922 million (2006: Rs. 89.223 million). The amount is receivable from the National Bank of Pakistan.

12.4 Advances includes Rs. 4.753 billion (2006: Rs. 3.535 billion) which have been placed under non-performing status as detailed below:

	2007			2006		
	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- Rupees '000 -----					
Category of classification						
Other assets especially mentioned (Agri)	123,930	-	123,930	-	-	-
Substandard	1,527,739	-	1,527,739	489,878	-	489,878
Doubtful	567,431	-	567,431	236,502	-	236,502
Loss	2,534,315	-	2,534,315	2,473,201	-	2,473,201
	4,753,415	-	4,753,415	3,199,581	-	3,199,581

	2007			2006		
	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- Rupees '000 -----					
Category of classification						
Other assets especially mentioned (Agri)	24,970	-	24,970	-	-	-
Substandard	347,936	-	347,936	49,964	-	49,964
Doubtful	396,415	-	396,415	98,135	-	98,135
Loss	2,765,872	-	2,765,872	1,156,240	-	1,156,240
	3,535,193	-	3,535,193	1,304,339	-	1,304,339

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12.4.1 In accordance with the BSD Circular No. 07 dated October 12, 2007 issued by the State Bank of Pakistan, the bank has not considered the benefit of forced sale valuations while determining the requirement against non - performing advances (NPL), except home mortgage loans. Furthermore, as per the aforementioned circular the personal loans are now required 100% provisioning if the amount is overdue by 180 days. Previously, these were applicable to loans and advances over Rs.10 million and provisions against personal loans were created when the amount was overdue by 365 days. Had this provision against NPL been determined in accordance with the previous requirements of the SBP, the specific provision requirements against NPL would have been lower and consequently profit before tax would have been higher by Rs. 1.825 billion.

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

	2007			2006		
	Specific	General	Total	Specific	General	Total
----- Rupees '000 -----						
Opening balance	1,304,339	263,952	1,568,291	1,001,264	50,000	1,051,264
Charge for the year	1,977,376	58,676	2,036,052	574,486	263,952	838,438
Transfer to specific provision from general provision	173,952	(173,952)	-	-	-	-
Reversals	(238,620)	-	(238,620)	(271,411)	(50,000)	(321,411)
	1,912,708	(115,276)	(1,797,432)	303,075	213,952	517,027
Amounts written off -note 12.7	(17,466)	-	(17,466)	-	-	-
Closing balance	<u>3,199,581</u>	<u>148,676</u>	<u>3,348,257</u>	<u>1,304,339</u>	<u>263,952</u>	<u>1,568,291</u>

12.5.1 Particulars of provision for non-performing advances:

	2007			2006		
	Specific	General	Total	Specific	General	Total
----- Rupees '000 -----						
In local currency	3,199,581	148,676	3,348,257	1,304,339	263,952	1,568,291
In foreign currencies	-	-	-	-	-	-
	<u>3,199,581</u>	<u>148,676</u>	<u>3,348,257</u>	<u>1,304,339</u>	<u>263,952</u>	<u>1,568,291</u>

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

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

	2007		2006	
	Rupees '000		Rupees '000	
Opening balance			247,083	141,778
Charge for the year			74,537	105,305
Reversals			-	-
			<u>321,620</u>	<u>247,083</u>

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

12.7 Particulars of write-off

	Note	2007		2006	
		Rupees '000		Rupees '000	
12.7.1 Against provisions	12.5	17,466	-	-	-
Directly charged to profit and loss account		-	-	-	67
		<u>17,466</u>	<u>-</u>	<u>-</u>	<u>67</u>
12.7.2 Write-offs of Rs. 500,000 and above		17,466	-	-	-
Write-offs below Rs. 500,000	12.8	-	-	-	67
		<u>17,466</u>	<u>-</u>	<u>-</u>	<u>67</u>



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

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

	<i>Note</i>	2007	2006
Rupees '000			
12.9 Particulars of loans and advances to directors, associated companies, etc.			
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons			
Balance at beginning of year		363,749	278,320
Loans granted during the year		254,881	156,244
Repayments		(211,359)	(70,815)
Balance at end of year		407,271	363,749
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members			
Balance at beginning of year		-	-
Loans granted during the year		-	-
Repayments		-	-
Balance at end of year		-	-
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of year		975,060	1,018,603
Loans granted during the year		31,576	618,252
Repayments		(199,647)	(661,795)
Balance at end of year		806,989	975,060
		<u>1,214,260</u>	<u>1,338,809</u>
12.9.1 Maximum total amount of advances including temporary advances granted during the year			
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons		411,166	363,749
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members		-	-
Debts due by subsidiaries, controlled firms, managed modarabas and other related parties		975,060	1,026,298
		<u>1,386,226</u>	<u>1,390,047</u>
13. OPERATING FIXED ASSETS			
Capital work-in-progress	<i>13.1</i>	397,485	323,596
Property and equipment	<i>13.2</i>	1,976,095	1,895,000
Intangible assets	<i>13.3</i>	141,379	20,796
		<u>2,514,959</u>	<u>2,239,392</u>
13.1 Capital work-in-progress			
Civil works		179,612	50,752
Advances to suppliers and contractors		217,873	272,844
		<u>397,485</u>	<u>323,596</u>

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For the year ended December 31, 2007



13.2 Property and equipment

	COST					ACCUMULATED DEPRECIATION					Book value as at		Rate of depreciation % per annum
	As at January 1, 2006	Additions/ (deletions)	As at January 1, 2007	Additions/ (deletions)	As at December 31, 2007	As at January 1, 2006	Charge/ (on deletions)	As at January 1, 2007	Charge/ (on deletions)	As at December 31, 2007	December 31, 2007	December 31, 2006	
	Rupees '000												
Own													
Freehold land	72,541	9,687 (42,044)	40,184	-	40,184	-	-	-	-	-	40,184	40,184	-
Leasehold land	370,306	11,345	381,651	35,357	417,008	19,206	-	19,206	-	19,206	397,802	362,445	-
Building on freehold land	46,076	- (4,428)	41,648	-	41,648	11,111	862 (111)	11,862	2,736	14,598	27,050	29,786	2
Leasehold property and improvement	498,563	531,976 (37,146)	993,393	74,853 (1,879)	1,066,367	83,712	35,434 (12,910)	106,236	90,623 (763)	196,096	870,271	887,157	2 to 20
Office furniture, fixtures, equipments and computers	535,866	414,769 (61,361)	889,274	237,151 (13,292)	1,113,133	368,563	115,671 (20,762)	463,472	183,248 (9,275)	637,445	475,688	425,802	20 to 33.33
Vehicles	164,607	67,055 (32,332)	199,330	75,156 (32,838)	241,648	47,524	32,768 (17,927)	62,365	40,689 (19,995) *	83,059	158,589	136,965	20
	1,687,959	1,034,832 (177,311)	2,545,480	422,517 (48,009)	2,919,988	530,116	184,735 (51,710)	663,141	317,296 (30,033)	950,404	1,969,584	1,882,339	
Assets subject to finance lease													
Vehicles	27,079	- (5,669)	21,410	- (5,411)	15,999	6,363	4,529 (2,143)	8,749	3,919 (3,180)	9,488	6,511	12,661	20
	1,715,038	1,034,832 (182,980)	2,566,890	422,517 (53,420)	2,935,987	536,479	189,264 (53,853)	671,890	321,215 (33,213)	959,892	1,976,095	1,895,000	

* Accumulated depreciation on vehicles disposed during the year has been adjusted at the financial statement level to account for the impact of residual value.

13.2.1 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs. 357.849 million (2006: Rs. 290.162 million).

13.2.2 One of these properties is encumbered to the extent of Rs. 34 million on account of a claim by a local bank in settlement of its second charge.

13.3 Intangible assets

	COST					ACCUMULATED AMORTISATION					Book value as at		Rate of amortisation % per annum
	As at January 1, 2006	Additions/ (deletions)	As at January 1, 2007	Additions/ (deletions)	As at December 31, 2007	As at January 1, 2006	Charge/ (on deletions)	As at January 1, 2007	Charge/ (on deletions)	As at December 31, 2007	December 31, 2007	December 31, 2006	
	Rupees '000												
Computer software	22,711	4,113	26,824	138,566	165,390	1,508	4,520	6,028	17,983	24,011	141,379	20,796	20 to 33.33



Notes to the Financial Statements

For the year ended December 31, 2007

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

Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
-----Rupees '000-----					
Owned - Vehicles					
788	410	378	560	Insurance Claim	EFU Insurance Company
620	166	454	405	Policy	Mr. Syed Rehan (Employee)
849	464	385	720	Bid	Mr. Afroz Qureshi (Ex-Employee)
1,147	245	902	861	Policy	Mr. Dilawar Khan (Employee)
849	453	396	365	Policy	Mr. Atiq-U-Rehman (Executive)
521	208	313	280	Policy	Mr. Syed Kauser Nadeem (Executive)
886	236	650	579	Policy	Mr. Shakil Akhtar Qureshi (Executive)
829	486	343	461	Policy	Mr. Parvaiz Ahmad (Executive)
807	452	355	280	Policy	Mr. Taimur Afzal (Executive)
1,097	614	483	381	Policy	Mr. Taimur Afzal (Executive)
984	420	564	504	Policy	Ms. Anjum Hai (Executive)
535	193	342	308	Policy	Mr. Habib Ameer Ali (Employee)
585	234	351	371	Bid	Mr. Asim Ali House No# 1095, Street 110 G9/4, Islamabad
560	105	455	560	Insurance Claim	EFU Insurance Company
886	94	792	775	Insurance Claim	EFU Insurance Company
464	154	310	249	Policy	Mr. Imran Siraj Khan (Employee)
673	170	503	441	Policy	Mr. M. Saeed (Employee)
560	119	441	388	Policy	Mr. Khawar Ali Shah (Employee)
849	532	317	328	Policy	Mr. M.A Sayeed (Executive)
885	248	637	566	Policy	Mr. Mustufa Hamdani (Executive)
886	248	638	638	Policy	Mr. Samih Khan (Executive)
560	90	470	429	Policy	Mr. Majid Ali (Employee)
575	184	391	616	Bid	Mr. Kamran Raza (Individual) Address details not available
653	235	418	384	Policy	Mr. Najeeb Ahmad (Executive)
525	203	322	295	Policy	Mr. Saud Malik (Employee)
556	81	475	518	Policy	Mr. Ali Raza (Executive)
560	142	418	366	Policy	Mr. Perwaiz I. Khan (Executive)
530	191	339	305	Policy	Mr. Salman Latif (Ex-Employee)
3,500	980	2,520	2,755	Bid	Doctor Shah Azam Khan (Individual) A-26/4; KDA I Karsaz Karachi
560	374	186	202	Policy	Mr. Kaleem Jafry (Executive)
617	132	485	440	Bid	M/s Itihad Motors Showroom no 10, Madina Bagh Apts 55, Muslimabad Karachi
475	26	449	390	Bid	M/s Itihad Motors Showroom no 10, Madina Bagh Apts 55, Muslimabad Karachi
560	366	194	202	Policy	Mr. Khalid Maqsood (Executive)
976	611	365	675	Bid	M/s Itihad Motors Showroom no 10, Madina Bagh Apts 55, Muslimabad Karachi

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Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
-----Rupees '000-----					
Owned - Office furniture, fixtures, equipments and computers					
799	546	253	125	Bid	Mr. Muhammad Iqbal Address details not available
1,970	1,970	-	1,750	Bid	Mr. Muhammad Iqbal A-13, Block 5, Gulistan-e-Jouhar, Karachi
205	205	-	155	Policy	Mr. Khalid S. Tirmizey (Acting President and CEO)
3,180	2,547	633	597	Policy	Mr. Farook Bengali (Ex-President and CEO)
Assets subject to finance lease - Vehicles					
1,111	651	460	366	Policy	Mr. Arif Hassan Khan (Executive)
4,301	1,893	2,408	2,408	Policy	Mr. Farook Bengali (Ex-President and CEO)

	<i>Note</i>	2007	2006
Rupees '000			
14. OTHER ASSETS			
Income/mark-up accrued in local currency		1,323,986	1,267,788
Income/mark-up accrued in foreign currency		44,056	3,998
Advances, deposits, advance rent and other prepayments		202,778	127,029
Non-banking assets acquired in satisfaction of claim	14.1	307,376	60,895
Stationery and stamps on hand		5,309	4,945
Branch adjustment account		91,173	42,418
Receivable from brokers - secured	14.2	5,290	87
Others		235,569	35,712
		<u>2,215,537</u>	<u>1,542,872</u>
Less: Provision held against other assets	14.3	<u>(11,169)</u>	<u>(5,108)</u>
		<u>2,204,368</u>	<u>1,537,764</u>
14.1 Market value of non-banking assets acquired in satisfaction of claim - determined by professional valuer		<u>542,780</u>	<u>165,043</u>
14.2 This represents amount receivable from brokers against sale of shares.			
14.3 Provision against other assets			
Opening balance		5,108	5,108
Charge for the year	14.3.1	6,061	-
Reversals		-	-
Closing balance		<u>11,169</u>	<u>5,108</u>
14.3.1 This represents estimated charge in respect of damages to various assets of the bank during riots at the year end.			



	<i>Note</i>	2007	2006
		Rupees '000	
15. BILLS PAYABLE			
In Pakistan		2,396,076	4,505,590
Outside Pakistan		<u>10,851</u>	<u>10,535</u>
		<u><u>2,406,927</u></u>	<u><u>4,516,125</u></u>
16. BORROWINGS FROM FINANCIAL INSTITUTIONS			
In Pakistan		9,733,864	14,924,721
Outside Pakistan		<u>261,991</u>	<u>40,316</u>
		<u><u>9,995,855</u></u>	<u><u>14,965,037</u></u>
16.1 Particulars of borrowings from financial institutions			
In local currency		9,733,864	14,852,353
In foreign currencies		<u>261,991</u>	<u>112,684</u>
		<u><u>9,995,855</u></u>	<u><u>14,965,037</u></u>
16.2 Details of borrowings from financial institutions			
Secured			
Borrowings from State Bank of Pakistan			
- Under Export Refinance Scheme - Part I and II	16.3	4,992,256	5,575,514
- Under Locally Manufactured Machinery (LMM) scheme		-	-
- Under scheme for Long Term Financing of Export Projects - (LTF-EOP)	16.4	2,642,084	2,294,233
Repurchase agreement borrowings	16.5	-	347,290
		<u>7,634,340</u>	<u>8,217,037</u>
Unsecured			
Interbank borrowings	16.6	2,080,600	6,707,684
Overdrawn nostro accounts		280,915	40,316
		<u>2,361,515</u>	<u>6,748,000</u>
		<u><u>9,995,855</u></u>	<u><u>14,965,037</u></u>

16.3 These represent borrowings from SBP under export refinance scheme at 6.50% per annum (2006: 6.50% to 7.50% per annum) maturing within six months up to June 2008. As per the terms of the agreement, the bank has granted SBP a right to recover the outstanding amount from the bank at the date of maturity of finances by directly debiting the current account of the bank maintained with SBP.

16.4 These represent borrowings from SBP under scheme for long term financing of export oriented projects at rates ranging from 4.0% to 5.0% per annum (2006: 4.0% to 5.0% per annum), and have varying long term maturities stipulated by SBP. As per the terms of the agreement, the bank has granted SBP a right to recover the outstanding amount from the bank at the respective date of maturity of finances by directly debiting the current account of the bank maintained with SBP.

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16.5 As at the year end, there was no collateralised borrowing. As at December 31, 2006, outstanding borrowing was made against market treasury bills at rates ranging from 8.25% to 8.75% with maturity falling in January 2007.

16.6 These borrowings are from various institutions in the interbank market, made at rates ranging from 4.90% to 9.25% per annum (2006: 5.0% to 11.0% per annum) maturing up to March 2008.

	2007	2006
	Rupees '000	
17. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Term deposits	56,600,711	36,063,308
Saving deposits	25,848,248	19,125,304
Current accounts – Remunerative	-	-
Current accounts – Non-remunerative	18,032,874	14,460,797
Margin accounts	<u>875,641</u>	<u>2,279,896</u>
	<u>101,357,474</u>	<u>71,929,305</u>
Financial Institutions		
Remunerative deposits	<u>579,657</u>	<u>2,463,541</u>
Non-remunerative deposits	<u>130,291</u>	<u>20,795</u>
	<u>709,948</u>	<u>2,484,336</u>
	<u>102,067,422</u>	<u>74,413,641</u>
17.1 Particulars of deposits		
In local currency	93,286,214	66,820,856
In foreign currencies	8,781,208	7,592,785
	<u>102,067,422</u>	<u>74,413,641</u>

17.2 The above includes deposits of related parties amounting to Rs. 194.29 million (2006 : Rs. 541.84 million).

18. SUB-ORDINATED LOANS

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

	Rupees '000
Total Issue Amount	<u>1,000,000</u>
Pre – IPO subscription received	<u>750,000</u>
Initial Public Offering	<u>250,000</u>
Rating	“AA-” (Double A Minus)
Rate	Base Rate + 1.40%
	The Base Rate is defined as the Average Ask Rate of Six Months Karachi Inter-bank Offered Rate (KIBOR).
Subordination	The TFCs will be subordinated to all other indebtedness of the bank including deposits.
Tenor and maturity	7 years from the date of issue
Principal Repayment	0.20% of the principal amount would be redeemed during the first 60 months and the remaining principal in 4 semi-annual installments of 24.95% each of the issue amount, starting from the 66th month.
Profit Payment	Profit is payable semi-annually in arrears, with the first payment date falling due in the second quarter of 2008.

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19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2007			2006		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
-----Rupees '000-----						
Not later than one year	3,932	239	3,693	6,476	735	5,741
Later than one year and not later than five years	4,147	13	4,134	9,287	364	8,923
	8,079	252	7,827	15,763	1,099	14,664

19.1 The bank has entered into agreements with a modaraba for lease of vehicles on commercial terms. Lease rentals are payable periodically and include finance charges at 8.0% per annum (2006: 7.5% to 14.0% per annum) which has been used as the discounting factor. There are no financial restrictions in the lease agreements.

20. DEFERRED TAX LIABILITIES

	2007			
	Opening Balance	Recognised in profit and loss	Recognised in surplus on revaluation	Closing Balance
-----Rupees '000-----				
Deferred credits arising in respect of:				
- Finance lease arrangements	1,779,162	598,857	-	2,378,019
- Accelerated depreciation allowance	158,744	14,311	-	173,055
- Surplus on revaluation of securities	-	-	663,666	663,666
Deferred debits arising in respect of:				
- Provision against non-performing advances	(15,548)	(13,710)	-	(29,258)
- Provision for diminution in the value of investments	-	(51,958)	-	(51,958)
- Taxable business losses	-	(355,729)	-	(355,729)
- Deficit on revaluation of government securities	(82,498)	-	(3,831)	(86,329)
	1,839,860	191,771	659,835	2,691,466
-----Rupees '000-----				
2006				
	Opening Balance	Recognised in profit and loss	Recognised in surplus on revaluation	Closing Balance
Deferred credits arising in respect of:				
- Finance lease arrangements	1,277,728	501,434	-	1,779,162
- Accelerated depreciation allowance	80,051	78,693	-	158,744
Deferred debits arising in respect of:				
- Provision against non-performing advances	(12,629)	(2,919)	-	(15,548)
- Deficit on revaluation of government securities	(76,843)	-	(5,655)	(82,498)
	1,268,307	577,208	(5,655)	1,839,860
-----Rupees '000-----				
Note				
2007				
Rupees '000				

21. OTHER LIABILITIES

Mark-up / return payable in local currency		1,714,329	1,169,925
Mark-up / return payable in foreign currency		50,027	5,733
Unearned commission / income		105,041	42,743
Accrued expenses		191,209	115,824
Current taxation (provisions less payments)		545,588	561,822
Unclaimed dividends		40,192	40,844
Exchange difference on revaluation of forward foreign exchange contracts		-	8,421
Subscription against Term Finance Certificates	21.1	-	750,000
Withholding tax payable		38,101	12,658
Central Excise Duty payable		-	4,088
Security deposits against finance leases		3,669,646	2,797,385
Payable to brokers	21.2	11,883	31,404
Others		585,405	383,593
		6,951,421	5,924,440

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21.1 Approvals from the Securities and Exchange Commission of Pakistan (SECP), and the Karachi Stock Exchange (KSE) for Initial Public Offering (IPO) which was pending upto December 31, 2006 were received in the current year. Consequently public issue of term finance certificates was made in 2007. Accordingly, the amount has been disclosed as sub-ordinated debt as given in note 18.

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

22. SHARE CAPITAL

22.1 Authorised capital

2007	2006		2007	2006
Number of Shares			Rupees '000	
<u>600,000,000</u>	<u>600,000,000</u>	Ordinary shares of Rs. 10 each	<u>6,000,000</u>	<u>6,000,000</u>

22.2 Issued, subscribed and paid-up capital

2007	2006	Ordinary shares		
Number of Shares				
201,451,420	201,451,420	Fully paid in cash	2,014,514	2,014,514
312,533,051	206,604,257	Issued as bonus shares	3,125,331	2,066,043
15,660,000	15,660,000	Issued for consideration other than cash	156,600	156,600
<u>529,644,471</u>	<u>423,715,677</u>		<u>5,296,445</u>	<u>4,237,157</u>

As at December 31, 2007, Ithmaar Bank (the ultimate holding company of the bank) through its subsidiaries and nominees held 354,556,291 ordinary shares of Rs. 10 each (2006 : 283,646,932 ordinary shares).

	Note	2007	2006
		Rupees '000	
23. RESERVES			
Statutory reserve	23.1	3,177,491	2,723,070
Capital market reserve	23.2	389,542	356,457
		<u>3,567,033</u>	<u>3,079,527</u>

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

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

	Note	2007	2006
		Rupees '000	
24. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - BY TYPE AND SEGMENT			
Federal Government Securities			
- Market Treasury Bills		(50,478)	(6,325)
- Pakistan Investment Bonds		(197,477)	(229,385)
Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units			
- Listed companies/ modarabas/ mutual funds		58,262	(27,865)
- Unlisted companies		-	-
Fully Paid up Preference Shares			
- Listed companies		(28,326)	(18,940)
- Unlisted companies		-	-
Term Finance Certificates and Bond			
- Listed TFCs		(52,836)	(41,938)
- Unlisted TFCs		-	-
Open ended Mutual Fund Units		<u>6,659,549</u>	<u>4,906,262</u>
Deferred tax (liability) / asset	24.1	<u>6,388,694</u>	<u>4,581,809</u>
		<u>(577,337)</u>	<u>82,498</u>
		<u>5,811,357</u>	<u>4,664,307</u>



24.1 This represents deferred tax computed on surplus on revaluation of federal government securities and on quoted securities. As the tax exemption on sale of listed securities has been withdrawn, the bank has provided deferred tax on quoted securities as at the balance sheet date.

	2007	2006
	Rupees '000	
25. CONTINGENCIES AND COMMITMENTS		
25.1 Direct credit substitutes		
Contingent liability in respect of guarantees favouring:		
i) Government	-	-
ii) Banking companies and other financial institutions	3,275	3,275
iii) Others	1,479,270	4,115,050
	1,482,545	4,118,325
25.2 Transaction-related contingent liabilities		
Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:		
i) Government	3,976,830	6,475,630
ii) Banking companies and other financial institutions	76,236	1,430,784
iii) Others	14,055,339	3,783,452
	18,108,405	11,689,866
25.3 Trade-related contingent liabilities		
Letters of credit	11,107,840	9,050,368
Acceptances	2,364,361	3,488,459
	13,472,201	12,538,827
25.4 Other Contingencies		
i) Suit filed by a customer for recovery of alleged losses suffered which is pending in the High Court of Sindh; bank's legal advisors are confident that the bank has a strong case	2,500,000	2,500,000
ii) Indemnity issued favouring the High Court in above case	457,543	457,543
iii) Claims against the bank not acknowledged as debt	839,454	839,454
25.5 Commitments in respect of forward lending		
Commitment to extend credit - advances	1,200,000	176,408
Commitment to invest in securities	1,000,000	1,219,830
25.6 Commitments in respect of forward exchange contracts		
Purchase		
- Customers	734,181	733,920
- Banks	1,940,112	9,622,488
	2,674,293	10,356,408
Sale		
- Customers	136,434	619,141
- Banks	3,887,537	6,320,422
	4,023,971	6,939,563
25.7 Commitments for the acquisition of operating fixed assets	67,860	145,622
25.8 Commitments in respect of repo transactions		
Repurchase	-	6,765,761
Resale	4,736,709	7,239,038

Notes to the Financial Statements

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26. DERIVATIVE INSTRUMENTS

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

A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Equity futures are exchange traded contractual agreements to either buy or sell a specified security at a specific price and date in the future. The bank enters into these contracts for the purposes of squaring currency positions.

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

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

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

27. MARK-UP/RETURN EARNED

	<i>Note</i>	2007	2006
Rupees '000			
a) On financing to:			
i) customers		8,633,779	6,636,517
ii) financial institutions		137,274	115,722
b) On investments in:			
i) held for trading securities		-	-
ii) available for sale securities		1,333,820	1,631,964
c) On deposits with treasury bank and financial institutions		460,837	435,332
d) On securities purchased under resale agreements		1,045,071	908,511
		<u>11,610,781</u>	<u>9,728,046</u>

28. MARK-UP/RETURN EXPENSED

Deposits	6,179,693	4,699,154
Securities sold under repurchase agreements	111,927	464,119
Other short term borrowings	986,304	820,021
Long term borrowings	90,321	82,663
Sub-ordinated debt	91,147	23,298
	<u>7,459,392</u>	<u>6,089,255</u>

29. GAIN ON SALE OF SECURITIES

Gain on sale of shares - listed	1,115,613	330,061
	<u>1,115,613</u>	<u>330,061</u>

30. OTHER INCOME

Profit on disposal of fixed assets	<i>30.1</i>	3,171	320,295
Compensation on delayed tax refund	<i>30.2</i>	-	117,203
Rent on property		37,389	8,178
Maintenance charges on property rented		3,261	2,032
		<u>43,821</u>	<u>447,708</u>



- 30.1** Prior year amount included a gain on sale of property (Gulberg, Branch II, Lahore) of Rs. 213.638 million.
- 30.2** In 2006, income representing amount acknowledged by the assessing officer of the Federal Board of Revenue as compensation due on delayed tax refunds through orders dated June 30, 2006, passed under section 171 of the Income Tax Ordinance, 2001 was recognised. The refunds pertained to assessment years 1997-98 to 2002-03.

	<i>Note</i>	2007	2006
		Rupees '000	
31. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other employee benefits		1,435,750	874,238
Charge for defined benefit plan		23,917	20,263
Contribution to defined contribution plan		33,368	26,675
Rent, taxes, insurance, electricity, etc.		291,267	194,162
Legal and professional charges		47,670	16,230
Communications		56,079	35,271
Repairs and maintenance		73,956	44,018
Lease rentals		-	7,909
Donations	31.1	4,600	-
Finance charge on leased assets		725	1,529
Stationery and printing		62,409	50,307
Advertisement and publicity		58,085	74,968
License and technical fee		47,896	50,011
Auditors' remuneration	31.2	5,275	3,600
Depreciation	13.2	321,215	189,264
Amortisation	13.3	17,983	4,520
Travelling, conveyance and entertainment		32,544	38,380
Vehicle running expenses		43,091	39,592
Books, periodicals and subscription		17,387	14,729
Brokerage and commission		34,057	40,645
Others		192,473	140,273
		<u>2,799,747</u>	<u>1,866,584</u>
31.1 Donations made in the year were as follows:			
Donee			
Waqf Faisal (Trust) - This is a charitable public welfare project (The Acting President and CEO of the bank is the Managing Trustee of the Trust)		4,600	-
		<u>4,600</u>	<u>-</u>
31.2 Auditors' remuneration			
Audit fee		2,750	1,375
Review of half yearly financial statements		275	275
Special certifications and sundry advisory services		1,900	1,800
Out-of-pocket expenses		350	150
		<u>5,275</u>	<u>3,600</u>
32. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		9,855	32,857
		<u>9,855</u>	<u>32,857</u>

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		2007	2006
		Rupees '000	
33. TAXATION			
For the year			
Current		282,381	383,442
Deferred		191,771	533,906
		<u>474,152</u>	<u>917,348</u>
For prior year			
Current		(48,433)	93,118
Deferred		-	43,302
		<u>(48,433)</u>	<u>136,420</u>
		<u>425,719</u>	<u>1,053,768</u>
33.1 Relationship between tax expense and accounting profit			
Profit before tax		<u>2,697,827</u>	<u>3,870,340</u>
Tax calculated at the rate of 35% (2006: 35%)		944,239	1,354,619
Effect of :			
- permanent differences		79,650	41,783
- income chargeable to tax at reduced rate		(317,499)	(82,734)
- income exempt from tax		(232,238)	(396,320)
- prior year charge		(48,433)	136,420
Tax charge for the year		<u>425,719</u>	<u>1,053,768</u>
33.2	Income tax assessments of the bank have been finalised upto the tax year 2005 (Accounting year 2004). Returns filed for tax year 2006 (Accounting year 2005) and tax year 2007 (Accounting year 2006) are also deemed to have been assessed as per tax law, unless selected for detailed audit.		
	<i>Note</i>	2007	2006
34. BASIC AND DILUTED EARNINGS PER SHARE		Rupees '000	
Profit for the year		<u>2,272,108</u>	<u>2,816,572</u>
		In thousands	
Number of ordinary shares	22	<u>529,644</u>	<u>529,644</u>
		Rupees	
Basic and diluted earnings per share		<u>4.29</u>	<u>5.32</u>
35. CASH AND CASH EQUIVALENTS		2007	2006
		Rupees '000	
Cash and balance with treasury banks	8	6,872,032	7,207,998
Balances with other banks	9	3,708,451	2,883,040
Call money lendings	10.2	800,000	-
		<u>11,380,483</u>	<u>10,091,038</u>
36. STAFF STRENGTH		In Numbers	
Permanent		1,394	1,109
Temporary / on contractual basis		365	354
Bank's own staff strength at the end of the year		1,759	1,463
Outsourced	36.1	716	606
Total Staff Strength		<u>2,475</u>	<u>2,069</u>
36.1	Outsourced represent employees hired by an outside contractor/agency and posted in the bank to perform various tasks/activities of the bank.		



37. DEFINED BENEFIT PLAN

37.1 Principal actuarial assumptions

The latest actuarial valuation of the bank's defined benefit plan based on Projected Unit Credit Actuarial Cost Method was carried out as at December 31, 2007.

Following are the significant assumptions used in the valuation:

	<i>Note</i>	2007	2006
Discount factor used (%age per annum)		10	10
Expected long term rate of return on plan assets (%age per annum)		10	10
Salary increase (%age per annum)		10	10
Normal retirement age (Years)		60 years	60 years

		2007	2006
		Rupees '000	
37.2 Reconciliation of payable to defined benefit plan			
Present value of defined benefit obligations	37.3	123,141	118,509
Fair value of plan assets	37.4	(97,739)	(97,253)
Net actuarial gain/(loss) not recognised		<u>(25,402)</u>	<u>(21,256)</u>
		-	-
37.3 Movement in present value of defined benefit obligation			
Opening balance		118,509	93,553
Current service cost		20,406	17,846
Interest cost		12,385	8,293
(Gain) / Loss on defined benefit obligation		2,818	4,231
Actual benefits paid during the year		<u>(30,977)</u>	<u>(5,414)</u>
Closing balance		<u>123,141</u>	<u>118,509</u>
37.4 Movement in fair value of plan assets			
Opening balance		97,253	79,599
Expected return on plan assets		10,291	6,949
Contribution made		23,917	20,263
Benefits paid by the fund		<u>(30,977)</u>	<u>(5,414)</u>
Gain / (Loss) on plan assets		<u>(2,745)</u>	<u>(4,144)</u>
Closing balance		<u>97,739</u>	<u>97,253</u>
37.4.1 Plan assets consist of the following:			
Balances with banks and financial institutions		38,383	62,931
Certificates of investment		-	8,000
Units of open ended mutual funds		40,000	10,000
Term finance certificates		<u>19,356</u>	<u>16,322</u>
		<u>97,739</u>	<u>97,253</u>
37.5 Movement in payable to defined benefit plan			
Opening balance		465	465
Charge for the year	37.6	23,917	20,263
Contribution to fund made during the year		<u>(23,917)</u>	<u>(20,263)</u>
Closing balance		<u>465</u>	<u>465</u>

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37.6	Charge for defined benefit plan	2007		2006		
		Rupees '000				
	Current service cost	20,406		17,846		
	Interest cost	12,385		8,293		
	Expected return on plan assets	(10,291)		(6,949)		
	Amortisation of loss	1,417		1,073		
		<u>23,917</u>		<u>20,263</u>		
37.7	Actual return on plan assets	<u>8,189</u>		<u>7,837</u>		
37.8	Historical information	2007	2006	2005	2004	2003
		-----Rupees '000-----				
	Defined Benefit Obligation	(123,141)	(118,509)	(93,553)	(79,512)	(56,912)
	Fair value of plan assets	97,739	97,253	79,134	64,070	60,376
	Surplus/ (Deficit)	<u>(25,402)</u>	<u>(21,256)</u>	<u>(14,419)</u>	<u>(15,442)</u>	<u>3,464</u>
	Experience adjustments on plan liabilities	<u>(2,818)</u>	<u>(4,231)</u>	<u>581</u>	<u>(17,557)</u>	<u>1,386</u>
	Experience adjustments on plan assets	<u>(2,745)</u>	<u>888</u>	<u>767</u>	<u>397</u>	<u>508</u>

38. DEFINED CONTRIBUTION PLAN

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

39. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Chief Executive Officer*		Executives	
	2007	2006	2007	2006
	-----Rupees '000-----			
Managerial remuneration	48,586	61,865	125,978	214,570
Payments to Ex President for past services	304,200	-	-	-
Charge for defined benefit plan	2,206	1,863	6,631	6,330
Contribution to defined contribution plan	2,649	2,236	7,960	7,599
Rent and house maintenance	6,329	1,744	36,741	33,813
Utilities	2,649	2,236	8,132	7,599
Medical	147	84	5,718	6,021
Leave fare assistance	8,217	2,236	12,589	12,476
Others	1,944	317	33,949	24,338
	<u>376,927</u>	<u>72,581</u>	<u>237,698</u>	<u>312,746</u>
Number of persons	<u>2</u>	<u>1</u>	<u>83</u>	<u>69</u>

* Remuneration of the Chief Executive Officer in the year 2007 includes Ex-Chief Executive Officer and the Acting Chief Executive Officer.

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

**40. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

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

41 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

41.1 Provision against advances portfolio

The bank reviews its advances portfolio to assess amount of non-performing advances and provision required there against on a quarterly basis. The provision is made in accordance with Prudential Regulations issued by the State Bank of Pakistan (SBP). On October 12, 2007, SBP issued a circular advising complete withdrawal of the benefit of forced sale valuations (FSVs) against all non-performing loans, except home mortgage loans, while calculating the provisioning requirements. The circular became effective from December 31, 2007. Further, as per the circular, personal loans now require 100% provisioning as against the previous benchmark of one year past due. The management has revised its accounting estimate for determining provisions in the light of the State Bank of Pakistan's directives, the impact of which is given in note 12.4.1. The forced sale values in respect of collaterals in the case of home mortgage loans are estimated by independent valuations of the assets mortgaged/pledged. General provision in respect of unidentified loan losses is made based on historical experience for assets with credit risk characteristics.

41.2 Income taxes

In making the estimates for income taxes currently payable by the bank, the management looks at the current income tax law and the decisions of appellate authorities on disputed issues in the past. The allocation of expenses between income chargeable to tax under final tax regime (FTR) and normal tax regime (NTR) is based on the prior assessment orders of the bank. The consensus between the banking sector and the tax department is yet to be reached on the matter of allocation of expenses, which could have a tax implication on the bank. No amount is shown as a contingent liability of the bank in this regard as the bank's liability is determined on the basis of accepted past practices.

41.3 Impairment in respect of listed securities

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

If the bank considers that a deficit is temporary, it is classified as a revaluation loss / (deficit) and if the impairment is considered of a permanent nature, it is treated as provision for diminution in value of investments.

41.4 Gratuity

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

41.5 Segmentation

As per the requirements of the new format of financial statements issued by the State Bank of Pakistan, the management has divided the bank into four functional segments. The basis of segmentation and related assumptions are disclosed in note 7.17.

41.6 Fair Value of securities

The fair value of some of the securities may invoke some discounts at the time of sale of these securities. These have not been adjusted from the revaluation surplus on the assumption that these will be sold at the prevailing market rates.

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42. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

Primary segment information

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

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

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

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
-----Rupees '000-----				
2007				
Total income	1,041,294	2,601,331	4,051,249	7,362,924
Total expenses	(673,875)	(1,731,629)	(3,644,489)	(6,734,697)
Net income/(loss)	<u>367,419</u>	<u>869,702</u>	<u>406,760</u>	<u>628,227</u>
Segment assets (Gross)	7,657,073	17,730,889	46,120,943	73,718,706
Segment non performing Assets	273,186	91,460	2,105,390	2,648,025
Segment provision required	(160,440)	(61,248)	(1,188,153)	(2,540,349)
Segment liabilities	(1,301,319)	(6,848,633)	(44,593,360)	(72,377,603)
Segment return on assets (ROA) (%) *	<u>13.60</u>	<u>14.67</u>	<u>8.78</u>	<u>9.99</u>
Segment cost of funds (%) *	<u>7.60</u>	<u>15.26</u>	<u>5.32</u>	<u>5.45</u>
2006				
Total income	1,088,999	2,072,331	3,890,309	5,429,796
Total expenses	(537,509)	(1,550,763)	(2,938,646)	(4,637,985)
Net income (loss)	<u>551,490</u>	<u>521,568</u>	<u>951,663</u>	<u>791,811</u>
Segment assets (Gross)	8,285,864	13,433,219	38,554,126	57,085,804
Segment non performing Assets	-	182,354	894,108	2,869,497
Segment provision required	-	(73,238)	(410,040)	(1,405,334)
Segment liabilities	(1,063,043)	(7,088,218)	(34,740,061)	(58,782,445)
Segment return on assets (ROA) (%) *	<u>13.14</u>	<u>15.43</u>	<u>10.09</u>	<u>9.51</u>
Segment cost of funds (%) *	<u>3.51</u>	<u>14.13</u>	<u>5.58</u>	<u>5.00</u>

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

Note : The above table is based on best estimates / assumptions. Comparatives have been rearranged for comparative purpose

43. TRUST ACTIVITIES

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



44. RELATED PARTY TRANSACTIONS

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

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

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

	2007				
	Directors and Key Management Personnel	Group Companies	Associates	Subsidiaries	Strategic Investments
-----Rupees '000-----					
Deposits					
Balance at the beginning of the year	71,086	1,187	5,287	240,690	223,589
Placements during the year	1,131,960	51,010	833,046	2,957,224	4,229,246
Withdrawals during the year	(1,154,559)	(50,169)	(838,260)	(3,189,696)	(4,317,355)
Balance at end of the year	48,487	2,028	73	8,218	135,480
Advances					
Balance at the beginning of the year	25,489	-	-	-	975,060
Disbursement during the year	-	-	-	-	31,576
Repayment during the year	(21,343)	-	-	-	(199,647)
Balance at the end of the year	4,146	-	-	-	806,989
	2006				
	Directors and Key Management Personnel	Group Companies	Associates	Subsidiaries	Strategic Investments
-----Rupees '000-----					
Deposits					
Balance at the beginning of the year	25,046	304,609	347,385	141,182	445,054
Placements during the year	631,972	593,217	5,583,776	2,118,857	4,258,249
Withdrawals during the year	(585,932)	(896,639)	(5,925,874)	(2,019,349)	(4,479,714)
Balance at end of the year	71,086	1,187	5,287	240,690	223,589
Advances					
Balance at the beginning of the year	50,509	-	320,000	285,599	413,004
Disbursement during the year	-	-	-	-	618,252
Repayment during the year	(25,020)	-	(320,000)	(285,599)	(56,196)
Balance at the end of the year	25,489	-	-	-	975,060

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

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	2007	2006
	Rupees '000	
Foreign Currency Placement of funds / Nostro balances with associates	5,147	128,229
Transactions involving Sale / Purchase of investments with related parties		
Shares / Units purchased during the year	250,000	93,755
Shares / Units / Term Finance Certificates sold during the year	364,852	477,792
Income on foreign currency placement of funds	10,215	28,961
Profit paid/ accrued	11,223	10,934
Profit return/ earned	70,480	26,730
Technical Fee paid	46,472	49,497
Dividend income from subsidiaries	32,684	128,891
Dividend paid to holding company and associates	709,117	1,210,856
Commission charged on guarantee given to a subsidiary	-	40
Remuneration of key management personnel		
- Salaries and other short-term employee benefits	97,633	168,075
- Post-employment benefits	7,003	7,613
- Payments to Ex President for past services	304,200	-
Contributions to staff retirement benefits	57,286	46,938

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

45. CAPITAL ADEQUACY

45.1 The bank's objectives when managing its capital are:

- To comply with the capital requirements set by the State Bank of Pakistan;
- To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the State Bank of Pakistan for supervisory purposes. The required information is submitted to the State Bank of Pakistan on a quarterly basis. During 2007, the parallel run of Basel I and II (standardised approach) basis of computing capital adequacy was in practice. The disclosure given is, however based on the Basel I approach.

The State Bank of Pakistan requires each bank or banking group to: (a) hold the minimum level of the paid up capital and (b) maintain a ratio of total regulatory capital to the risk-weighted assets (the 'Basel ratio') at or above the internationally agreed minimum of 8%.

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

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings; and
- Tier 2 capital: qualifying subordinated loan capital, general provision and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

Investments in subsidiaries are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

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

The bank will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

The State Bank has prescribed a minimum paid-up capital requirement (net of losses) of Rs. 6 billion for all banks to be achieved by December 31, 2009. The required minimum Capital Adequacy Ratio (CAR), on consolidated as well as on stand alone basis is 8%. CAR is also calculated based on the Institutional Risk Assessment Framework (IRAF) Rating assigned by the State Bank to each bank and DFI. For this purpose, SBP intimates IRAF rating to each bank/DFI separately. No such rating has been received by the bank so far.

Failure to meet the minimum paid up capital requirement or prescribed Capital Adequacy Ratios would attract restrictions on operations, de-scheduling or even cancellation of banking license.



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

	Note	2007	2006
Rupees '000			
Regulatory Capital Base			
Tier I Capital			
Shareholders capital		5,296,445	4,237,157
Reserves		3,567,033	3,079,527
Unappropriated profits (net of proposed cash dividend)		157,558	756,354
Adjustments		9,021,036	8,073,038
Investments in equity of subsidiary companies engaged in banking and activities (Incl. Insurance) not consolidated in the balance sheet		(108,000)	(108,000)
Total Tier I Capital		8,913,036	7,965,038
Tier II Capital			
General provisions subject to 1.25% of total risk weighted assets		471,332	337,083
Revaluation reserve (upto 50%)		3,010,269	2,429,727
Sub-ordinated debt (upto 50% of Total Tier I Capital)		1,000,000	-
Total Tier II Capital		4,481,601	2,766,810
Eligible Tier III Capital		-	-
Total Regulatory Capital (a)		13,394,637	10,731,848

	2007		2006	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
-----Rupees '000-----				
Risk-Weighted Exposures				
Credit Risk				
Balance Sheet Items:-				
Cash and other liquid assets	10,580,483	772,514	10,091,038	585,572
Money at call	7,078,102	740,000	4,608,205	400,000
Investments	31,553,108	8,991,629	22,501,382	10,089,478
Advances	82,789,881	82,513,474	70,755,755	64,499,184
Fixed assets	2,514,958	2,514,958	2,239,392	2,239,392
Other assets	2,461,854	2,444,516	1,586,998	1,575,595
	136,978,386	97,977,091	111,782,770	79,389,221
Off Balance Sheet items				
Loan repayment guarantees	2,360,727	2,360,727	3,775,480	3,688,940
Purchase and resale agreements	650,000	-	-	-
Performance bonds etc	17,869,214	6,995,571	10,012,493	4,690,138
Revolving underwriting commitments	-	-	-	-
Standby letters of credit	12,473,212	6,236,606	12,264,921	5,960,873
Outstanding foreign exchange contracts				
-Purchase	2,674,292	20,772	2,922,902	19,304
-Sale	3,781,064	15,076	3,804,387	25,126
	39,808,509	15,628,752	32,780,183	14,384,381
Credit risk-weighted exposures (b)		113,605,843		93,773,602
Market Risk				
General market Risk		1,778		3,432
Specific market Risk		18,320		11,481
Market risk-weighted exposures (c)		20,098		14,913
Market risk-weighted exposure (c)*12.5 (d)		251,225		186,413
Total Risk-Weighted exposures (b+d) (e)		113,857,068		93,960,015
Capital Adequacy Ratio - Credit Risk [(a) / (b) x (100)]		11.79		11.44
Total Capital Adequacy Ratio [(a) / (e) x (100)]		11.76		11.42

45.2.1 Book values reported above are net of cash margin held.

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46. RISK MANAGEMENT

The bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits.

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

46.1 Credit Risk

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

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

The credit evaluation primarily realises on a well define internal risk rating systems which gauges risk rating of existing and potential customers in corporate, commercial and SME divisions. The rating model evaluates all customers based on predefined parameters, which include financial statements analysis, sponsors and management profile, industry and business analysis and outlook, relationship with the banking industry, external rating and repayment behavior of the customer.

Out of the total financial assets of Rs. 138,252 billion, the financial assets which were subject to credit risk amounted to Rs. 131,380 billion. Investments in Federal Government Securities amounting to Rs. 18,074 billion are guaranteed by the Government of Pakistan (GoP). Also guaranteed through a letter of comfort issued by GoP is investment to the extent of Rs. 8,979 billion in NIT Units, as referred to in note 11.2.4 to the financial statements. The bank's major credit risk is concentrated in textile & power sectors. To manage credit risk, the bank grants credit limits to its customers and obtains adequate collaterals against advances.

46.1.1 Segment by class of business

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

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

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



	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Chemical and Pharmaceuticals	2,514,898	3.38	1,266,470	1.70	3,802,283	13.20
Agribusiness	1,140,932	1.53	1,715,704	2.31	432,243	1.50
Textile	13,829,068	18.57	2,347,914	3.16	4,040,577	14.03
Cement	2,448,434	3.29	480,286	0.65	908,165	3.15
Sugar	1,441,312	1.94	502,966	0.68	9,894	0.03
Construction	1,742,574	2.34	2,065,756	2.78	1,675,880	5.82
Ready made garments	1,911,772	2.57	349,456	0.47	69,801	0.24
Shoes and leather garments	986,902	1.33	173,734	0.23	43,865	0.15
Automobile and transportation equipment	202,206	0.27	2,447,997	3.29	251,809	0.87
Financial	5,010,156	6.73	2,106,681	2.83	1,114,776	3.87
Oil Refining / Marketing	901,250	1.21	14,276,176	19.18	7,026,691	24.39
Distribution / Trading	5,127,944	6.89	4,288,879	5.76	118,864	0.41
Electronics and electrical appliances	1,734,323	2.33	325,862	0.44	780,756	2.71
Production and transmission of energy	3,728,271	5.01	193,148	0.26	2,653,701	9.21
Iron and Steel	437,141	0.59	365,442	0.49	479,920	1.67
Synthetic and Rayon	-	-	102,934	0.14	96,707	0.34
Food Industries	4,029,362	5.41	1,209,182	1.62	216,437	0.75
Paper and Board	556,506	0.75	913,328	1.23	711,868	2.47
Individuals	13,863,876	18.62	16,553,223	22.24	180,167	0.63
Others	12,861,717	17.24	22,728,503	30.54	4,190,165	14.56
	74,468,644	100.00	74,413,641	100.00	28,804,569	100.00

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

	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Public / Government	1,006,806	1.35	16,838,717	22.63	9,940,888	34.51
Private	73,461,838	98.65	57,574,924	77.37	18,863,681	65.49
	74,468,644	100.00	74,413,641	100.00	28,804,569	100.00

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

	2007		2006	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	-----Rupees '000-----			
Chemical and Pharmaceuticals	727,617	699,000	687,237	215,505
Agribusiness	144,720	7,271	25,019	50
Textile	874,729	669,981	962,201	570,799
Transportation, Road and Air	170,402	116,857	199,768	69,349
Construction	50,028	34,420	25,136	9,973
Ready Made Garments	79,659	61,279	72,861	22,814
Shoes and leather garments	-	-	1,925	963
Financial	7,750	7,750	7,750	1,938
Distribution / Trading	357,896	284,857	28,143	14,619
Electronics and electrical appliances	5,791	1,274	8,471	3,218
Production and transmission of energy	970,355	516,663	393,887	138,903
Iron & Steel	5,448	1,362	675	531
Food Industries	83,769	33,875	297,426	134,142
Paper & Board	49,743	49,743	-	-
Individuals	546,656	183,638	214,647	55,396
Others (including manufacturing, and real estate)	678,852	531,605	610,047	66,139
	4,753,415	3,199,575	3,535,193	1,304,339

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

Public/ Government	-	-	-	-
Private	4,753,415	3,199,575	3,535,193	1,304,339
	4,753,415	3,199,575	3,535,193	1,304,339

46.1.5 Geographical segment analysis

	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees '000-----			
Pakistan	2,697,827	141,277,421	16,156,503	33,520,694
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	2,697,827	141,277,421	16,156,503	33,520,694
	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees '000-----			
Pakistan	3,870,340	115,470,401	13,796,634	28,804,569
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	3,870,340	115,470,401	13,796,634	28,804,569



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

46.2 Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in currency, equity, profit rate and other products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

The bank seeks to mitigate market risk by employing strategies that correlate rate, price, and spread movements of its earning assets, liabilities and trading activities. The most significant market risks the bank faces are interest rate, credit spread, foreign exchange and equity price risks. The details of market risk faced by the bank are discussed in following notes.

46.3 Foreign Exchange Risk / Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect revenues from foreign exchange dealing. The bank does not take any currency exposure except to the extent of statutory Net Open Position limit prescribed by SBP. Foreign exchange open and mismatch positions are controlled through internal limits and are marked to market on a daily basis to contain forward exposures. Counterparty and stop loss limits are also in place in accordance with the bank's approved Standard Operating Procedures to limit risk and concentration

46.3.1 Currency Risk

	2007			
	Assets	Liabilities and share holders' equity	Off-balance sheet items	Net currency exposure
----- Rupees '000 -----				
Pakistan rupee	130,505,594	132,078,173	1,380,333	(192,246)
United States dollar	9,464,146	7,952,053	(1,291,550)	220,543
Great Britain pound	807,492	792,247	(22,356)	(7,111)
Japanese yen	114,944	144,599	32,103	2,448
Euro	379,231	310,321	(98,530)	(29,620)
Other currencies	6,014	28	-	5,986
	<u>141,277,421</u>	<u>141,277,421</u>	<u>-</u>	<u>-</u>
----- Rupees '000 -----				
	2006			
	Assets	Liabilities and share holders' equity	Off-balance sheet items	Net foreign currency exposure
----- Rupees '000 -----				
Pakistan rupee	110,420,316	107,619,672	(2,889,089)	(88,445)
United States dollar	4,218,827	6,321,645	2,166,779	63,961
Great Britain pound	540,298	1,323,676	763,983	(19,395)
Japanese yen	49,571	2	2,368	51,937
Euro	239,419	205,299	(42,734)	(8,614)
Other currencies	1,970	107	(1,307)	556
	<u>115,470,401</u>	<u>115,470,401</u>	<u>-</u>	<u>-</u>

46.4 Equity position risk

Equity position risk is the risk arising from taking long or short positions, in the trading book, in the equities and all instruments that exhibit market behavior similar to equities. This results from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock or a defined basket of stocks.

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

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

2007

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

2006

Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments	
		Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years		
Rupees in '000												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.35	7,207,998	1,192,864	-	-	-	-	-	-	-	-	6,015,134
Balances with other banks	10.00	2,883,040	291,586	-	-	-	-	-	-	-	-	2,591,454
Lendings to financial institutions	9.49	4,608,205	1,309,293	3,298,912	-	-	-	-	-	-	-	-
Investments	8.73	22,525,358	3,499,428	3,995,256	55,991	2,617,678	24,567	16,901	16,901	1,126,297	-	11,172,339
Advances	11.64	74,468,644	9,994,778	15,410,735	9,324,835	26,863,204	3,869,960	3,623,807	2,749,851	785,515	126,140	1,719,819
Other assets		1,349,840	-	-	-	-	-	-	-	-	-	1,349,840
		113,043,085	16,287,949	22,704,903	9,380,826	29,480,882	3,894,527	3,640,708	2,766,752	1,911,812	126,140	22,848,586
Liabilities												
Bills payable		4,516,125	-	-	-	-	-	-	-	-	-	4,516,125
Borrowings	8.90	14,965,037	4,161,556	7,046,340	1,796,923	24,938	36,733	866,638	494,542	497,051	-	40,316
Deposits and other accounts	5.90	74,413,641	28,505,446	12,157,746	6,539,038	7,143,152	1,516,860	1,089,309	699,771	-	-	16,762,319
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	8.00	14,664	97	1,257	1,382	3,005	4,516	4,407	-	-	-	-
Other liabilities	12.10	5,303,129	-	750,000	-	-	-	-	-	-	-	4,553,129
		99,212,596	32,667,099	19,205,343	9,087,343	7,171,095	1,558,109	1,960,354	1,194,313	497,051	-	25,871,889
On-balance sheet gap		13,830,489	(16,379,150)	3,499,560	293,483	22,309,787	2,336,418	1,680,354	1,572,439	1,414,761	126,140	(3,023,303)
Off-balance sheet financial instruments												
Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.)		(1,396,238)	(33,330)	-	(1,336,500)	(26,408)	-	-	-	-	-	-
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		(1,396,238)	(33,330)	-	(1,336,500)	(26,408)	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap		(16,412,480)	3,499,560	(1,043,017)	22,283,379	2,336,418	1,680,354	1,572,439	1,414,761	126,140		
Cumulative Yield/Interest Risk Sensitivity Gap		(16,412,480)	(12,912,920)	(13,955,937)	8,327,442	10,663,860	12,344,214	13,916,653	15,331,414	15,457,554		



- 46.5.1** Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.
- 46.5.2** Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.
- 46.5.3** The interest rate exposure taken by the bank arises from investing in corporate, small medium enterprises, consumer loans, investment banking and interbank activities where variation in market interest rates may affect the profitability of the bank. This risk is addressed by an Asset and Liability Management Committee which reviews the interest rate dynamics at regular intervals and decides repricing of assets and liabilities ensuring that the spread of the bank remains at an acceptable level.
- 46.5.4** The advances and deposits of the bank are repriced on a periodic basis based on interest rates scenario.
- 46.5.5** Operating fixed assets and deferred tax assets and prepayments are non financial assets. Similarly, provision for taxation, deferred tax liability and prepayments are non-financial liabilities. These are not considered in the yield / interest risk sensitivity gap. The difference between the total assets and financial assets and total liabilities and financial liabilities is Rs. 3.025 billion and Rs. 3.342 billion respectively.

46.6 Liquidity Risk

Liquidity risk is the risk that the bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay investors and fulfill commitments to lend.

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

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

Monitoring and reporting of treasury and capital market maturities is done through monitoring of daily maturities. Similarly the overall liquidity maintenance is done through monthly maturity gap analysis at balance sheet level. Hence, monitoring and reporting takes the form of regular and periodic cash flow measurement and projections. Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

Notes to the Financial Statements

For the year ended December 31, 2007



FAYSAL BANK

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

	2007									
	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years
	Rupees '000									
Assets										
Cash and balances										
with treasury banks *	6,872,032	6,872,032	-	-	-	-	-	-	-	-
Balances with other banks	3,708,451	3,708,451	-	-	-	-	-	-	-	-
Lendings to financial institutions	7,078,102	1,768,908	5,309,194	-	-	-	-	-	-	-
Investments	31,553,108	999,086	3,382,118	6,015,895	7,951,149	9,553,252	316,421	2,064,527	1,270,660	-
Advances	87,346,401	17,394,457	17,587,809	10,836,185	10,759,822	10,236,064	6,928,165	7,313,366	2,820,775	3,469,758
Operating fixed assets	2,514,959	18,106	54,324	58,167	108,649	217,297	268,714	462,938	1,086,487	240,277
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	2,204,368	540,117	121,002	-	1,270,873	-	272,376	-	-	-
	141,277,421	31,301,157	26,454,447	16,910,247	20,090,493	20,006,613	7,785,676	9,840,831	5,177,922	3,710,035
Liabilities										
Bills payable	2,406,927	2,406,927	-	-	-	-	-	-	-	-
Borrowings from financial institutions	9,995,855	956,156	5,273,290	2,012,767	309,904	698,387	253,859	281,844	209,648	-
Deposits and other accounts **	102,067,422	55,827,515	18,395,137	7,590,863	16,305,712	1,728,423	1,868,857	350,915	-	-
Sub-ordinated loans	1,000,000	-	-	200	200	400	400	800	998,000	-
Liabilities against assets subject to finance lease	7,827	616	261	629	1,835	4,486	-	-	-	-
Deferred tax liabilities - net	2,691,466	-	-	-	-	-	-	2,691,466	-	-
Other liabilities	6,951,421	3,046,185	485,188	325,063	1,029,823	492,235	427,542	1,145,385	-	-
	125,120,918	62,237,399	24,153,876	9,929,522	17,647,474	2,923,931	2,550,658	4,470,410	1,207,648	-
Net assets	16,156,503	(30,936,242)	2,300,571	6,980,725	2,443,019	17,082,682	5,235,018	5,370,421	3,970,274	3,710,035
Share capital	5,296,445									
Reserves	3,567,033									
Unappropriated profit	1,481,668									
Surplus on revaluation of assets	5,811,357									
	16,156,503									
	2006									
	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years
	Rupees '000									
Assets										
Cash and balances										
with treasury banks *	7,207,998	7,207,998	-	-	-	-	-	-	-	-
Balances with other banks	2,883,040	2,883,040	-	-	-	-	-	-	-	-
Lendings to financial institutions	4,608,205	1,309,293	3,298,912	-	-	-	-	-	-	-
Investments	22,525,358	3,523,405	3,995,256	2,951,614	3,165,463	402,509	5,733,302	886,709	1,867,100	-
Advances	74,468,644	11,888,548	15,410,735	9,324,836	8,853,910	8,818,183	7,459,839	6,061,832	2,381,987	4,268,775
Operating fixed assets	2,239,392	16,147	48,446	48,446	96,892	193,784	239,637	412,844	968,920	214,276
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	1,537,764	79,020	98,990	38,980	1,294,718	161	25,895	-	-	-
	115,470,401	26,907,451	22,852,339	12,363,876	13,410,983	9,414,637	13,458,673	7,361,385	5,218,007	4,483,051
Liabilities										
Bills payable	4,516,125	4,516,125	-	-	-	-	-	-	-	-
Borrowings from financial institutions	14,965,037	4,201,873	7,046,339	1,796,923	24,938	36,733	866,638	494,542	497,051	-
Deposits and other accounts **	74,413,641	45,267,766	12,157,745	6,539,038	7,143,152	1,516,860	1,089,309	699,771	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	14,664	96	1,258	1,382	3,005	4,516	4,407	-	-	-
Deferred tax liabilities - net	1,839,860	-	-	-	-	-	-	1,839,860	-	-
Other liabilities	5,924,440	636,263	249,239	141,600	1,033,000	456,235	889,749	1,688,873	828,635	846
	101,673,767	54,622,123	19,454,581	8,478,943	8,204,095	2,014,344	2,850,103	4,723,046	1,325,686	846
Net assets	13,796,634	(27,714,672)	3,397,758	3,884,933	5,206,888	7,400,293	10,608,570	2,638,339	3,892,321	4,482,205
Share capital	4,237,157									
Reserves	3,079,527									
Unappropriated profit	1,815,643									
Surplus on revaluation of assets	4,664,307									
	13,796,634									

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

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



Notes to the Financial Statements

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46.6.2 Maturities of Assets and Liabilities - Based on expected maturities

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

	2007									
	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years
	-----Rupees '000-----									
Assets										
Cash and balances										
with treasury banks	6,872,032	2,524,365	1,191,274	525,804	943,090	261,942	371,756	332,509	404,634	316,658
Balances with other banks	3,708,451	3,708,451	-	-	-	-	-	-	-	-
Lendings to financial institutions	7,078,102	1,768,908	5,309,194	-	-	-	-	-	-	-
Investments	31,553,108	999,086	3,382,118	6,015,895	7,951,149	9,553,252	316,421	2,064,527	1,270,660	-
Advances	87,346,401	17,394,457	17,587,809	10,836,185	10,759,821	10,236,064	6,928,165	7,313,366	2,820,775	3,469,759
Operating fixed assets	2,514,959	18,106	54,324	58,167	108,650	217,297	268,714	462,938	1,086,487	240,276
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	2,204,368	540,118	121,002	-	1,270,871	-	272,377	-	-	-
	141,277,421	26,953,491	27,645,721	17,436,051	21,033,581	20,268,555	8,157,433	10,173,340	5,582,556	4,026,693
Liabilities										
Bills payable	2,406,927	2,406,927	-	-	-	-	-	-	-	-
Borrowings from financial institutions	9,995,855	956,156	5,723,290	1,562,767	309,904	698,387	253,859	281,844	209,648	-
Deposits and other accounts	102,067,422	16,749,069	21,096,335	10,621,599	20,228,269	5,289,559	7,671,845	7,013,841	6,662,926	6,733,979
Sub-ordinated loans	1,000,000	-	-	200	200	400	400	800	998,000	-
Liabilities against assets subject to finance lease	7,827	-	982	983	1,272	4,590	-	-	-	-
Deferred tax liabilities - net	2,691,466	-	-	-	-	-	-	2,691,466	-	-
Other liabilities	6,951,421	3,046,185	485,188	325,063	1,029,823	492,235	427,542	1,145,385	-	-
	125,120,918	23,158,337	27,305,795	12,510,612	21,569,468	6,485,171	8,353,646	11,133,336	7,870,574	6,733,979
Net assets	<u>16,156,503</u>	<u>3,795,154</u>	<u>339,926</u>	<u>4,925,439</u>	<u>(535,887)</u>	<u>13,783,384</u>	<u>(196,213)</u>	<u>(959,996)</u>	<u>(2,288,018)</u>	<u>(2,707,286)</u>
Share capital	5,296,445									
Reserves	3,567,033									
Unappropriated profit	1,481,668									
Surplus on revaluation of assets	5,811,357									
	<u>16,156,503</u>									

46.7 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk and losses originate from operational process reliability, IT security, natural disasters, dependence on key suppliers, frauds, errors, customer service quality, regulatory compliance, retention of staff and social and environment impacts. The bank has implemented risk controls and loss mitigation actions for curtailing operational risk. Operational risk management unit has been centralized under risk management department, with representatives in each department, which have processes and systems in place to address operational risks within their areas. These include key controls and the provision of business continuity plans to protect against each disruption. An operational loss database has been established which will further strengthen the process of operational risk management.

47. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 21, 2008 by the Board of Directors of the bank.

48. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 21, 2008 has proposed a cash dividend of Rs. 2.5 per share (2006: Rs 2.5 per share) and a transfer of Rs. Nil (2006: Rs. 33.085 million) to Capital Market Reserve. These appropriations will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2007 do not include the effect of current year's appropriations which will be accounted for in the financial statements for the year ending December 31, 2008.

49. GENERAL

49.1 Presentation and disclosures in the annual financial statements

These financial statements have been prepared using the revised format of financial statements prescribed through BSD circular No. 04 dated February 17, 2006 issued by the State Bank of Pakistan. The format for presentation of financial statements became applicable for annual financial statements for periods commencing from January 01, 2006. The changes in the revised format for presentation of financial statements include the introduction of disclosures in respect of segment details with respect of business activities and capital adequacy and expanded disclosures in respect of derivative instruments and risk management. As per SBP Circular No. BSD/SU-4/546/101/2007 dated January 13, 2007, it had been clarified that disclosures pertaining to Basel II would be applicable after final implementation, i.e. completion of trial run. These financial statements, therefore, do not include these specific disclosures.

49.2 Amendments to published standards and new interpretations effective in 2007

Amendment to IAS 1-"Presentation of Financial Statements - Capital Disclosures", introduced new disclosures about the level of an entity's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures given in note 45.1 to the financial statements.

Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 01, 2007 which are not considered relevant nor have any significant effect on the bank's operations have not been considered in these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2007



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

The following standards, amendments and interpretation of approved accounting standards, are effective for accounting periods beginning from the dates specified below.

Particular	Effective
Revised IAS 1 - Presentation of financial statements. The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics. The changes affect the presentation of owner changes in equity and of comprehensive income. It introduces a requirement to include in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.	effective for annual accounting periods beginning on or after January 01, 2009
Revised IAS 23 - Borrowing costs. Revised IAS 23 removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have an effect on Group's financial statements.	effective from accounting period beginning on or after January 01, 2009
IFRIC 9 - Reassessment of embedded derivative	effective during the year but will be applied together with application of IAS 39.
IFRIC 11 - IFRS 2 - Group and Treasury Share Transactions . IFRIC 11 requires that a share based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as equity settled share based payment regardless of how the equity instruments are obtained. IFRIC 11 is not expected to have any material impact on the Bank's financial statements.	effective for annual periods beginning on or after 1 March 2007
IFRIC 12 - Service Concession Arrangements. IFRIC 12 provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private concession arrangements. IFRIC 12 is not relevant to the Bank's operations.	effective from accounting period beginning on or after January 01, 2008
IFRIC 13- Customer Loyalty Programmes. IFRIC 13 addresses the accounting by entities that operates, or otherwise participate in, customer loyalty programmes for their customers.	effective from accounting period beginning on or after July 01, 2008
IFRIC 14 IAS 19- The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction. IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on minimum funding requirements (MFR) for such asset.	effective from accounting period beginning on or after January 01, 2008.

49.4 Comparatives

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

Reclassification from		Reclassification to		Reason for reclassification	Rupees in '000s
Note	Component	Note	Component		
25.1 (ii)	Direct Credit Substitutes - Contingent liability - guarantees favouring banking companies and other financial institutions	25.2	Transaction related contingent liabilities - Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:	Based on clarification in Prudential Regulations for Corporate / Commercial banking received from the State Bank regarding differentiation of Standby Letter of Credit (SBLC) and Letter of Credit (LC) vide BPRD Circular Letter No. 33 of 2007.	
		(i)	Government		25,982
		(ii)	Banking companies and other financial institutions		196,671
		(iii)	Other		124,691
25.3	Trade-related contingent liabilities - Letters of credit	25.1 (iii)	Direct Credit Substitutes - Contingent liability - guarantees favouring others		4,115,050

In addition to the above, the bank has reclassified the prior year balance pertaining to Faysal Income Growth Fund from associate to available for sale, based on the re-evaluation of its influence on the mutual fund. The change had no impact on the profit and loss account of the bank for the year. Furthermore, there is no investment of the bank in the said fund as at the current year end.

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

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

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

Acting President & CEO

Director

Director

Director



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

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

Ordinary shares / certificates of Rs 10 each		Name of company/ modaraba/ mutual fund	2007	2006	2007	2006	Quality of Available for Sale Securities Medium to Long Term Rating Assigned (where available)
2007	2006		At Cost Rupees'000		Market Values Rupees'000		
Closed end Mutual funds							
3,994,716	3,994,716	Al-Meezan Mutual Fund	35,263	35,263	50,733	51,332	4-Star
-	1,397,000	Dominion Stock Fund *	-	1,816	-	2,514	
2,000,000	2,000,000	NAMCO Balanced Fund	20,000	20,000	16,700	20,000	
-	500,000	Pakistan Premier Fund	-	-	-	6,500	4-Star
345,000	345,000	Pakistan Strategic Allocation Fund	3,681	3,681	3,140	2,933	4-Star
2,812,895	2,812,895	UTP Large CAP Fund (Formerly Abamco Composite Fund)	27,888	27,888	22,784	22,503	4-Star
Modarabas							
-	2,102,500	B.R.R. International Modaraba	-	15,364	-	12,510	
2,990,000	2,990,000	First Habib Modaraba **	22,656	22,656	24,219	20,631	AA
67	469,067	First HBL Modaraba	1	3,840	1	3,987	AA-
5,271,591	5,271,591	First Prudential Modaraba	8,741	8,741	12,915	9,225	
-	252,821	Standard Chartered Modaraba	-	2,778	-	3,843	
Leasing Companies							
206	1,336,706	Pakistan Industrial & Commercial Leasing Limited	1	17,244	1	2,206	
Investment Banks / Investment Companies							
2,703,600	7,243,000	Atlas Bank Limited (Formerly Dawood Bank Limited)	27,036	90,604	45,961	105,748	A-
1,709,700	1,709,557	Prudential Investment Bank Limited *	12,528	12,528	4,958	4,274	
Textile Spinning							
1,613,000	1,613,000	Asim Textile Mills Limited ***	19,516	19,516	2,016	1,774	
127,045	127,045	Crown Textile Mills Limited ***	1,239	1,239	-	-	
99,500	99,500	Dewan Farooq Spinning Mills Limited	995	995	796	453	BBB+
586,093	-	Hira Textile Mills Limited	7,326	-	4,659	-	
Textile Composite							
-	706,000	Azgard Nine Limited	-	16,841	-	15,461	
-	236,500	Nishat Mills Limited	-	19,715	-	20,765	
2,500,000	2,500,000	Zahur Textile Mills Limited ***	2,500	2,500	-	-	
Cement							
-	715,000	D.G. Khan Cement	-	64,532	-	45,009	
Power Generation and Distribution							
891,500	1,550,000	Hub Power Company Limited	30,004	52,167	27,190	41,850	
939,375	939,375	Ideal Energy Limited *	28,181	28,181	14,091	14,560	
723,000	723,000	Kohinoor Energy Limited	23,174	23,174	22,991	18,003	
Oil and Gas Exploration Companies							
-	563,100	Oil and Gas Development Company Limited	-	67,230	-	64,588	
-	200,000	Pakistan Oilfields Limited	-	63,746	-	69,950	
-	500,700	Pakistan Petroleum Limited	-	106,293	-	116,162	
Technology & Communication							
1,329,000	5,750,000	Pakistan Telecommunication Company Limited	82,009	354,809	55,884	254,725	
Fertilizer							
1,374,615	2,101,330	Fauji Fertilizer Company Limited	100,000	150,058	163,236	221,795	
-	5,921,000	Fauji Fertilizer Bin Qasim	-	174,641	-	168,749	
			<u>452,739</u>	<u>1,414,599</u>	<u>472,276</u>	<u>1,322,050</u>	

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

- Dominion Stock Fund – NIL (2006: 28.00%)
- Prudential Investment Bank Limited – 17.10% (2006: 17.10%)
- Asim Textile Mills Limited – 10.62% (2006: 10.62%)
- Ideal Energy Limited – 11.74% (2006: 11.74%)

**Certificates of Rs 5 each

***Delisted companies



2. Details of investments in unlisted companies are as follows:

Ordinary shares / certificates of Rs 10 each 2007	2006	Name of company/ modaraba/ mutual fund	Quality of Available for Sale Securities			
			2007 At Cost Rupees'000	2006 Market Values Rupees'000	Medium to Long Term Rating Assigned (where available)	
Faysal Asset Management Limited			15,000	15,000	Not Applicable	AM3+
1,500,000 (2006:1,500,000) ordinary shares of Rs 10 each The bank holds 30% (2006: 30%) of investee's capital. Chief Executive: Mr. Salman Haider Shaikh Break up value of share: Rs 18.36 (2006: Rs 19.10) Period of financial statements: June 30, 2007						
Faysal Management Services (Private) Limited			108,000	108,000	Not Applicable	
1,080,000 (2006 : 1,080,000) ordinary shares of Rs 100 each The bank holds 60% (2006: 60%) of investee's capital. Chief Executive: Mr. Khalid S. Tirmizey Break up value of share: Rs 104.63 (2006: Rs 121.75) Period of financial statements: December 31, 2007						
Al Hamra Avenue (Private) Limited			243,750	243,750	Not Applicable	
24,375,000 (2006 : 24,375,000) ordinary shares of Rs 10 each The bank holds 17.38% of investee's capital. Chief Executive: Mr. Habib Ahmed Break up value per share: Rs. 11.38 (2006: Rs 10.00) Period of financial statements: June 30, 2007						
Al Hamra Hills (Private) Limited			125,000	125,000	Not Applicable	
12,500,000 (2006 : 12,500,000) ordinary shares of Rs 10 each The bank holds 14.71% (2006 : 15.15%) of investee's capital. Chief Executive: Mr. Habib Ahmed Break up value per share: Rs. 9.76 (2006: Rs. 10.30) Period of financial statements: June 30, 2007						
DHA Cogen Limited			325,000	325,000	Not Applicable	
32,500,000 (2006 : 32,500,000) ordinary shares of Rs 10 each The bank holds 18.52% (2006 : 20.87%) of investee's capital. Chief Executive: Mr. Waqas Mohsin Break up value per share: Rs. 10.00 (2006: Rs. 10.00) Period of financial statements: June 30 ,2007						
First Capital Investment (Private) Limited *			750	750	Not Applicable	AM4+
150,000 (2006 : 150,000) ordinary shares of Rs 10 each The bank holds 3.95 % (2006: 3.95%) of investee's capital. Chief Executive: Mr. Faisal Portik Break up value per share: Not Available (2006: Rs 10.99)						
Himont Chemical (Private) Limited*			1,037	1,037	Not Applicable	
810,000 (2006 : 810,000) ordinary shares of Rs 10 each The bank holds 2.92 % (2006: 2.92%) of investee's capital. Chief Executive: Mr. Sohail A Siddiqui Break up value per share: Not Available (2006: Rs (8.00))						
Sukhchayn Gardens (Private) Limited			273,186	273,186	Not Applicable	
660,000 (2006 : 660,000) ordinary shares of Rs 100 each The bank holds 15.00% (2006 : 15.00%) of investee's capital. Chief Executive: Mr. Shujaat Azeem Break up value per share: Rs. 170.85 Period of financial statements: June 30, 2006						
			<u>1,091,723</u>	<u>1,091,723</u>		

*Fully provided for investments

**3. Preference shares – Listed companies**

Shares of each Rs 10		Name of Company	Rate	2007	2006	2007	2006	Quality of Available for Sale Securities Medium to Long Term Rating Assigned
2007	2006			At Cost Rupees'000	Market Values Rupees'000			
2,249,000	2,249,000	Azgard Nine Limited	8.95% Cumulative	22,490	22,490	18,554	15,743	A+
24,394,111	24,394,611	Maple Leaf Cement Factory Limited	9.75% Cumulative Convertible	243,937	243,937	219,547	231,744	A+
10,000,000	10,000,000	Pak Elektron Limited	9.50% Cumulative Convertible	100,000	100,000	100,000	100,000	A
12,625,000	-	Pak Elektron Limited	9.50% Cumulative Convertible	126,250	-	126,250	-	A
				<u>492,677</u>	<u>366,427</u>	<u>464,351</u>	<u>347,487</u>	

4. Preference shares – Unlisted companies

Shares of each Rs 10		Name of Company	% of Holding	2007	2006	Not Applicable
2007	2006			At Cost Rupees'000	Market Values Rupees'000	
-	9,400,000	Dalda Foods (Pvt) Limited Rate: 8.75% Cumulative for first 4 years	50%	-	94,000	Not Applicable
2,500,000	2,500,000	Fazal Cloth Mills (Pvt) Limited Chief Executive: Mr. S H Naseem Ahmad Rate: 2.5% above six months KIBOR	10%	25,000	25,000	Not Applicable
				<u>25,000</u>	<u>119,000</u>	

5. Details of investments in open ended mutual funds:

Ordinary shares / certificates of Rs 10 each		Name of company/ modaraba/ mutual fund	2007	2006	2007	2006	MFR-3 Star T4-Star
2007	2006		At Cost Rupees'000	Market Values Rupees'000			
Open ended Mutual funds							
1,310,292	2,119,689	Faysal Balanced Growth Fund	80,374	152,638	142,167	213,304	MFR-3 Star
-	2,774,752	Faysal Income & Growth Fund	-	250,000	-	250,005	
2,100,000	-	Faysal Savings Growth Fund	207,411	-	220,815	-	T4-Star
-	145,000	KASB Liquid Fund	-	15,002	-	15,186	
-	5,052,793	NAFA Cash Fund	-	50,000	-	53,155	
154,885,924	172,421,351	National Investment (Unit) Trust	2,670,544	2,895,623	9,254,895	7,733,097	
-	241,051	Pakistan Income Fund	-	7,928	-	12,703	
			<u>2,958,329</u>	<u>3,371,191</u>	<u>9,617,877</u>	<u>8,277,450</u>	

6. Term Finance Certificates - Listed, Secured

Al Zamin Leasing Modaraba - First Tranche	8,660	17,320	3,275	15,868	A
5,094 (2006: 5,094) certificates of Rs. 5,000 each					
Mark-up: Minimum 8.00%, on PLS basis					
Redemption: Three annual installments commencing December 24, 2006					
Maturity: December 2008					
Modaraba Management Company: Al Zamin Modaraba Management (Private) Limited					
CEO of Management Company : Mr. Basheer Ahmed Chowdry					
Balances carried forward	<u>8,660</u>	<u>17,320</u>	<u>3,275</u>	<u>15,868</u>	



	2006 Rupees'000	2006 At Cost Rupees'000	2007 Market Values Rupees'000	2006 Rupees'000	Quality of Available for Sale Securities Medium to Long Term Rating Assigned
Balances brought forward	8,660	17,320	3,275	15,868	
Al Zamin Leasing Modaraba - Second Tranche	49,710	49,710	47,225	45,788	A
9,942 (2006: 9,942) certificates of Rs. 5,000 each					
Mark-up: Minimum 9.5% on PLS Basis (4% above six months KIBOR - Floor 11%)					
Redemption: Three annual installments commencing May 2008					
Maturity: May 2010					
Modaraba Management Company: Al Zamin Modaraba Management (Private) Limited					
CEO of Management Company : Mr. Basheer Ahmed Chowdry					
Azgard Nine	158,073	258,097	164,396	262,175	AA-
31,640 (2006: 51,640) certificates of Rs. 5,000 each					
Mark-up: 2.40% above six months KIBOR rate with no floor and cap					
Redemption: 10 unequal semi-annual installments commencing from the 30th month					
Maturity: September 2012					
Chief Executive Officer: Mr. Ahmad Shaikh					
Bank Al Falah Limited - Second Issue	-	75,582	-	74,070	
Nil (2006: 15,128) certificates of Rs. 5,000 each					
Mark-up: 1.5% above six months KIBOR					
Redemption: 0.25% per annum in first 78 months, balance in 3 semi annual installments of 33.25% each starting from 84th month.					
Maturity: November, 2012					
Chief Executive Officer: Mr. Sirajuddin Aziz					
Bank Al Falah Limited - Third Issue	-	49,981	-	49,106	
Nil (2006: 10,000) certificates of Rs. 5,000 each					
Mark-up: 1.5% above six months KIBOR					
Redemption: 0.25% per annum in first 78 months, balance in 3 semi annual installments of 33.25% each starting from 84th month.					
Maturity: November, 2013					
Chief Executive Officer: Mr. Sirajuddin Aziz					
Bank Al Habib Limited -Unsecured	99,880	99,920	96,384	91,936	AA-
20,000 (2006: 20,000) certificates of Rs. 5,000 each					
Mark-up: 1.5% above six months KIBOR,with floor-3.50% & cap-10%					
Redemption: 0.25% per annum in first 78 months, balance in 3 semi annual installments of 33.25% each starting from 84th month.					
Maturity: July 2012					
Chief Executive Officer: Mr. Abbas D. Habib					
Chanda Oil and Gas Securitization Company Limited	147,485	177,800	152,175	176,254	
40,968 (2006:40,968) certificates of Rs.5,000 each					
Mark-up: 3.25% above three months KIBOR rate, with floor-8.95% & cap-13%					
Redemption: Unequal quarterly installments starting six months from the date issue					
Maturity: August 2011					
Chief Executive Officer: Mr. Khurshid Zafar					
Balances carried forward	463,808	728,410	463,455	715,197	



	2007	2006	2007	2006	Quality of Available for Sale Securities
	Rupees'000	At Cost	Market Values	Rupees'000	Medium to Long Term Rating Assigned
Balances brought forward	463,808	728,410	463,455	715,197	
Crescent Leasing Corporation Limited	-	1,355	-	1,374	
Nil (2006: 271) certificates of Rs. 5,000 each					
Mark-up: 2% above the cut off yield of 5 year Pakistan Investment Bonds; Floor-12% per annum; Cap-15.75% per annum					
Redemption: At maturity					
Maturity: September, 2007					
Chief Executive Officer: Mr. Javed A. Callea					
Crescent Standard Investment Bank Limited (Formerly: Pacific Leasing Limited)	13,264	18,915	13,264	18,915	Suspended
8,000 (2006: 8,000) certificates of Rs. 5,000 each					
Mark-up: 2% above SBP discount rate; Floor-9.75% per annum Cap-13.5% per annum					
Redemption: Six semi – annual installments commencing January 2005					
Maturity: July, 2007					
Chief Executive Officer: Mr. Badr-ud-din Khan					
Jahangir Siddiqui & Co. Limited	3,272	9,817	3,326	9,925	AA+
2,621 (2006: 2,621) certificates of Rs. 5,000 each					
Mark-up: 1.5% above the cut off yield of 5 year Pakistan Investment Bonds; Floor-7.50 % per annum; Cap-13% per annum					
Redemption: Four semi – annual installments commencing October 2006					
Maturity: April, 2008					
Chief Executive Officer: Mr. Munaf Ibrahim					
Jahangir Siddiqui & Co. Limited - Fourth Tranche	49,980	50,000	51,479	51,000	AA+
10,000 (2006: 10,000) certificates of Rs. 5,000 each					
Mark-up: 2.5% above six months KIBOR					
Redemption: 0.18% of principal in the first 54 months, remaining 99.82% in equal installments in 60th & 66th month					
Maturity: May 2012					
Chief Executive Officer: Mr. Munaf Ibrahim					
Nishat Mills Limited	23,976	47,952	23,976	47,952	
12,000 (2006: 12,000) certificates of Rs. 5,000 each					
Mark-up: 1.7% above 6 month Treasury Bills rate					
Redemption: Five semi – annual installments commencing from 36th month					
Maturity: September, 2008					
Chief Executive Officer: Mrs. Naz Mansha					
Pakistan Services Limited	21,663	43,325	21,951	43,586	A
15,173 (2006: 15,173) certificates of Rs. 5,000 each					
Mark-up: 2.25% above SBP discount rate; Floor-9.75% per annum Cap-13.75% per annum					
Redemption: Seven semi – annual installments commencing November 12,2005					
Maturity: November, 2008					
Chief Executive Officer: Mr. Murtaza Hashwani					
Balances carried forward	575,963	899,774	577,451	887,949	



	2007	2006	2007	2006	Quality of Available for Sale Securities
	Rupees'000	At Cost	Market Values	Rupees'000	Medium to Long Term Rating Assigned
Balances brought forward	575,963	899,774	577,451	887,949	
Trust Leasing & Investment Bank Limited - First Tranche	33,014	49,521	32,829	50,066	AA
16,507 (2006: 16,507) certificates of Rs. 5,000 each					
Mark-up: 3% above six months KIBOR rate; Floor-6% per annum Cap-10% per annum					
Redemption: Ten semi – annual installments commencing 6 months from date of issue					
Maturity: July 2009					
Chief Executive Officer: Mr. Jawaid B. Shaikh					
Trust Leasing & Investment Bank Limited - Second Tranche	73,350	97,800	74,084	99,228	AA
24,450 (2006: 24,450) certificates of Rs. 5,000 each					
Mark-up: 2% above six months KIBOR rate; with no floor and no cap					
Redemption: Ten semi – annual installments commencing 6 months from date of issue					
Maturity: November 2010					
Chief Executive Officer: Mr. Jawaid B. Shaikh					
United Bank Limited - First Issue	249,712	249,808	230,359	229,598	AA
50,000 (2006: 50,000) certificates of Rs. 5,000 each					
Mark-up: 8.45% per annum					
Redemption: 0.25% per annum in first 78 months, balance in 3 semi annual installments of 33.25% each starting from 84th month.					
Maturity: July 2012					
Chief Executive Officer: Mr. Atif R. Bokhari					
United Bank Limited - Second Issue	99,990	99,994	93,181	94,754	AA
20,000 (2006: 20,000) certificates of Rs. 5,000 each					
Mark-up: 9.49% per annum					
Redemption: At maturity					
Maturity: March 2013					
Chief Executive Officer: Mr. Atif R. Bokhari					
United Bank Limited - Third Issue	-	82,160	-	82,259	
Nil (2006: 16,432) certificates of Rs. 5,000 each					
Mark-up: 1.70% above six months KIBOR rate					
Redemption: 0.20% of principal in the first 60 months and remaining in six semi annual installments of 16.33% each, starting from 66th month					
Maturity: September 2014					
Chief Executive Officer: Mr. Atif R. Bokhari					
Balances carried forward	<u>1,032,029</u>	<u>1,479,057</u>	<u>1,007,904</u>	<u>1,443,854</u>	



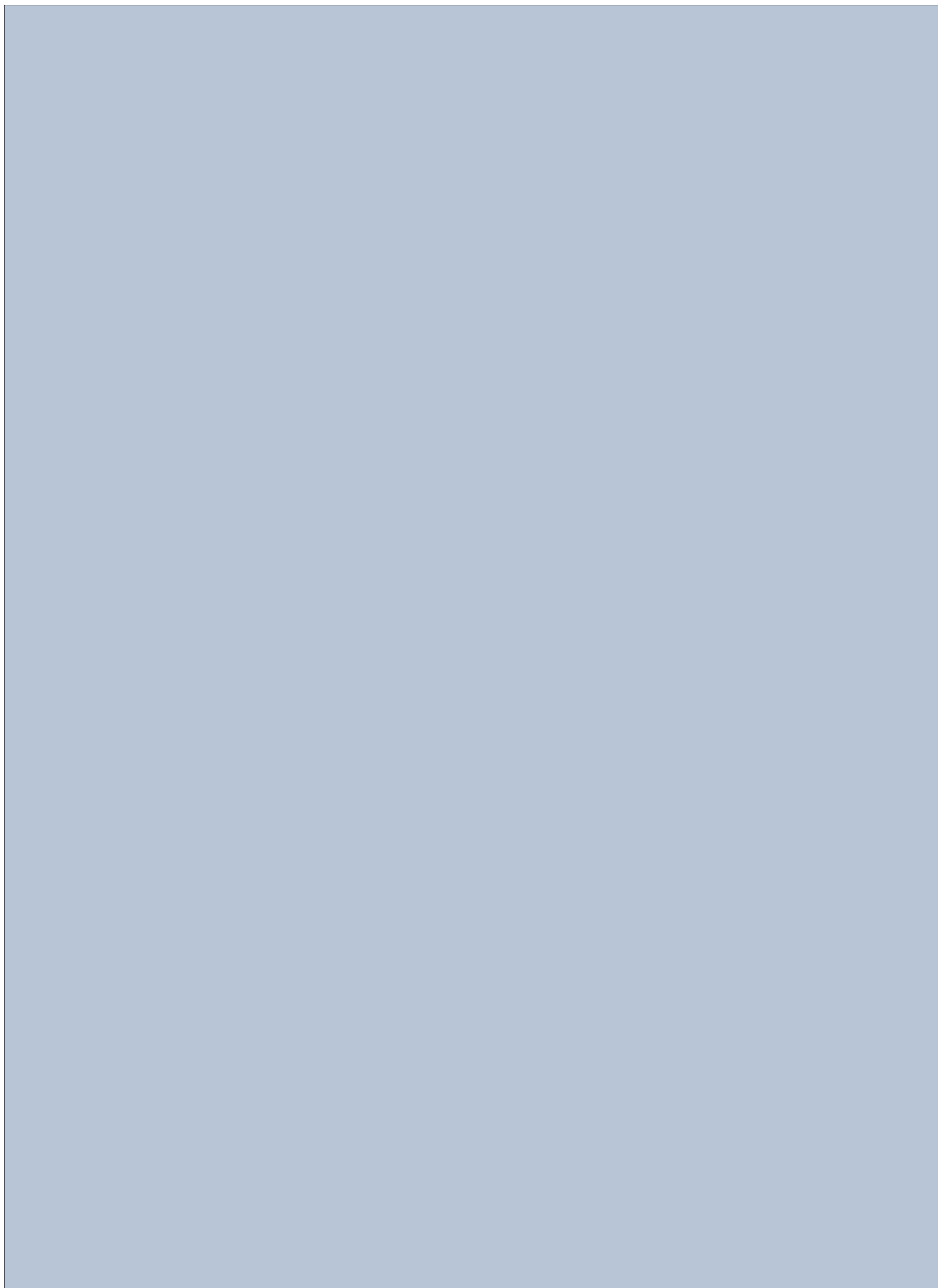
	2007	2006	2007	2006	Quality of Available for Sale Securities
	Rupees'000	At Cost	Market Values	Values	Medium to Long Term Rating Assigned
		Rupees'000	Rupees'000	Rupees'000	
Balances brought forward	1,032,029	1,479,057	1,007,904	1,443,854	
Naimat Bisal Oil and Gas Securitization Company Limited	55,329	79,039	56,463	78,888	A+
22,000 (2006: 22,000) certificates of Rs. 5,000 each					
Mark-up: 2.50% above six months KIBOR rate, Floor-7.50%, Cap-13%					
Redemption: 3% of principal during first six months, and remaining 97% in 54 equal monthly installments thereafter.					
Maturity: April, 2010					
Chief Executive Officer: Mr. Intisar-ul-Hasan Alvi					
Financial Receivables Securitization Co. Ltd.	99,980	100,000	103,479	100,000	AA-
20,000 (2006: 20,000) certificates of Rs. 5,000 each					
Mark-up: 2.00% above six months KIBOR rate, Floor-8%, Cap-16%					
Redemption: Equal Semi annual installment with a grace period of 1 year					
Maturity: December 2013					
Chief Executive Officer: Mr. S. M. Nasir Raza					
Tele Card Limited	255,900	329,217	217,668	322,633	BBB
70,233 (2006 : 70,263) certificates of Rs. 5,000 each					
Mark-up: 3.75% above six months KIBOR rate, with no floor and no cap					
Redemption: Ten unequal semi-annual installments commencing 18 months from the last date of public subscription.					
Maturity: April 2011					
Chief Executive Officer: Mr. Shahid Feroz					
	<u>1,443,238</u>	<u>1,987,313</u>	<u>1,385,514</u>	<u>1,945,375</u>	
Term Finance Certificates - Unlisted					
Dewan Cement Ltd. (formerly Pakland Cement Limited)	412,459	504,397	Not applicable		
Mark-up: 2.50% above six months KIBOR rate, with no floor and no cap					
Redemption: Repayment in 19 unequal semi annual installments upto July 2013					
Maturity: July 2013					
Chief Executive Officer: Mr. Dewan M. Yousuf Farooqui					
Dewan Hattar Cement Ltd. (formerly Saadi Cement Limited)	494,342	594,357	Not applicable		
Mark-up: 2.50% above six months KIBOR rate, with no floor and no cap					
Redemption: Repayment in 19 unequal semi annual installments upto July 2013					
Maturity: July 2013					
Chief Executive Officer: Mr. Dewan M. Yousuf Farooqui					
	<u>906,801</u>	<u>1,098,754</u>			



Statement showing written-off loans or any other financial relief of five hundred thousand rupees or above provide during the year ended December 31, 2007 as referred to in note 12.8 to the financial statements.

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's/ Husband's name	Outstanding Liabilities at beginning of year		Liabilities at beginning of year		Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Accrued Interest Not Debited	Total				
1	2	3	4	5	6	7	8	9	10	11	12
1	M/s Nimer Industrial Chemicals Limited	Mr. Louis Tucker Link (Non-resident)	N/A	25,466	-	30,247	55,713	17,466	-	30,247	47,713
		Mr. Abdul Jalil Jamil 270-45-348601									
		Mr. George Rapport (Non-resident)									
		Mr. Sheikh Amar Hameed 274-49-355141									
		Mr. Saeeduzaman 271-49-197832									
		Mr. Javed S Arif 517-86-113782									
		Mr. Zafar Mahmood 502-69-184969									
TOTAL:				25,466	-	30,247	55,713	17,466	-	30,247	47,713

-----Rupees in '000-----





FAYSAL BANK

Capitalizing on Windows of Opportunity

We remain singularly focused on securing the interest of our stakeholders and helping foster growth of their capital by capitalizing on every ethical window of opportunity. Reinforced by our superior banking solutions, we take advantage of latest growth methodologies to maintain a steady growth rate of financial resources for our customers.



Directors' Report On Consolidated Financial Statements



FAYSAL BANK

As Salam O Alaikum Wa Rahmatullah Wa Baraktouh

On behalf of the Board of Directors, I am pleased to present the Thirteenth Annual Report of Faysal Bank Limited (FBL) and its subsidiary along with the audited financial statements and the Auditor's Report thereon for the year ended December 31, 2007.

Although, Faysal Bank Limited itself is a subsidiary of Ithmaar Bank BSC, Bahrain, the attached accounts represent the operations of the group companies in Pakistan only, with FBL as the parent. Therefore for the purpose of financial statements group is defined as below:

Holding Company
Faysal Bank Limited

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

FMSL is a company formed to float and manage modarabas under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. Till last year Fayzan Manufacturing Modaraba (FMM) managed by FMSL was also a subsidiary. However on completing its term FMM was liquidated during the year. All winding up formalities of FMM have been completed except for issuance of winding up certificate by Registrar of Modaraba.

Due to winding up of modaraba, FMSL is now expected to launch another venture in near future.

OPERATING RESULTS:

Group's efforts are well reflected in our financial performance. Adjusting for non-recurring/one-off items, group's operating income increased by 14%.

FINANCIAL HIGHLIGHTS

	2007	2006
	Rupees in million	
Operating Profit	4,725	4,544
Provision for non-performing advances	<u>2,079</u>	<u>622</u>
Profit before tax	2,646	3,922
Provision for taxation	<u>429</u>	<u>1,054</u>
Profit after tax	2,217	2,868
Minority Interest	<u>3</u>	<u>77</u>
Profit after tax attributable to equity holders	2,214	2,795
Un-appropriated profit brought forward	<u>1,897</u>	<u>2,019</u>
Profit available for Appropriations:	4,111	4,810

2007 2006
Rupees in million

Appropriations:

- Transfer to statutory reserve	455	563
- Transfer to capital market reserve	33	-
- Bonus shares issued -2005	1,059	553
- Cash dividend - final 2006 @ 25% (2005 @ 25%)	1,059	737
- interim Nil (2006 @ 25%)	-	1,059
	<u>2,606</u>	<u>2,912</u>
Unappropriated profit carried forward	<u>1,505</u>	<u>1,898</u>

Earning per share attributable to equity holders Rs. 4.18 5.27

Non-adjusting events:

Transfer to Capital Market reserve	-	33
Proposed final cash dividend @ 25% (2006:@25%)	1,324	1,059

Current year results cannot be fairly compared with 2006 unless the large unusual/one-offs are neutralized. For instance, SBP withdrew the benefit of FSV (collaterals) in making provisions resulting alone in additional provisions of Rs.1,825 million. Accordingly, following is the position without unusual items:

	2007	2006
	Rupees in million	
Profit after tax attributable to equity holders	2,214	2,795
Additional Provision required due to Amendment by SBP in provisioning requirements/Specific one-off last year	1,825	173
Unrecognized Realized suspended income	-	(161)
10% redemption of NIT Units resulting in capital gains of	(762)	-
Gain on sale of one-off property sold	-	(213)
Compensation income on delayed Income Tax Refunds	-	(117)
One off item in Admin Expenses	304	-
Tax effect related to unusual items as above (approx)	(700)	60
Adjusted Normal Profit After Tax	<u>2,881</u>	<u>2,537</u>
Increase over 2006		14%

The total assets and the advances portfolio show an impressive growth of over 22% and 17% to Rs.141 billion and Rs.87 billion



Directors' Report On Consolidated Financial Statements

respectively. However, the increase in investments and Lending to FIs of 40% and 53% respectively predominantly represented the deployment of incremental wholesale deposits. The surplus on revaluation of investments has also increased by Rs 1.2 billion mainly due to increase in unit price (from Rs 44.85 to Rs 59.75) of NIT. This enhancement is reflected as increase in investments and surplus on revaluation.

On the liability side deposits have grown by 37% to Rs 101.88 billion (2006: Rs 74.19 billion) and borrowings from financial institutions have reduced by 33% to Rs 10 billion (2006: Rs 15 billion).

The group successfully made IPO of Rs.250 million (Tier II capital) which together with the Pre-IPO of Rs.750 million effected last year aggregated to Rs 1 billion.

Core capital and reserves of the group at the close of December 31, 2007 are positioned at Rs 10.5 billion as against Rs 9.3 billion at December 31, 2006.

CREDIT RATING OF THE HOLDING COMPANY

Based on superior performance, the holding company has been assigned the highest short term rating of A1+ (A One Plus) and AA (Double A) for the long term by JCR-VIS (credit rating company) These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments. It is pertinent here to note that another major credit rating company of Pakistan. PACRA has also assigned the above ratings to the holding company.

CORPORATE GOVERNANCE

- (i) The group has implemented the requirements of the Code of Corporate Governance (the Code) relevant to the year ended December 31, 2007. A prescribed statement by the management along with the auditors' review report thereon forms part of this Annual Report.
- (ii) Statement under clause xix of the Code:
 - a. The financial statements prepared by the management of the group present fairly the state of affairs, the results of its operations, cash flows and changes in equity.
 - b. Proper books of account of the group have been maintained.
 - c. Appropriate accounting policies have consistently been applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.
 - d. International Financial Reporting Standards, as applicable to banks in Pakistan, have been followed in preparation of financial statements without any material departure.
 - e. The system of internal control is sound in design and has been effectively implemented and monitored. Measures are being considered to further strengthen it.
 - f. There are no doubts about the group continuing as a going concern.

- g. There has been no material departure from the best practices of corporate governance as detailed in the listing regulations.
- h. Summarised key operating and financial data of the last six years is tabulated in respective Annual reports of each group company.
- i. The values of investments of provident and gratuity funds of the holding company are Rs. 50.16 million and Rs.28.39 million respectively as per the audited financial statements.
- j. The details of Board Meetings held and attended by the directors' forms part of this Annual Report.
- k. The prescribed pattern of holding company shareholding is given as part of this Annual Report. The movement in the directors' shareholding if any is disclosed in the footnote to the pattern of shareholding.

FUTURE OUTLOOK:

We are hugely optimistic on the future prospects of our business. Pakistan remains one of the low banked markets in the region. This coupled with SBP initiated conducive regulatory environment has created a host of opportunities going forward. Foreign investors and reputable global institutions have also expressed their confidence in the market by making an entry in the country's banking sector. Given the commitment of its sponsors, infrastructure, technology platform and franchise value, the group is very well positioned to capitalize on these opportunities. We also believe that changing dynamics of the industry are positively supportive to group's position in the industry.

In 2008 our focus remains on prudent growth, cost efficiencies, effective controls, continued investment in technology & infrastructure and further deepening of the culture of diligence and corporate responsibility.

ACKNOWLEDGEMENT

On behalf of the Board and the management, I would like to express my sincere thanks to the customers and shareholders of the group for the confidence they continue to repose in us. Sincere thanks is due to the management and staff who whole-heartedly worked hard for the improvement of the group's performance and good corporate governance. I would like to also express my appreciation to the State Bank of Pakistan for its continued support and guidance.

Allah the Almighty is the Purveyor of all Success.

On behalf of the Board of Directors

Dubai

Dated: February 21, 2008

President & CEO (Acting)

Auditor's Report to the Members



FAYSAL BANK

We have audited the annexed consolidated statements comprising consolidated balance sheet of Faysal Bank Limited as at 31 December 2007 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof for the year then ended. These consolidated financial statements include unaudited certified returns from the branches, except for 15 branches which have been audited by us. The financial statements of subsidiary company Faysal Management Services Limited were audited by another firm of Chartered Accountants whose report has been furnished to us and our opinion in so far as it relates to the amounts included for such company, is based solely on the report of such auditor.

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

We conducted our audit in accordance with the 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 above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly the financial position of Faysal Bank Limited as at December 2007, and the results of its operations, its cash flow and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Date: February 21, 2008
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants



Heading Towards a Brighter Future **FAYSAL BANK**

Serving the interests of our stakeholders dutifully and steadfastly in the national arena, we at Faysal Bank have our eyes set on brighter horizons of the nations' economic well-being and remain dedicated allies to the country's progress and prosperity.



Faysal Bank Limited and its Subsidiaries Consolidated Balance Sheet

As at December 31, 2007



FAYSAL BANK

	Note	2007	2006
		Rupees '000	
ASSETS			
Cash and balances with treasury banks	9	6,872,035	7,207,998
Balances with other banks	10	3,708,451	2,883,040
Lendings to financial institutions	11	7,078,102	4,608,205
Investments	12	31,463,993	22,472,012
Advances	13	87,346,401	74,468,644
Operating fixed assets	14	2,514,959	2,239,392
Deferred tax asset - net		-	-
Other assets	15	2,204,849	1,552,111
		141,188,790	115,431,402
LIABILITIES			
Bills payable	16	2,406,927	4,516,125
Borrowings from financial institutions	17	9,995,855	14,965,037
Deposits and other accounts	18	101,879,244	74,194,279
Sub-ordinated loans	19	1,000,000	-
Liabilities against assets subject to finance lease	20	7,827	14,664
Deferred tax liabilities - net	21	2,691,966	1,841,651
Other liabilities	22	6,951,750	5,924,656
		124,933,569	101,456,412
NET ASSETS		16,255,221	13,974,990
REPRESENTED BY			
Share capital	23	5,296,445	4,237,157
Reserves	24	3,567,033	3,079,527
Unappropriated profit		1,505,053	1,897,574
		10,368,531	9,214,258
Minority interest		75,333	96,425
		10,443,864	9,310,683
Surplus on revaluation of assets	25	5,811,357	4,664,307
		16,255,221	13,974,990
CONTINGENCIES AND COMMITMENTS	26		

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

Acting President & CEO

Director

Director

Director



FAYSAL BANK

Faysal Bank Limited and its Subsidiaries Consolidated Profit and Loss Account

For the year ended December 31, 2007

	Note	2007	2006
		Rupees '000	
Mark-up / return / interest earned	28	11,610,781	9,877,103
Mark-up / return / interest expensed	29	7,447,539	6,093,210
Net mark-up / interest income		4,163,242	3,783,893
Provision against non-performing loans and advances	13.5	1,797,432	517,027
Provision for consumer loans - general	13.6	74,537	105,305
Provision / (Reversal) for diminution in the value of investments	12.3	207,075	(792)
Bad debts written off directly	13.7	-	67
		2,079,044	621,607
Net mark-up / interest income after provisions		2,084,198	3,162,286
Non mark-up / interest income			
Fee, commission and brokerage income		744,508	604,378
Dividend income		1,191,521	1,113,132
Income from dealing in foreign currencies		313,597	120,992
Gain on sale of securities	30	1,070,213	330,061
Unrealised gain on revaluation of investments classified as held-for-trading		2,984	647
Other income	31	43,821	447,708
Total non mark-up / interest income		3,366,644	2,616,918
		5,450,842	5,779,204
Non mark-up / interest expenses			
Administrative expenses	32	2,798,966	1,871,250
Other provisions	15.3	6,061	-
Other charges	33	9,855	32,857
Total non mark-up / interest expenses		2,814,882	1,904,107
		2,635,960	3,875,097
Extraordinary items / unusual items		-	-
Share of income from associates		9,631	47,509
Profit before taxation		2,645,591	3,922,606
Taxation - Current	34	286,688	387,620
- Prior years		(48,433)	93,118
- Deferred		190,480	573,973
		428,735	1,054,711
Profit after taxation		2,216,856	2,867,895
Profit attributable to minority interest		3,294	76,878
Profit attributable to equity holders		2,213,562	2,791,017
		2,216,856	2,867,895
Basic and diluted earnings per share - Rupees	35	4.18	5.27

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

Acting President & CEO

Director

Director

Director

Faysal Bank Limited and its Subsidiaries
Consolidated Cash Flow Statement
For the year ended December 31, 2007



FAYSAL BANK

	Note	2007	2006
		Rupees '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		2,645,591	3,922,606
Less: Dividend income		(1,191,521)	(1,113,132)
Profit on available for sale securities		(1,333,820)	(1,631,964)
		<u>120,250</u>	<u>1,177,510</u>
Adjustments for non-cash charges			
Depreciation / Amortisation		339,198	193,784
Provision against non-performing advances		1,797,432	517,027
Provision for consumer loans - general		74,537	105,305
Provision / (Reversal) for diminution in value of investments		207,075	(792)
Provision for other assets		6,061	-
Bad debts written off directly		-	67
Unrealised gain on revaluation of held-for-trading financial instruments		(2,984)	(647)
Gain on disposal of fixed assets		(3,171)	(320,295)
Assets charged off - intangibles		-	-
Finance charges on leased assets		725	1,529
Exchange gain		(349,848)	(220,005)
		<u>2,069,025</u>	<u>275,973</u>
		<u>2,189,275</u>	<u>1,453,483</u>
(Increase) / Decrease in operating assets			
Lendings to financial institutions		(1,669,897)	6,134,636
Held-for-trading securities		26,960	(26,960)
Advances		(14,749,726)	(11,737,902)
Other assets (excluding advance taxation)		(662,103)	(79,082)
		<u>(17,054,766)</u>	<u>(5,709,308)</u>
Increase / (Decrease) in operating liabilities			
Bills payable		(2,109,198)	3,322,816
Borrowings from financial institutions		(4,969,182)	(330,693)
Deposits		27,684,965	(401,285)
Other liabilities (excluding provision for taxation)		1,793,903	1,085,173
		<u>22,400,488</u>	<u>3,676,011</u>
		<u>7,534,997</u>	<u>(579,814)</u>
Income tax (paid) / refund received		(254,412)	958,793
Net cash flow from operating activities		<u>7,280,585</u>	<u>378,979</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(7,416,149)	(45,596)
Dividends received		1,198,318	1,108,693
Profit received on available for sale securities		1,330,329	1,623,690
Fixed capital expenditure		(634,972)	(866,584)
Sale proceeds from disposal of fixed assets		23,378	479,787
Net cash flow from investing activities		<u>(5,499,096)</u>	<u>2,299,990</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Payments of lease obligations		(7,562)	(109,414)
Sub-ordinated loans		250,000	750,000
Dividend paid to minority shareholders		(24,386)	(409,530)
Dividends paid		(1,059,941)	(1,781,605)
Net cash used in financing activities		<u>(841,889)</u>	<u>(1,550,549)</u>
Increase in cash and cash equivalents		<u>939,600</u>	<u>1,128,420</u>
Cash and cash equivalents at beginning of the year		<u>10,091,038</u>	<u>8,742,613</u>
Effects of exchange rate changes on cash and cash equivalents		349,848	220,005
Cash and cash equivalents at beginning of the year		<u>10,440,886</u>	<u>8,962,618</u>
Cash and cash equivalents at end of the year	36	<u>11,380,486</u>	<u>10,091,038</u>

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

Acting President & CEO

Director

Director

Director



FAYSAL BANK

Faysal Bank Limited and its Subsidiaries Consolidated Statement of Changes in Equity

For the year ended December 31, 2007

	Attributable to the equity holders						Total	Minority Interest	Total Equity
	Share Capital	Reserves				Unappropriated Profit			
		Share Premium	Reserve for issue of bonus shares	Statutory Reserve	Capital Market Reserve				
----- Rupees '000 -----									
Balance at December 31, 2005	3,684,484	-	-	2,159,754	356,457	2,018,732	8,219,427	429,077	8,648,504
Final cash dividend for the year ended December 31, 2005 declared subsequent to the year end	-	-	-	-	-	(736,897)	(736,897)	-	(736,897)
Transfer to reserve for issue of bonus shares declared subsequent to the year end	-	-	552,673	-	-	(552,673)	-	-	-
Capital Redemption	-	-	-	-	-	-	-	(289,674)	(289,674)
Dividend paid	-	-	-	-	-	-	-	(119,856)	(119,856)
Bonus shares issued	552,673	-	(552,673)	-	-	-	-	-	-
Profit after tax for the year ended December 31, 2006	-	-	-	-	-	2,791,017	2,791,017	76,878	2,867,895
Interim cash dividend @ Rs. 2.50 per share	-	-	-	-	-	(1,059,289)	(1,059,289)	-	(1,059,289)
Transfer to statutory reserve	-	-	-	563,316	-	(563,316)	-	-	-
Balance at December 31, 2006	4,237,157	-	-	2,723,070	356,457	1,897,574	9,214,258	96,425	9,310,683
Final cash dividend for the year ended December 31, 2006 declared subsequent to the year end	-	-	-	-	-	(1,059,289)	(1,059,289)	-	(1,059,289)
Transfer to capital market reserve	-	-	-	-	33,085	(33,085)	-	-	-
Transfer to reserve for issue of bonus shares	-	-	1,059,288	-	-	(1,059,288)	-	-	-
Bonus shares issued	1,059,288	-	(1,059,288)	-	-	-	-	-	-
Profit after tax for the year ended December 31, 2007	-	-	-	-	-	2,213,562	2,213,562	3,294	2,216,856
Dividend paid	-	-	-	-	-	-	-	(24,386)	(24,386)
Transfer to statutory reserve	-	-	-	454,421	-	(454,421)	-	-	-
Balance at December 31, 2007	5,296,445	-	-	3,177,491	389,542	1,505,053	10,368,531	75,333	10,443,864

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

Acting President & CEO

Director

Director

Director



1. THE GROUP AND ITS OPERATIONS

The group consists of following entities:

Holding Company

Faysal Bank Limited (FBL, the bank)

Subsidiary Company

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

Faysal Bank Limited was incorporated in Pakistan on October 3, 1994 as a public limited company under the Companies Ordinance, 1984. Its shares are listed in Pakistan on Karachi and Lahore Stock Exchanges. The bank is engaged in Commercial, Consumer and Investment banking activities. The bank has branch network of 105 branches (2006: 75 branches) and operates 5 (2006: NIL) service centres.

The Registered Office (Head Office) of the bank is located at Shahra-e-Faisal, Karachi.

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

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

Fayzan Manufacturing Modaraba (FMM) which was a subsidiary in 2006 was liquidated during the year. The modaraba had finished its term on September 27, 2006 and redeemed its capital. The liquidator conducted the final meeting on December 12, 2007 to approve liquidators account of Fayzan Manufacturing Modaraba. All winding up legal requirements have been completed as at December 31, 2007 except for issuance of winding up certificate which is awaited from the Registrar of Modarabas.

2. BASIS OF PRESENTATION

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

3. BASIS OF CONSOLIDATION

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

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

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

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

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

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

**4. STATEMENT OF COMPLIANCE**

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

The State Bank of Pakistan 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). Accordingly, the requirements of these standards and their relevant interpretations (issued by the Standards Interpretation Committee - SICs, and the International Financial Reporting Interpretations Committee - IFRICs) have not been considered in the preparation of these consolidated financial statements. However, the investments have been classified in accordance with the categories prescribed by the State Bank of Pakistan.

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

5. BASIS OF MEASUREMENT

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

- Derivative financial instruments are measured at fair value; and
- Investments classified as held for trading and available-for-sale are also measured at fair values.

6. FUNCTIONAL AND PRESENTATION CURRENCY

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

7. USE OF ESTIMATES AND JUDGEMENTS

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

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

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

8. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**8.1 Financial assets and liabilities**

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

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

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

8.2 Cash and cash equivalents

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

8.3 Lendings to / borrowings from financial institutions

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

(a) Sale under repurchase obligation

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

(b) Purchase under resale obligation

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

(c) Other borrowings

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



8.4 Investments

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

(a) Held for trading (HFT)

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

(b) Held to maturity (HTM)

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

(c) Available-for-sale (AFS)

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

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

Investment in associates as defined in international accounting standards are accounted for by the equity method of accounting and are initially recognised at cost, thereafter adjusted for the post acquisition change in the group's share of net assets of the associate. Share of profit and loss of associate is recognised in the consolidated profit and loss account.

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

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

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

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

8.5 Advances

These are stated net of specific and general provision.

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

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

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

8.6 Operating fixed assets

Owned

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

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

Capital work in progress is stated at cost.

Assets subject to finance lease

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

Intangibles

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

Subsequent costs

Renewals and improvements are included in an asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other expenses are charged to income during the financial period in which they are incurred.

*Depreciation and amortisation*

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

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

Impairment of operating fixed assets

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

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

8.7 Operating leases

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

8.8 Taxation

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

Current

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

Deferred

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

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

8.9 Deposits

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

8.10 Provisions and Impairment

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

The carrying amount of the group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, an impairment loss is recognised in the profit and loss account.

8.11 Staff retirement benefits

The group operates:

- a) an approved funded gratuity scheme for all its permanent employees. Contributions are made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to income. Cumulative net unrecognised actuarial gains and losses at the end of the previous year are charged or credited to income over the expected average remaining working lives of the employees.
- b) an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the group and the employees at the rate of 10 percent of basic salary.

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

8.12 Revenue recognition

- a) Profit and return on regular advances and investments is recognised on accrual basis. Profit on classified advances and investments is recognised on receipt basis. Gains and losses on termination and documentation charges are recognised on receipt basis.
- b) Fee, commission and brokerage income is recognised when earned.
- c) Dividend income from investments is recognised when the group's right to receive the dividend is established.
- d) Gains and losses on sale of investments and operating fixed assets are recognised in the profit and loss account, when the risks and rewards of ownership are transferred.
- e) All exchange differences are recognised in income.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007



FAYSAL BANK

8.13 Dividends and appropriation to reserves

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

8.14 Derivative financial instruments

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

8.15 Foreign currencies

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

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

8.16 Off Setting

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

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

8.17 Segment Reporting

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

8.17.1 Business Segments

Corporate finance

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

Trading and Sales

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

Retail banking

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

Commercial banking

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

8.17.2 Geographical segment

The group conducts all its operations in Pakistan.

	Note	2007	2006
Rupees '000			
9. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
- local currency		1,190,475	607,804
- foreign currency		334,029	121,752
With State Bank of Pakistan in			
- local currency current account	9.1	4,302,738	4,854,587
- foreign currency current account	9.2	434,975	386,701
- foreign currency deposit account	9.3	455,699	1,192,336
With National Bank of Pakistan in			
- local currency current account		154,119	44,288
- local currency deposit account		-	530
		6,872,035	7,207,998



- 9.1** This represents current account maintained with SBP under the requirements of section 22 (Cash Reserve Requirement) of the Banking Companies Ordinance, 1962.
- 9.2** This represents cash reserve of 5% on FE 25 Deposits, maintained with SBP under the requirements of BSD Circular No. 18 dated March 31, 2001.
- 9.3** This represents special cash reserve maintained with SBP under the requirements of BSD Circular No. 09 of 2007 dated December 03, 2007 and local USD Clearing Account maintained with the SBP to facilitate USD Clearing. Profit rates on these balances are fixed on monthly basis by SBP. Profit ranging between 3.71% to 4.72% per annum (2006: 3.39% to 4.39% per annum) was earned during the year.

	Note	2007	2006
Rupees '000			
10. BALANCES WITH OTHER BANKS			
In Pakistan			
- Current accounts		18,583	223,720
- Deposit accounts		-	43
Outside Pakistan			
- Current accounts		869,753	2,367,734
- Deposit accounts	10.1	2,820,115	291,543
		<u>3,708,451</u>	<u>2,883,040</u>

- 10.1** As of December 31, 2007, there were no placements with associated companies. As at the previous year end, term placement of USD 1.75 million was made with associated company @ 5.75% per annum.

	Note	2007	2006
Rupees '000			
11. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	11.2	800,000	-
Repurchase agreement lendings (Reverse Repo)	11.3	4,578,102	3,808,205
Certificates of investment	11.4	1,700,000	800,000
		<u>7,078,102</u>	<u>4,608,205</u>

11.1 PARTICULARS OF LENDING

In local currency	7,078,102	4,608,205
In foreign currencies	-	-
	<u>7,078,102</u>	<u>4,608,205</u>

- 11.2** Call money lendings have been extended to banks at rates ranging from 9.8% to 10.0% per annum (2006:Nil), maturing upto March, 2008.

11.3 Securities held as collateral against lendings to financial institutions

	2007			2006		
	Held by group	Further given as collateral	Total	Held by group	Further given as collateral	Total
----- Rupees '000 -----						
Market Treasury Bills - note 11.3.1	2,504,602	-	2,504,602	3,208,205	-	3,208,205
Pakistan Investments Bonds - note 11.3.2	2,073,500	-	2,073,500	600,000	-	600,000
	<u>4,578,102</u>	-	<u>4,578,102</u>	<u>3,808,205</u>	-	<u>3,808,205</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007



FAYSAL BANK

11.3.1 Market Treasury Bills have been purchased under resale agreements at rates ranging from 8.90% to 9.95% (2006: 8.68% to 9.40% per annum) with maturities up to March 2008. The market value of these securities is Rs. 2.56 billion (2006 : Rs. 3.23 billion).

11.3.2 Pakistan Investment Bonds have been purchased under resale agreements at the rates ranging from 9.30% to 9.55% per annum (2006: 8.95% to 9.25% per annum) with maturities up to March 2008. The market value of these securities is Rs 2.19 billion (2006 : Rs. 643 million).

11.4 These represent placements in certificates of investments with banks and financial institutions at rates ranging from 10.4% to 11.0% per annum (2006: 12.6% to 13.5% per annum) with maturities up to March 2008.

12. INVESTMENTS

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

12.1 Investments by type	2007			2006		
	Held by group	Given as collateral	Total	Held by group	Given as collateral	Total
----- Rupees '000 -----						
Held for trading securities						
Fully paid up ordinary shares	-	-	-	26,960	-	26,960
Available-for-sale securities						
Market Treasury Bills	16,899,271	-	16,899,271	7,003,298	348,375	7,351,673
Pakistan Investment Bonds	1,174,945	-	1,174,945	1,192,927	-	1,192,927
Units of open ended mutual funds						
- National Investment (Unit) Trust - note 12.2.4	2,670,544	-	2,670,544	2,895,623	-	2,895,623
- Pakistan Income Fund	-	-	-	7,928	-	7,928
- Faysal Balanced Growth Fund	80,374	-	80,374	152,638	-	152,638
- Faysal Income & Growth Fund	-	-	-	295,400	-	295,400
- Faysal Saving Growth Fund	207,411	-	207,411	-	-	-
- NAFA Cash Fund	-	-	-	50,000	-	50,000
- KASB Liquid Fund	-	-	-	15,002	-	15,002
Fully paid up ordinary shares / modaraba certificates / units of closed end mutual funds	1,421,466	-	1,421,466	2,382,526	-	2,382,526
Fully paid up preference shares	517,677	-	517,677	485,427	-	485,427
Term finance certificates and bonds	2,350,039	-	2,350,039	3,086,067	-	3,086,067
	25,321,727	-	25,321,727	17,566,836	348,375	17,915,211
Associates						
Shares of Faysal Asset Management Ltd.	33,885	-	33,885	24,254	-	24,254
Investments at cost	25,355,612	-	25,355,612	17,618,050	348,375	17,966,425
Provision for diminution in the value of investments - note 12.3	(280,313)	-	(280,313)	(73,238)	-	(73,238)
Investments (Net of Provision)	25,075,299	-	25,075,299	17,544,812	348,375	17,893,187
Surplus on revaluation of available for sale securities (net) - note 25	6,388,694	-	6,388,694	4,580,614	1,195	4,581,809
Deficit on revaluation of held for trading financial instruments / securities	-	-	-	(2,984)	-	(2,984)
Total investments at market value	31,463,993	-	31,463,993	22,122,442	349,570	22,472,012



	2007	2006
	Rupees '000	
12.1.1 Strategic Investments		
Available-for-sale securities - Listed		
Fully paid up ordinary shares / modaraba certificates / units of closed end mutual funds	238,981	235,890
Units of open ended mutual funds	80,374	100,000
Available-for-sale securities - Unlisted		
Fully paid up ordinary shares	966,936	966,936
Associate	33,885	24,254
	1,320,176	1,327,080
Provision for diminution in the value of investments	(160,440)	-
	1,159,736	1,327,080
Surplus on revaluation of investments	133,960	69,621
	1,293,696	1,396,701

Strategic investments are those which the group makes with the intention of holding them for a long term duration and are marked as such at the time of investment. Disposals of such investments can only be made subject to fulfillments of criteria prescribed by the SBP in the Prudential Regulations. The exposure limits for equity investments prescribed by the SBP does not apply to these investments. Further, as per SBP instructions in BPD Circular Letter No 16 of 2006 dated August 01, 2006, investments marked as strategic have a minimum retention period of 5 years from the original purchase date, however, these can be sold before the stipulated period with the prior permission of SBP.

	Note	2007	2006
		Rupees '000	
12.2 Investments by segment			
Federal Government Securities			
- Market Treasury Bills	12.2.1	16,899,271	7,351,673
- Pakistan Investment Bonds	12.2.2	1,174,945	1,192,927
Fully Paid up Ordinary Shares / Modaraba Certificates			
/ Closed end Mutual Fund Units			
- Listed companies/ modarabas/ mutual funds		471,378	1,450,017
- Unlisted companies		983,723	983,723
Fully Paid up Preference Shares			
- Listed companies		492,927	366,427
- Unlisted companies		25,000	119,000
Term Finance Certificates and Bonds			
- Listed TFCs		1,443,237	1,987,313
- Unlisted TFCs	12.2.3	906,802	1,098,754
Open ended Mutual Fund Units		2,958,329	3,416,591
		25,355,612	17,966,425
Provision for diminution in the value of investments	12.3	(280,313)	(73,238)
Investments (Net of Provision)		25,075,299	17,893,187
Surplus on revaluation of available for sale securities	25	6,388,694	4,581,809
Deficit on revaluation of held for trading financial instruments	12.5	-	(2,984)
Total Investments at market value		31,463,993	22,472,012

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- 12.2.1** Market Treasury Bills have a tenor of one year. Group's yield on these instruments ranges from 9.0% to 9.4% per annum (2006: 8.8% per annum) with maturities up to September 2008.
- 12.2.2** Pakistan Investment Bonds are for period of 10 years. Group's return on these investments ranges from 4.6% to 6.3% per annum (2006: 4.6% to 6.3% per annum) with maturities from June 30, 2013 to December 31, 2013.
- 12.2.3** This represents unlisted Term Finance Certificates (TFCs) of Rs. 0.907 billion (2006: Rs. 1.098 billion) which have been issued by Dewan Cement Limited (formerly Pakland Cement Limited) and Dewan Hattar Cement Limited (formerly Saadi Cement Limited). In the current year, both the entities were merged under the name of Dewan Cement Limited. These TFCs are in the process of being re-structured for which creditors approval has been obtained. Under the proposed terms of re-structuring, the company is offering early settlement of Series B TFCs, and exchange of TFCs Series A with new listed TFCs.
- According to the directives issued by the State Bank of Pakistan (SBP) vide letter no. BPD/PU-22/22.03/15749/2005/8720 dated July 14, 2005, the above TFCs are classified as investments.
- 12.2.4** This includes 150,268,315 NIT Units (2006:166,964,780 NIT units) covered under letter of comfort (LOC) dated December 14, 2007 issued by the Federal Government with an expiry / renewal date of December 31, 2008.

In accordance with the policy decision of the Government of Pakistan and approval of the Board of Directors of National Investment Unit Trust (NITL), the NITL has been split in two broad segments from April 01, 2007 i.e. one belonging to the LOC holders and the other segment belonging to the non-LOC holders. The two segments are being managed separately from April 01, 2007.

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

	Note	2007	2006
Rupees '000			
12.3	Particulars of provision for diminution in the value of investments		
	Opening balance	73,238	74,030
	Charge for the year	12.3.1 239,137	-
	Reversals	(32,062)	(792)
		207,075	(792)
	Closing balance	280,313	73,238

- 12.3.1** This includes provision of Rs.160 million recognised in respect of the difference between carrying value and break-up value of investment in Sukh Chayn Gardens Pvt. Ltd, and Rs.58.625 million being prepayment discount involved in respect of unlisted term finance certificates of Dewan Cement Ltd. as referred to in note 12.2.3.

	2007	2006	
Rupees '000			
12.3.2	Particulars of Provision in respect of Type and Segment		
	Available-for-sale securities		
	Fully Paid up Ordinary Shares / Modaraba Certificates		
	/ Closed end Mutual Fund Units		
	- Listed companies / modarabas / mutual funds	50,670	71,460
	- Unlisted companies	162,218	1,778
	Term Finance Certificates and Bonds		
	- Listed TFCs	8,800	-
	- Unlisted TFCs	58,625	-
		280,313	73,238

12.4 **Quality of Available-for-Sale Securities**

The details regarding the quality of available-for-sale securities is contained in Annexure 1 to these consolidated financial statements.

	2007	2006
Rupees '000		
12.5	Unrealized Gain / (Loss) on revaluation of investments classified as held for trading	
	Fully paid up ordinary shares	(2,984)
		(2,984)



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12.6 Key financial information of subsidiary and associate as at December 31, 2007 is as follows :

	2007				
	Assets	Liabilities	Revenues	Profit	% Holding
	----- Rupees '000 -----				
Subsidiary					
Faysal Management Services Limited	<u>188,659</u>	<u>329</u>	<u>2,988</u>	<u>10,134</u>	60.00%
Associate					
Faysal Asset Management Limited	<u>119,161</u>	<u>4,469</u>	<u>88,181</u>	<u>32,104</u>	30.00%
	----- 2006 -----				
	Assets	Liabilities	Revenues	Profit	% Holding
	----- Rupees '000 -----				
Subsidiary					
Faysal Management Services Limited	<u>219,421</u>	<u>274</u>	<u>59,580</u>	<u>54,982</u>	60.00%
Associate					
Faysal Asset Management Limited	<u>85,662</u>	<u>3,487</u>	<u>26,788</u>	<u>11,878</u>	30.00%

12.7 Investment in associate

12.7.1 Investment in Faysal Asset Management Limited (FAML) is accounted for using the equity method of accounting. The group's share of the profit and loss of the entity and its carrying amount as at December 31, 2007 is as follows:

	2007	2006
	Rupees '000	
Balance at the beginning of the year	24,254	23,445
Investment made during the year	-	-
Share of profit	9,631	8,309
Dividends paid	-	(7,500)
	<u>33,885</u>	<u>24,254</u>

13. ADVANCES	Note	2007	2006
		Rupees '000	
Loans, cash credits, running finances, etc. – In Pakistan		68,955,681	57,978,082
Net investment in finance lease – In Pakistan	13.2	<u>15,885,502</u>	<u>13,840,587</u>
Bills discounted and purchased (excluding government treasury bills)		<u>84,841,183</u>	<u>71,818,669</u>
Payable in Pakistan	13.3	<u>790,852</u>	<u>648,577</u>
Payable outside Pakistan		<u>991,364</u>	<u>479,450</u>
		<u>1,782,216</u>	<u>1,128,027</u>
		<u>86,623,399</u>	<u>72,946,696</u>
Margin financing / reverse repo transactions		<u>4,392,879</u>	<u>3,337,322</u>
Provision for non-performing advances	13.5	<u>(3,348,257)</u>	<u>(1,568,291)</u>
Provision for consumer loans - general	13.6	<u>(321,620)</u>	<u>(247,083)</u>
		<u>87,346,401</u>	<u>74,468,644</u>
13.1 Particulars of advances			
13.1.1 In local currency		<u>82,500,881</u>	<u>73,798,985</u>
In foreign currency		<u>4,845,520</u>	<u>669,659</u>
		<u>87,346,401</u>	<u>74,468,644</u>
13.1.2 Short term (for upto one year)		<u>56,578,273</u>	<u>45,478,028</u>
Long term (for over one year)		<u>30,768,128</u>	<u>28,990,616</u>
		<u>87,346,401</u>	<u>74,468,644</u>

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13.2	Net investment in finance lease	2007				2006			
		Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
----- Rupees '000 -----									
	Lease rentals receivable	6,195,668	9,521,760	27,533	15,744,961	3,554,752	10,664,256	-	14,219,008
	Residual value	643,043	3,019,995	6,608	3,669,646	750,052	2,250,157	-	3,000,209
	Minimum lease payments	6,838,711	12,541,755	34,141	19,414,607	4,304,804	12,914,413	-	17,219,217
	Financial charges	-	-	-	-	-	-	-	-
	for future periods	(1,511,987)	(2,014,059)	(3,059)	(3,529,105)	(1,381,720)	(1,996,910)	-	(3,378,630)
	Present value of minimum lease payments	5,326,724	10,527,696	31,082	15,885,502	2,923,084	10,917,503	-	13,840,587

13.3 This includes receivable of a customer discounted by the holding company. The balance outstanding at December 31, 2007 amounts to Rs 45.922 million (2006: Rs 89.223 million). The amount is receivable from the National Bank of Pakistan.

13.4 Advances includes Rs. 4.753 billion (2006: Rs. 3.535 billion) which have been placed under non-performing status as detailed below:

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

	2006								
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
----- Rupees '000 -----									
Category of classification									
Other assets especially mentioned (Agri)	24,970	-	24,970	-	-	-	-	-	-
Substandard	347,936	-	347,936	49,964	-	49,964	49,964	-	49,964
Doubtful	396,415	-	396,415	98,135	-	98,135	98,135	-	98,135
Loss	2,765,872	-	2,765,872	1,156,240	-	1,156,240	1,156,240	-	1,156,240
	<u>3,535,193</u>	<u>-</u>	<u>3,535,193</u>	<u>1,304,339</u>	<u>-</u>	<u>1,304,339</u>	<u>1,304,339</u>	<u>-</u>	<u>1,304,339</u>

13.4.1 In accordance with the BSD Circular No. 07 dated October 12, 2007 issued by the State Bank of Pakistan, the group has not considered the benefit of forced sale valuations while determining the requirement against non - performing advances (NPL), except home mortgage loans. Furthermore, as per the aforementioned circular the personal loans now require 100% provisioning if the amount is overdue by 180 days. Previously, these were applicable to loans and advances over Rs.10 million and provisions against personal loans were created when the amount was overdue by 365 days. Had this provision against NPL been determined in accordance with the previous requirements of the SBP, the specific provision requirements against NPL would have been lower and consequently profit before tax would have been higher by Rs. 1.825 billion.



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

	2007			2006		
	Specific	General	Total	Specific	General	Total
----- Rupees '000 -----						
Opening balance	1,304,339	263,952	1,568,291	1,001,264	50,000	1,051,264
Charge for the year	1,977,376	58,676	2,036,052	574,486	263,952	838,438
Transfer to specific provision from general provision	173,952	(173,952)	-	-	-	-
Reversals	(238,620)	-	(238,620)	(271,411)	(50,000)	(321,411)
	1,912,708	(115,276)	1,797,432	303,075	213,952	517,027
Amounts written off -note 13.7	(17,466)	-	(17,466)	-	-	-
Closing balance	3,199,581	148,676	3,348,257	1,304,339	263,952	1,568,291

13.5.1 Particulars of provision for non-performing advances:

	2007			2006		
	Specific	General	Total	Specific	General	Total
----- Rupees '000 -----						
In local currency	3,199,581	148,676	3,348,257	1,304,339	263,952	1,568,291
In foreign currencies	-	-	-	-	-	-
	3,199,581	148,676	3,348,257	1,304,339	263,952	1,568,291

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

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

	2007	2006
	Rupees '000	
Opening balance	247,083	141,778
Charge for the year	74,537	105,305
Reversals	-	-
	321,620	247,083

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

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	<i>Note</i>	2007	2006
		Rupees '000	
13.7 Particulars of write-off			
13.7.1 Against provisions	<i>13.5</i>	17,466	-
Directly charged to profit and loss account		-	67
		<u>17,466</u>	<u>67</u>
13.7.2 Write offs of Rs 500,000 and above		17,466	-
Write offs below Rs 500,000	<i>13.8</i>	-	67
		<u>17,466</u>	<u>67</u>
13.8 Details of loans written off of Rs 500,000 and above			
The statement in respect of write-offs or any other financial relief of five hundred thousand rupees or above as required under sub-section (3) of section 33A of the Banking Companies Ordinance, 1962 is given as "Annexure II" to these consolidated financial statements.			
	<i>Note</i>	2007	2006
		Rupees '000	
13.9 Particulars of loans and advances to directors, associated companies, etc.			
Debts due by directors, executives or officers of the holding company or any of them either severally or jointly with any other persons			
Balance at beginning of year		363,749	278,320
Loans granted during the year		254,881	156,244
Repayments		(211,359)	(70,815)
Balance at end of year		407,271	363,749
Debts due by companies or firms in which the directors of the holding company are interested as directors, partners or in the case of private companies as members			
Balance at beginning of year		975,060	413,004
Loans granted during the year		31,576	618,252
Repayments		(199,647)	(56,196)
Balance at end of year		806,989	975,060
		<u>1,214,260</u>	<u>1,338,809</u>
13.9.1 Maximum total amount of advances including temporary advances granted during the year			
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons			
		411,166	363,749
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members			
		975,060	1,026,298
		<u>1,386,226</u>	<u>1,390,047</u>
14. OPERATING FIXED ASSETS			
Capital work-in-progress	<i>14.1</i>	397,485	323,596
Property and equipment	<i>14.2</i>	1,976,095	1,895,000
Intangible assets	<i>14.3</i>	141,379	20,796
		<u>2,514,959</u>	<u>2,239,392</u>
14.1 Capital work-in-progress			
Civil works		179,612	50,752
Advances to suppliers and contractors		217,873	272,844
		<u>397,485</u>	<u>323,596</u>



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14.2 Property and equipment

	COST					ACCUMULATED DEPRECIATION					Book value at		Rate of depreciation % per annum
	As at January 1, 2006	Additions/ (deletions)	As at January 1, 2007	Additions/ (deletions)	As at December 31, 2007	As at January 1, 2006	Charge/ (on deletions)	As at January 1, 2007	Charge/ (on deletions)	As at December 31, 2007	December 31, 2007	December 31, 2006	
	Rupees '000												
Owned													
Freehold land	72,541	9,687 (42,044)	40,184	-	40,184	-	-	-	-	-	40,184	40,184	-
Leasehold land	370,306	11,345	381,651	35,357	417,008	19,206	-	19,206	-	19,206	397,802	362,445	-
Building on freehold land	46,076	- (4,428)	41,648	-	41,648	11,111	862 (111)	11,862	2,736	14,598	27,050	29,786	2
Leasehold property and improvement	498,563	531,976 (37,146)	993,393	74,853 (1,879)	1,066,367	83,712	35,434 (12,910)	106,236	90,623 (763)	196,096	870,271	887,157	2 to 20
Office furniture, fixtures, equipments and computers	535,866	414,769 (61,361)	889,274	237,151 (13,292)	1,113,133	368,563	115,671 (20,762)	463,472	183,248 (9,275)	637,445	475,688	425,802	20 to 33.33
Vehicles	164,607	67,055 (32,332)	199,330	75,156 (32,838)	241,648	47,524	32,768 (17,927)	62,365	40,689 (19,995) *	83,059	158,589	136,965	20
	1,687,959	1,034,832 (177,311)	2,545,480	422,517 (48,009)	2,919,988	530,116	184,735 (51,710)	663,141	317,296 (30,033)	950,404	1,969,584	1,882,339	
Assets subject to finance lease													
Vehicles	27,079	- (5,669)	21,410	-	15,999	6,363	4,529 (2,143)	8,749	3,919 (3,180)	9,488	6,511	12,661	20
	1,715,038	1,034,832 (182,980)	2,566,890	422,517 (53,420)	2,935,987	536,479	189,264 (53,853)	671,890	321,215 (33,213)	959,892	1,976,095	1,895,000	

* Accumulated depreciation on vehicles disposed during the year has been adjusted at the financial statement level to account for the impact of residual value.

14.2.1 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs. 357.849 million (2006: Rs. 290.162 million).

14.2.2 One of these properties is encumbered to the extent of Rs. 34 million on account of a claim by a local bank in settlement of its second charge.

14.3 Intangible assets

	COST					ACCUMULATED AMORTISATION					Book value at December 31, 2007	Book value at December 31, 2006	Rate of amortisation % per annum
	As at January 1, 2006	Additions/ (deletions)	As at January 1, 2007	Additions/ (deletions)	As at December 31, 2007	As at January 1, 2006	Charge/ (on deletions)	As at January 1, 2007	Charge/ (on deletions)	As at December 31, 2007			
	Rupees '000												
Computer software	22,711	4,113	26,824	138,566	165,390	1,508	4,520	6,028	17,983	24,011	141,379	20,796	20 to 33.33

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

Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
-----Rupees '000-----					
Owned - Vehicles					
788	410	378	560	Insurance Claim	EFU Insurance Company
620	166	454	405	Policy	Mr. Syed Rehan (Employee)
849	464	385	720	Bid	Mr. Afroz Qureshi (Ex-Employee)
1,147	245	902	861	Policy	Mr. Dilawar Khan (Employee)
849	453	396	365	Policy	Mr. Atiq-ur-Rehman (Executive)
521	208	313	280	Policy	Mr. Syed Kauser Nadeem (Executive)
886	236	650	579	Policy	Mr. Shakil Akhtar Qureshi (Executive)
829	486	343	461	Policy	Mr. Parvaiz Ahmad (Executive)
807	452	355	280	Policy	Mr. Taimur Afzal (Executive)
1,097	614	483	381	Policy	Mr. Taimur Afzal (Executive)
984	420	564	504	Policy	Ms. Anjum Hai (Executive)
535	193	342	308	Policy	Mr. Habib Ameer Ali (Employee)
585	234	351	371	Bid	Mr. Asim Ali House No# 1095, Street 110 G9/4, Islamabad
560	105	455	560	Insurance Claim	EFU Insurance Company
886	94	792	775	Insurance Claim	EFU Insurance Company
464	154	310	249	Policy	Mr. Imran Siraj Khan (Employee)
673	170	503	441	Policy	Mr. M. Saeed (Employee)
560	119	441	388	Policy	Mr. Khawar Ali Shah (Employee)
849	532	317	328	Policy	Mr. M.A Sayeed (Executive)
885	248	637	566	Policy	Mr. Mustafa Hamdani (Executive)
886	248	638	638	Policy	Mr. Samih Khan (Executive)
560	90	470	429	Policy	Mr. Majid Ali (Employee)
575	184	391	616	Bid	Mr. Kamran Raza (Individual) Address details not available
653	235	418	384	Policy	Mr. Najeeb Ahmad (Executive)
525	203	322	295	Policy	Mr. Saud Malik (Employee)
556	81	475	518	Policy	Mr. Ali Raza (Executive)
560	142	418	366	Policy	Mr. Perwaiz I. Khan (Executive)
530	191	339	305	Policy	Mr. Salman Latif (Ex-Employee)
3,500	980	2,520	2,755	Bid	Doctor Shah Azam Khan (Individual) A-26/4; KDA I Karsaz Karachi
560	374	186	202	Policy	Mr. Kaleem Jafry (Executive)
617	132	485	440	Bid	M/s Itihad Motors Showroom no 10, Madina Bagh Apts 55, Muslimabad Karachi
475	26	449	390	Bid	M/s Itihad Motors Showroom no 10, Madina Bagh Apts 55, Muslimabad Karachi
560	366	194	202	Policy	Mr. Khalid Maqsood (Executive)
976	611	365	675	Bid	M/s Itihad Motors Showroom no 10, Madina Bagh Apts 55, Muslimabad Karachi



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For the year ended December 31, 2007

Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
-----Rupees '000-----					
Owned - Office furniture, fixtures, equipments and computers					
799	546	253	125	Bid	Mr. Muhammad Iqbal Address details not available
1,970	1,970	-	1,750	Bid	Mr. Muhammad Iqbal f A-13, Block 5, Gulistan-e-Jouhar, Karachi
205	205	-	155	Policy	Mr. Khalid S. Tirmizey (Acting President and CEO)
3,180	2,547	633	597	Policy	Mr. Farook Bengali (Ex-President and CEO)
Assets subject to finance lease - Vehicles					
1,111	651	460	366	Policy	Mr. Arif Hassan Khan (Executive)
4,301	1,893	2,408	2,408	Policy	Mr. Farook Bengali (Ex-President and CEO)

	Note	2007	2006
Rupees '000			
15. OTHER ASSETS			
Income/mark-up accrued in local currency		1,323,986	1,267,788
Income/mark-up accrued in foreign currency		44,056	3,998
Advances, deposits, advance rent and other prepayments		202,778	127,029
Non-banking assets acquired in satisfaction of claim	15.1	307,376	60,895
Stationery and stamps on hand		5,309	4,945
Branch adjustment account		91,173	42,417
Receivable from brokers - secured	15.2	5,290	87
Others		236,050	50,060
		<u>2,216,018</u>	<u>1,557,219</u>
Less: Provision held against other assets	15.3	(11,169)	(5,108)
		<u>2,204,849</u>	<u>1,552,111</u>
15.1 Market value of non-banking assets acquired in satisfaction of claim - determined by professional valuer		<u>542,780</u>	<u>165,043</u>
15.2 This represents amount receivable from brokers against sale of shares.			
15.3 Provision against other assets			
Opening balance		5,108	5,108
Charge for the year		6,061	-
Reversals		-	-
Closing balance		<u>11,169</u>	<u>5,108</u>
15.3.1 This represents estimated charge in respect of damages to various assets of the group during riots at the year end.			

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007



	Note	2007	2006
Rupees '000			
16. BILLS PAYABLE			
In Pakistan		2,396,076	4,505,590
Outside Pakistan		10,851	10,535
		<u>2,406,927</u>	<u>4,516,125</u>
17. BORROWINGS FROM FINANCIAL INSTITUTIONS			
In Pakistan		9,733,864	14,924,721
Outside Pakistan		261,991	40,316
		<u>9,995,855</u>	<u>14,965,037</u>
17.1 Particulars of borrowings from financial institutions			
In local currency		9,733,864	14,852,353
In foreign currencies		261,991	112,684
		<u>9,995,855</u>	<u>14,965,037</u>
17.2 Details of borrowings from financial institutions			
Secured			
Borrowings from State Bank of Pakistan			
- Under export refinance scheme - Part I and II	17.3	4,992,256	5,575,514
- Under Locally Manufactured Machinery (LMM) scheme		-	-
- Under scheme for Long Term Financing of Export Projects - (LTF-EOP)	17.4	2,642,084	2,294,233
Repurchase agreement borrowings	17.5	-	347,290
		<u>7,634,340</u>	<u>8,217,037</u>
Unsecured			
Interbank borrowings	17.6	2,080,600	6,707,684
Overdrawn nostro accounts		280,915	40,316
		<u>2,361,515</u>	<u>6,748,000</u>
		<u>9,995,855</u>	<u>14,965,037</u>
17.3	These represent borrowings from SBP under export refinance scheme at 6.50% per annum (2006: 6.50% to 7.50% per annum) maturing within six months up to June 2008. As per the terms of the agreement, the holding company has granted SBP a right to recover the outstanding amount from the holding company at the date of maturity of finances by directly debiting the current account of the holding company maintained with SBP.		
17.4	These represent borrowings from SBP under scheme for long term financing of export oriented projects at rates ranging from 4.0% to 5.0% per annum (2006: 4.0% to 5.0% per annum), and have varying long term maturities stipulated by SBP. As per the terms of the agreement, the holding company has granted SBP a right to recover the outstanding amount from the holding company at the respective date of maturity of finances by directly debiting the current account of the holding company maintained with SBP.		



17.5 As at the year end, there was no collateralised borrowing. As at December 31, 2006, outstanding borrowing was made against market treasury bills at rates ranging from 8.25% to 8.75% with maturity falling in January 2007.

17.6 These borrowings are from various institutions in the interbank market, made at rates ranging from 4.90% to 9.25% per annum (2006: 5.0% to 11.0% per annum) maturing up to March 2008.

2007 2006

Rupees '000

18. DEPOSITS AND OTHER ACCOUNTS

Customers

Term deposits	56,420,711	36,063,308
Savings deposits	25,848,248	19,125,304
Current accounts – Remunerative	-	-
Current accounts – Non-remunerative	18,024,696	14,241,435
Margin accounts	875,641	2,279,896
	<u>101,169,296</u>	<u>71,709,943</u>

Financial Institutions

Remunerative deposits	579,657	2,463,541
Non-remunerative deposits	130,291	20,795
	<u>709,948</u>	<u>2,484,336</u>
	<u>101,879,244</u>	<u>74,194,279</u>

18.1 Particulars of deposits

In local currency	93,098,036	66,601,494
In foreign currencies	8,781,208	7,592,785
	<u>101,879,244</u>	<u>74,194,279</u>

18.2 The above include deposits of related parties amounting to Rs. 186.068 million (2006: Rs 301.149 million)

19. SUB-ORDINATED LOANS

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

Rupees '000

Total Issue Amount	<u>1,000,000</u>
Pre – IPO subscription received	<u>750,000</u>
Initial Public Offering	<u>250,000</u>

Rating “AA-” (Double A Minus)

Rate Base Rate + 1.40%

The Base Rate is defined as the Average Ask Rate of Six Months Karachi Inter-bank Offered Rate (KIBOR).

Subordination The TFCs will be subordinated to all other indebtedness of the bank including deposits.

Tenor and maturity 7 years from the date of issue

Principal Repayment 0.20% of the principal amount would be redeemed during the first 60 months and the remaining principal in 4 semi-annual installments of 24.95% each of the issue amount, starting from the 66th month.

Profit Payment Profit is payable semi-annually in arrears, with the first payment date falling due in the second quarter of 2008.



	Note	2007	2006
		Rupees '000	
22. OTHER LIABILITIES			
Mark-up / return payable in local currency		1,714,329	1,169,925
Mark-up / return payable in foreign currency		50,027	5,733
Unearned commission / income		105,041	42,743
Accrued expenses		191,519	116,098
Current taxation (provisions less payments)		545,607	561,764
Unclaimed dividends		40,192	40,844
Exchange difference on revaluation of forward foreign exchange contracts		-	8,421
Subscription against Term Finance Certificates	22.1	-	750,000
Withholding tax payable		38,101	12,658
Central Excise Duty payable		-	4,088
Security deposits against finance leases		3,669,646	2,797,385
Payable to brokers	22.2	11,883	31,404
Others		585,405	383,593
		<u>6,951,750</u>	<u>5,924,656</u>

22.1 Approvals from the Securities and Exchange Commission of Pakistan (SECP), and the Karachi Stock Exchange (KSE) for Initial Public Offering (IPO) which was pending upto December 31, 2006 were received in the current year. Consequently public issue of term finance certificates was made by the holding company in 2007. Accordingly, the amount has been disclosed as sub-ordinated debt as given in note 19.

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

23. SHARE CAPITAL

23.1 Authorised capital

	2007	2006		2007	2006
Number of Shares		Rupees '000			
	<u>600,000,000</u>	<u>600,000,000</u>	Ordinary shares of Rs 10 each	<u>6,000,000</u>	<u>6,000,000</u>

23.2 Issued, subscribed and paid-up capital

	2007	2006		2007	2006
Number of Shares		Rupees '000			
	201,451,420	201,451,420	Fully paid in cash	2,014,514	2,014,514
	312,533,051	206,604,257	Issued as bonus shares	3,125,331	2,066,043
	15,660,000	15,660,000	Issued for consideration other than cash	156,600	156,600
	<u>529,644,471</u>	<u>423,715,677</u>		<u>5,296,445</u>	<u>4,237,157</u>

As at December 31, 2007, Ithmaar Bank (the ultimate holding company of the bank) through its subsidiaries and nominees held 354,556,291 ordinary shares of Rs. 10 each (2006 : 283,646,932 ordinary shares).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007



	<i>Note</i>	2007	2006
		Rupees '000	
24. RESERVES			
Statutory reserve	24.1	3,177,491	2,723,070
Capital market reserve	24.2	389,542	356,457
		<u>3,567,033</u>	<u>3,079,527</u>

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

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

	<i>Note</i>	2007	2006
		Rupees '000	
25. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - BY TYPE AND SEGMENT			
Federal Government Securities			
- Market Treasury Bills		(50,478)	(6,325)
- Pakistan Investment Bonds		(197,477)	(229,385)
Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units			
- Listed companies/ modarabas/ mutual funds		58,262	(27,865)
- Unlisted companies		-	-
Fully Paid up Preference Shares			
- Listed companies		(28,326)	(18,940)
- Unlisted companies		-	-
Term Finance Certificates and Bond			
- Listed TFCs		(52,836)	(41,938)
- Unlisted TFCs		-	-
Open ended Mutual Fund Units		6,659,549	4,906,262
		<u>6,388,694</u>	4,581,809
Deferred tax (liability) / asset	25.1	(577,337)	82,498
		<u>5,811,357</u>	<u>4,664,307</u>

25.1 This represents deferred tax computed on surplus on revaluation of federal government securities and on quoted securities. As the tax exemption on sale of listed securities has been withdrawn, the group has provided deferred tax on quoted securities as at the balance sheet date.



	<i>Note</i>	2007	2006
		Rupees '000	
26. CONTINGENCIES AND COMMITMENTS			
26.1 Direct credit substitutes			
Contingent liability in respect of guarantees favouring:			
i) Government		-	-
ii) Banking companies and other financial institutions		3,275	3,275
iii) Others		1,479,270	4,115,050
		1,482,545	4,118,325
26.2 Transaction-related contingent liabilities			
Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:			
i) Government		3,976,830	6,475,630
ii) Banking companies and other financial institutions		76,236	1,430,784
iii) Others		14,055,339	3,783,452
		18,108,405	11,689,866
26.3 Trade-related contingent liabilities			
Letters of credit		11,107,840	9,050,368
Acceptances		2,364,631	3,488,459
		13,472,471	12,538,827
26.4 Other Contingencies			
i) Suit filed by a customer for recovery of alleged losses suffered which is pending in the High Court of Sindh; holding company's legal advisors are confident that the group has a strong case		2,500,000	2,500,000
ii) Indemnity issued favouring the High Court in above case		457,543	457,543
iii) Claims against the group not acknowledged as debt		839,454	839,454
26.5 Commitments in respect of forward lending			
Commitment to extend credit - advances		1,200,000	176,408
Commitment to invest in securities		1,000,000	1,219,830

Notes to the Consolidated Financial Statements

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FAYSAL BANK

26.6	Commitments in respect of forward exchange contracts	2007	2006
		Rupees '000	
	Purchase		
	- Customers	734,181	733,920
	- Banks	1,940,112	9,622,488
		2,674,293	10,356,408
	Sale		
	- Customers	136,434	619,141
	- Banks	3,887,537	6,320,422
		4,023,971	6,939,563
26.7	Commitments for acquisition of operating fixed assets	67,860	145,622
26.8	Commitments in respect of repo transactions		
	Repurchase	-	6,765,761
	Resale	4,736,709	7,239,038

27. DERIVATIVE INSTRUMENTS

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

A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Equity futures are exchange traded contractual agreements to either buy or sell a specified security at a specific price and date in the future. The group enters into these contracts for the purposes of squaring currency position.

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

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

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



	<i>Note</i>	2007	2006
		Rupees '000	
28. MARK-UP/RETURN EARNED			
a) On financing to:			
i) customers		8,633,779	6,785,574
ii) financial institutions		137,274	115,722
b) On investments in:			
i) held for trading securities		-	-
ii) available for sale securities		1,333,820	1,631,964
c) On deposits with treasury bank and financial institutions		460,837	435,332
d) On securities purchased under resale agreements		1,045,071	908,511
		11,610,781	9,877,103
29. MARK-UP/RETURN EXPENSED			
Deposits		6,167,841	4,698,374
Securities sold under repurchase agreements		111,927	464,119
Other short term borrowings		986,303	824,756
Long term borrowings		90,321	82,663
Sub-ordinated loan		91,147	23,298
		7,447,539	6,093,210
30. GAIN ON SALE OF SECURITIES			
Gain on sale of shares - listed		1,070,213	330,061
		1,070,213	330,061
31. OTHER INCOME			
Profit on disposal of fixed assets	31.1	3,171	320,295
Compensation on delayed tax refund	31.2	-	117,203
Rent on property		37,389	8,178
Maintenance charges on property rented		3,261	2,032
		43,821	447,708



	<i>Note</i>	2007	2006
		Rupees '000	
33. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		9,855	32,857
		<u>9,855</u>	<u>32,857</u>
34. TAXATION			
For the year			
Current		286,688	387,620
Deferred		190,480	530,671
		477,168	918,291
For prior year			
Current		(48,433)	93,118
Deferred		-	43,302
		(48,433)	136,420
		<u>428,735</u>	<u>1,054,711</u>
34.1 Relationship between tax expense and accounting profit			
Profit before tax		2,645,591	3,922,606
Tax calculated at the rate of 35% (2006: 35%)		925,958	1,372,912
Effect of :			
- permanent differences		100,947	41,783
- income chargeable to tax at reduced rate		(317,499)	(100,084)
- income exempt from tax		(232,238)	(396,320)
- prior year charge		(48,433)	136,420
Tax charge for the year		<u>428,735</u>	<u>1,054,711</u>
34.2			
Income tax assessments of the holding company have been finalised upto the tax year 2005 (Accounting year 2004). Returns filed for tax year 2006 (Accounting year 2005) and tax year 2007 (Accounting year 2006) are also deemed to have been assessed as per tax law, unless selected for detailed audit.			

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35. BASIC AND DILUTED EARNINGS PER SHARE	Note	2007	2006
		Rupees '000	
Profit for the year		<u>2,213,562</u>	<u>2,791,017</u>
		In thousands	
Number of ordinary shares	23	<u>529,644</u>	<u>529,644</u>
		Rupees	
Basic and diluted earnings per share		<u>4.18</u>	<u>5.27</u>
		2007	
		Rupees '000	
36. CASH AND CASH EQUIVALENTS		2007	2006
Cash and balances with treasury banks	9	6,872,035	7,207,998
Balances with other banks	10	3,708,451	2,883,040
Call money lendings	11.2	800,000	-
		<u>11,380,486</u>	<u>10,091,038</u>
		In Numbers	
37. STAFF STRENGTH			
Permanent		1,394	1,109
Temporary/on contractual basis		365	354
Bank's own staff strength at the end of the year		1,759	1,463
Outsourced	37.1	716	606
Total Staff Strength		<u>2,475</u>	<u>2,069</u>

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



38. DEFINED BENEFIT PLAN

38.1 Principal actuarial assumptions

The latest actuarial valuation of the holding company's defined benefit plan based on Projected Unit Credit Actuarial Cost Method was carried out as at December 31, 2007. Following are the significant assumptions used in the valuation:

	<i>Note</i>	2007	2006
Discount factor used (%age per annum)		10	10
Expected long term rate of return on plan assets (%age per annum)		10	10
Salary increase (%age per annum)		10	10
Normal retirement age (Years)		60	60

		2007	2006
		Rupees '000	
38.2 Reconciliation of payable to defined benefit plan			
Present value of defined benefit obligation	38.3	123,141	118,509
Fair value of plan assets	38.4	(97,739)	(97,253)
Net actuarial gain/(loss) not recognized		<u>(25,402)</u>	<u>(21,256)</u>
		-	-
38.3 Movement in present value of defined benefit obligation			
Opening balance		118,509	93,553
Current service cost		20,406	17,846
Interest cost		12,385	8,293
(Gain) / Loss on defined benefit obligation		2,818	4,231
Actual benefits paid during the year		(30,977)	(5,414)
Closing balance		<u>123,141</u>	<u>118,509</u>
38.4 Movement in fair value of plan assets			
Opening balance		97,253	79,599
Expected return on plan assets		10,291	6,949
Contribution made		23,917	20,263
Benefits paid by the fund		(30,977)	(5,414)
Gain / (Loss) on plan assets		(2,745)	(4,144)
Closing balance		<u>97,739</u>	<u>97,253</u>
38.4.1 Plan assets consist of the following:			
Balances with banks and financial institutions		38,383	62,931
Certificates of investment		-	8,000
Units of open ended mutual funds		40,000	10,000
Term finance certificates		<u>19,356</u>	<u>16,322</u>
		<u>97,739</u>	<u>97,253</u>
38.5 Movement in payable to defined benefit plan			
Opening balance		465	465
Charge for the year	38.6	23,917	20,263
Contribution to fund made during the year		(23,917)	(20,263)
Closing balance		<u>465</u>	<u>465</u>
38.6 Charge for defined benefit plan			
Current service cost		20,406	17,846
Interest cost		12,385	8,293
Expected return on plan assets		(10,291)	(6,949)
Amortisation of loss		1,417	1,073
		<u>23,917</u>	<u>20,263</u>
38.7 Actual return on plan assets		<u>8,189</u>	<u>7,837</u>

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38.8 Historical information	2007	2006	2005	2004	2003
	-----Rupees '000-----				
Defined Benefit Obligation	(123,141)	(118,509)	(93,553)	(79,512)	(56,912)
Fair value of plan assets	97,739	97,253	79,134	64,070	60,376
Surplus/ (Deficit)	(25,402)	(21,256)	(14,419)	(15,442)	3,464
Experience adjustments on plan liabilities	(2,818)	(4,231)	581	(17,557)	1,386
Experience adjustments on plan assets	(2,745)	888	767	397	508

39. DEFINED CONTRIBUTION PLAN

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

40. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Chief Executive Officer*		Executives	
	2007	2006	2007	2006
-----Rupees '000-----				
Managerial remuneration	48,586	61,865	125,978	215,368
Payments to Ex President for past services	304,200	-	-	-
Charge for defined benefit plan	2,206	1,863	6,631	6,419
Contribution to defined contribution plan	2,649	2,236	7,960	7,599
Rent and house maintenance	6,329	1,744	36,741	34,012
Utilities	2,649	2,236	8,132	7,678
Medical	147	84	5,718	6,041
Leave fare assistance	8,217	2,236	12,589	12,476
Others	1,944	317	33,949	24,338
	376,927	72,581	237,698	313,931
Number of persons	2	1	83	70

* Remuneration of the Chief Executive Officer in the year 2007 includes Ex-Chief Executive Officer and the Acting Chief Executive Officer.

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

41. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair value of fixed term advances, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of advances has been calculated in accordance with group's accounting policy as stated in note 8.5 of these consolidated financial statements.

The maturity and repricing profile and effective rates are stated in note 47.6.1 and 47.5 respectively.

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

42. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

42.1 Provision against advances portfolio

The group reviews its advances portfolio to assess amount of non-performing advances and provision required there against on a quarterly basis. The provision is made in accordance with Prudential Regulations issued by the State Bank of Pakistan (SBP). On October 12, 2007, SBP issued a circular advising complete withdrawal of the benefit of forced sale valuations (FSVs) against all non-performing loans, except home mortgage loans, while calculating the provisioning requirements. The circular became effective from December 31, 2007. Further, as per the circular, personal loans now require 100% provisioning as against the previous benchmark of one year past due. The management has revised its accounting estimate for determining provisions in the light of the State Bank of Pakistan's directives, the impact of which is given in note 13.4.1. The forced sale values in respect of collaterals in the case of home mortgage loans are estimated by independent valuations of the assets mortgaged/pledged. General provision in respect of unidentified loan losses is made based on historical experience for assets with credit risk characteristics.

**42.2 Income taxes**

In making the estimates for income taxes currently payable by the group, the management looks at the current income tax law and the decisions of appellate authorities on disputed issues in the past. The allocation of expenses between income chargeable to tax under final tax regime (FTR) and normal tax regime (NTR) is based on the prior assessment orders of the holding company. The consensus between the banking sector and the tax department is yet to be reached on the matter of allocation of expenses, which could have a tax implication for banks. No amount is shown as a contingent liability of the group in this regard as the group's liability is determined on the basis of accepted past procedures.

42.3 Impairment in respect of listed securities

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

If the group considers that a deficit is temporary, it is classified as a revaluation loss / (deficit) and if the impairment is considered of a permanent nature, it is treated as provision for diminution in value of investments.

42.4 Gratuity

The holding company has adopted certain actuarial assumptions as disclosed in note 38.1 to the consolidated financial statements for determining present value of defined benefit obligations and fair value of plan assets, based on actuarial advice. Any change in the assumptions from actual results would change the amount of unrecognised gains and losses.

42.5 Segmentation

As per the requirements of the new format of consolidated financial statements issued by State Bank of Pakistan, the management has divided the group into four functional segments. The basis of segmentation and related assumptions are disclosed in note 8.17.

42.6 Fair Value of securities

The fair value of some of the securities may invoke some discounts at the time of sale of these securities. These have not been adjusted from the revaluation surplus on the assumption that these will be sold at the prevailing market rates.

43. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES**Primary segment information**

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

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

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

Notes to the Consolidated Financial Statements

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FAYSAL BANK

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
-----Rupees '000-----				
2007				
Total income	1,041,294	2,601,331	4,051,249	7,293,182
Total expenses	(673,875)	(1,731,629)	(3,644,489)	(6,720,207)
Net income / (loss)	<u>367,419</u>	<u>869,702</u>	<u>406,760</u>	<u>572,975</u>
Segment assets (Gross)	7,657,516	17,730,469	46,120,943	73,630,052
Segment non performing assets	273,186	91,460	2,105,390	2,648,025
Segment provision required	(160,440)	(61,248)	(1,188,153)	(2,540,349)
Segment liabilities	(1,301,319)	(6,848,633)	(44,593,360)	(72,190,257)
Segment return on assets (ROA) (%) *	<u>13.60</u>	<u>14.67</u>	<u>8.78</u>	<u>9.91</u>
Segment cost of funds (%) *	<u>7.60</u>	<u>15.26</u>	<u>5.32</u>	<u>5.45</u>
2006				
Total income	1,088,999	2,072,331	3,890,309	5,490,683
Total expenses	(534,942)	(1,548,295)	(2,934,216)	(4,656,974)
Net income / (loss)	<u>554,057</u>	<u>524,036</u>	<u>956,093</u>	<u>833,709</u>
Segment assets (Gross)	8,285,864	13,359,981	38,554,126	57,046,806
Segment non performing assets	-	182,354	894,108	2,869,497
Segment provision required	-	(73,238)	(410,040)	(1,405,334)
Segment liabilities	(1,065,843)	(7,091,018)	(34,742,861)	(58,556,690)
Segment return on assets (ROA) (%) *	<u>13.14</u>	<u>15.51</u>	<u>10.09</u>	<u>9.62</u>
Segment cost of funds (%) *	<u>3.51</u>	<u>14.13</u>	<u>5.58</u>	<u>5.00</u>

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

Note : The above table is based on best estimates / assumptions. Comparatives have been rearranged for comparative purpose.

44. TRUST ACTIVITIES

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

45. RELATED PARTY TRANSACTIONS

The group has related party relations with its associated undertakings, group companies, employee benefit plans (refer note 8.11) and its directors and executive officers (including their associates). Transactions with key management personnel and entities in which the group has a strategic investment are also disclosed as part of related party transactions.

Banking transactions with the related parties are executed substantially on the same terms, except transaction with directors and executive officers that are as per their terms of employment, including mark-up rates and collateral, as those prevailing at the time of comparable transactions with unrelated parties and do not involve more than a normal risk. Details of advances to the companies or firms in which the directors of the Group are interested as directors, partners or in case of private companies as members are given in note 13.9 to these consolidated financial statements.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of contribution plan (refer note 8.11 and note 38 to these consolidated financial statements for the details of the plans). Remuneration of key management personnel, including salaries and other short-term employee benefits and post-employee benefits is given below. Remuneration to executives (including key management personnel) of the group is disclosed in note 40 to these consolidated financial statements. Such remuneration is determined in accordance with the terms of their appointment. Strategic investments are disclosed in note 12.1.1.



	2007			
	Directors and Key Management Personnel	Group Companies	Associates	Strategic Investments
	-----Rupees '000-----			
Deposits				
Balance at the beginning of the year	71,086	1,187	5,287	223,589
Placements during the year	1,131,960	51,010	833,046	4,229,246
Withdrawals during the year	(1,154,559)	(50,169)	(838,260)	(4,317,355)
Balance at end of the year	48,487	2,028	73	135,480
Advances				
Balance at the beginning of the year	25,489	-	-	975,060
Disbursement during the year	-	-	-	31,576
Repayment during the year	(21,343)	-	-	(199,647)
Balance at the end of the year	4,146	-	-	806,989
	2006			
	Directors and Key Management Personnel	Group Companies	Associates	Strategic Investments
	-----Rupees '000-----			
Deposits				
Balance at the beginning of the year	25,046	304,609	347,385	445,054
Placements during the year	631,972	593,217	5,583,776	4,258,249
Withdrawals during the year	(585,932)	(896,639)	(5,925,874)	(4,479,714)
Balance at end of the year	71,086	1,187	5,287	223,589
Advances				
Balance at the beginning of the year	50,509	-	320,000	413,004
Disbursement during the year	-	-	-	618,252
Repayment during the year	(25,020)	-	(320,000)	(56,196)
Balance at the end of the year	25,489	-	-	975,060

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

	2007	2006
	Rupees '000	
Foreign Currency Placement of funds / Nostro balances with associates	5,147	128,229
Transactions involving Sale / Purchase of investments with related parties		
Shares / Units purchased during the year	250,000	93,750
Shares / Units / Term Finance Certificates sold during the year	364,852	47,363
Income on foreign currency placement of funds	10,215	28,961
Profit paid/ accrued	11,223	6,404
Profit return/ earned	70,480	22,317
Technical Fee paid	46,472	49,497
Dividend paid to holding company and associates	709,117	1,210,856
Remuneration of key management personnel		
- Salaries and other short-term employee benefits	97,633	168,075
- Post-employment benefits	7,003	7,613
- Payments to Ex President for past service	304,200	-
Contribution to staff retirement benefits	57,286	46,938

Disposal of vehicles to key management personnel and other executives is disclosed in note 14.4 to these consolidated financial statements.

46. CAPITAL ADEQUACY

46.1 The group's objectives when managing its capital are:

- a) To comply with the capital requirements set by the State Bank of Pakistan;
- b) To safeguard the group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- c) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the State Bank of Pakistan for supervisory purposes. The required information is submitted to the State Bank of Pakistan on a quarterly basis. During 2007, the parallel run of Basel II (standardised approach) basis of computing capital adequacy was in practise. The disclosure given is, however based on the Basel I approach.

The State Bank of Pakistan requires each bank or banking group to: (a) hold the minimum level of the paid up capital and (b) maintain a ratio of total regulatory capital to the risk-weighted assets (the 'Basel ratio') at or above the internationally agreed minimum of 8%.

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

- a) Tier 1 capital: share capital, retained earnings, reserves created by appropriations of retained earnings and minority interest; and
- b) Tier 2 capital: qualifying subordinated loan capital, general provision and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

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

The group will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

The State Bank has prescribed a minimum paid-up capital requirement (net of losses) of Rs. 6 billion for all banks to be achieved by December 31, 2009. The required minimum Capital Adequacy Ratio (CAR), on consolidated as well as on stand alone basis is 8%. CAR is also calculated based on the Institutional Risk Assessment Framework (IRAF) Rating assigned by the State Bank to each bank and DFI. For this purpose, SBP intimates IRAF rating to each bank/DFI separately. No such rating has been received by the holding company so far.

Failure to meet the minimum paid up capital requirement or prescribed Capital Adequacy Ratios would attract restrictions on operations, de-scheduling or even cancellation of banking license.



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

	2007		2006	
	Rupees '000			
Regulatory Capital Base				
Tier I Capital				
Shareholders capital	5,296,445		4,237,157	
Reserves	3,567,033		3,079,527	
Unappropriated profits (net of proposed cash dividend)	180,943		838,285	
Minority interest	75,333		96,425	
Total Tier I Capital	9,119,754		8,251,394	
Tier II Capital				
General provisions subject to 1.25% of total risk weighted assets	471,332		337,083	
Revaluation reserve (upto 50%)	3,010,269		2,429,727	
Sub-ordinated debt (upto 50% of Total Tier I Capital)	1,000,000		-	
Total Tier II Capital	4,481,601		2,766,810	
Eligible Tier III Capital	-		-	
Total Regulatory Capital (a)	<u>13,601,355</u>		<u>11,018,204</u>	
	2007		2006	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
	-----Rupees '000-----		-----Rupees '000-----	
Risk-Weighted Exposures				
Credit Risk				
Balance Sheet Items:-				
Cash and other liquid assets	10,580,483	772,514	10,091,038	585,572
Money at call	7,078,102	740,000	4,608,205	400,000
Investments	31,463,993	9,010,514	22,448,037	10,144,133
Advances	82,789,881	82,513,474	70,755,755	64,499,184
Fixed assets	2,514,958	2,514,958	2,239,392	2,239,392
Other assets	2,462,333	2,444,995	1,601,345	1,589,942
	<u>136,889,750</u>	<u>97,996,455</u>	<u>111,743,772</u>	<u>79,458,223</u>
Off Balance Sheet items				
Loan repayment guarantees	2,360,727	2,360,727	3,775,480	3,688,940
Purchase and resale agreements	650,000	-	-	-
Performance bonds etc	17,869,214	6,995,571	10,012,493	4,690,138
Revolving underwriting commitments	-	-	-	-
Standby letters of credit	12,473,212	6,236,606	12,264,921	5,960,873
Outstanding foreign exchange contracts				
-Purchase	2,674,292	20,772	2,922,902	19,304
-Sale	3,781,064	15,076	3,804,387	25,126
	<u>39,808,509</u>	<u>15,628,752</u>	<u>32,780,183</u>	<u>14,384,381</u>
Credit risk-weighted exposures (b)		<u>113,625,207</u>		<u>93,842,604</u>
Market Risk				
General market risk		1,778		3,432
Specific market risk		18,320		11,481
Market risk-weighted exposures (c)		<u>20,098</u>		<u>14,913</u>
Market risk-weighted exposure (c)*12.5 (d)		<u>251,225</u>		<u>186,413</u>
Total Risk-Weighted exposures (b+d) (e)		<u>113,876,432</u>		<u>94,029,017</u>
Capital Adequacy Ratio - Credit Risk [(a) / (b) x (100)]		<u>11.97</u>		<u>11.74</u>
Total Capital Adequacy Ratio [(a) / (e) x (100)]		<u>11.94</u>		<u>11.72</u>

46.2.1 Book values reported above are net of cash margin held.



47. RISK MANAGEMENT

The group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits.

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

47.1 Credit Risk

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

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

The credit evaluation primarily relies on a well defined internal risk rating system which gauges risk rating of existing and potential customers in Corporate, Commercial and SME divisions. The rating model evaluates all customers based on pre-defined parameters, which include financial statement analysis, sponsors and management profile, industry and business analysis and outlook, relationship with the banking industry, external rating and repayment behaviour of the customer.

Out of the total financial assets of Rs. 138.164 billion, the financial assets which were subject to credit risk amounted to Rs. 131.292 billion. Investments in Federal Government Securities amounting to Rs. 18.074 billion are guaranteed by the Government of Pakistan (GoP). Also guaranteed through a letter of comfort issued by GoP is investment to the extent of Rs. 8.979 billion in NIT Units, as referred to in note 12.2.4 to the financial statements. The group's major credit risk is concentrated in textile & power sectors. To manage credit risk, the group grants credit limits to its customers and obtains adequate collaterals against advances.

47.1.1 Segment by class of business

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

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



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	2007					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Chemical and Pharmaceuticals	2,732,554	3.13	1,584,505	1.56	975,247	2.91
Agribusiness	2,806,910	3.21	2,032,446	1.99	509,423	1.52
Textile	12,627,595	14.46	1,091,039	1.07	2,470,765	7.37
Cement	5,575,180	6.38	302,128	0.30	1,714,023	5.11
Telecommunication	-	-	8,721	0.01	1,567,209	4.68
Sugar	1,624,007	1.86	37,345	0.04	9,894	0.03
Construction	2,781,506	3.18	2,487,339	2.44	2,581,411	7.70
Ready made garments	2,084,721	2.39	135,991	0.13	18,896	0.06
Shoes and leather garments	1,143,908	1.31	234,294	0.23	115,293	0.34
Automobile and transportation equipment	222,376	0.25	167,730	0.16	422,533	1.26
Transportation, Road and Air	2,384,186	2.73	-	-	-	-
Financial	5,096,307	5.83	3,723,344	3.65	772,154	2.30
Oil Refining / Marketing	198,073	0.23	19,277,956	18.92	2,032,669	6.06
Distribution / Trading	5,871,123	6.72	1,961,520	1.93	442,716	1.32
Electronics and electrical appliances	942,614	1.08	565,494	0.56	1,304,608	3.89
Production and transmission of energy	5,368,869	6.15	2,391,451	2.35	13,197,524	39.37
Iron and Steel	747,497	0.86	427,948	0.42	344,834	1.03
Food and Allied	-	-	-	-	190,200	0.57
Synthetic and Rayon	-	-	59,184	0.06	44,408	0.13
Food Industries	4,669,556	5.35	311,716	0.31	40,171	0.12
Paper and Board	639,559	0.73	431,083	0.42	177,486	0.53
Individuals	15,589,414	17.85	28,328,709	27.81	73,103	0.22
Others	14,240,446	16.30	36,319,301	35.65	4,516,127	13.47
	87,346,401	100.00	101,879,244	100.00	33,520,694	100.00

	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Chemical and Pharmaceuticals	2,514,898	3.38	1,266,470	1.71	3,802,283	13.00
Agribusiness	1,140,932	1.53	1,715,704	2.31	432,243	2.00
Textile	13,829,068	18.57	2,347,914	3.16	4,040,577	14.00
Cement	2,448,434	3.29	480,286	0.65	908,165	3.00
Sugar	1,441,312	1.94	502,966	0.68	9,894	-
Construction	1,742,574	2.34	2,065,756	2.78	1,675,880	6.00
Ready made garments	1,911,772	2.57	349,456	0.47	69,801	-
Shoes and leather garments	986,902	1.33	173,734	0.23	43,865	-
Automobile and transportation equipment	202,206	0.27	2,447,997	3.30	251,809	1.00
Financial	5,010,156	6.73	1,887,319	2.54	1,114,776	4.00
Oil Refining / Marketing	901,250	1.21	14,276,176	19.24	7,026,691	24.00
Distribution / Trading	5,127,944	6.89	4,288,879	5.78	118,864	-
Electronics and electrical appliances	1,734,323	2.33	325,862	0.44	780,756	3.00
Production and transmission of energy	3,728,271	5.01	193,148	0.26	2,653,701	9.00
Iron and Steel	437,141	0.59	365,442	0.49	479,920	2.00
Synthetic and Rayon	-	-	102,934	0.14	96,707	-
Food Industries	4,029,362	5.41	1,209,182	1.63	216,437	1.00
Paper and Board	556,506	0.75	913,328	1.23	711,868	2.00
Individuals	13,863,876	18.62	16,553,223	22.31	180,167	1.00
Others	12,861,717	17.27	22,728,503	30.63	4,190,155	15.00
	74,468,644	100.00	74,194,279	100.00	28,804,559	100.00

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FAYSAL BANK

47.1.2 Segment by sector	2007					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Public / Government	1,148,481	1.31	4,505,076	4.42	11,497,679	34.30
Private	86,197,920	98.69	97,374,168	95.58	22,023,015	65.70
	<u>87,346,401</u>	<u>100.00</u>	<u>101,879,244</u>	<u>100.00</u>	<u>33,520,694</u>	<u>100.00</u>

	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Public / Government	1,006,806	1.35	16,838,717	22.70	9,940,888	34.51
Private	73,461,838	98.65	57,355,562	77.30	18,863,671	65.49
	<u>74,468,644</u>	<u>100.00</u>	<u>74,194,279</u>	<u>100.00</u>	<u>28,804,559</u>	<u>100.00</u>

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

	2007		2006	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	-----Rupees '000-----			
Chemical and Pharmaceuticals	727,617	699,000	687,237	215,505
Agribusiness	144,720	7,271	25,019	50
Textile	874,729	669,981	962,201	570,799
Transportation, Road and Air	170,402	116,857	199,768	69,349
Construction	50,028	34,420	25,136	9,973
Ready Made Garments	79,659	61,279	72,861	22,814
Shoes and leather garments	-	-	1,925	963
Financial	7,750	7,750	7,750	1,938
Distribution / Trading	357,896	284,857	28,143	14,619
Electronics and electrical appliances	5,791	1,274	8,471	3,218
Production and transmission of energy	970,355	516,663	393,887	138,903
Iron & Steel	5,448	1,362	675	531
Food Industries	83,769	33,875	297,426	134,142
Paper & Board	49,743	49,743	-	-
Individuals	546,656	183,638	214,647	55,396
Others (including manufacturing, and real estate)	678,852	531,605	610,047	66,139
	<u>4,753,415</u>	<u>3,199,575</u>	<u>3,535,193</u>	<u>1,304,339</u>

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

Public / Government	-	-	-	-
Private	4,753,415	3,199,575	3,535,193	1,304,339
	<u>4,753,415</u>	<u>3,199,575</u>	<u>3,535,193</u>	<u>1,304,339</u>



47.1.5 Geographical segment analysis

	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
----- Rupees '000 -----				
Pakistan	2,645,591	141,188,790	16,255,221	33,520,694
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	2,645,591	141,188,790	16,255,221	33,520,694
	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
----- Rupees '000 -----				
Pakistan	3,922,606	115,431,402	13,974,990	28,804,559
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	3,922,606	115,431,402	13,974,990	28,804,559

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

47.2 Market Risk

The group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in currency, equity, profit rate and other products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

The group seeks to mitigate market risk by employing strategies that correlate rate, price, and spread movements of its earning assets, liabilities and trading activities. The most significant market risks the group faces are interest rate, credit spread, foreign exchange and equity price risks. The details of market risk faced by the group are discussed in following notes.

47.3 Foreign Exchange Risk / Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect revenues from foreign exchange dealing.

The group does not take any currency exposure except to the extent of statutory Net Open Position limit prescribed by SBP. Foreign Exchange open and mismatch positions are controlled through internal limits and are marked to market on a daily basis to contain forward exposures.

Counterparty and stop loss limits are also in place in accordance with the group's approved Standard Operating Procedures to limit risk and concentration.

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FAYSAL BANK

47.3.1 Currency Risk

	2007			
	Assets	Liabilities and share holders' equity	Off-balance sheet items	Net foreign currency exposure
	----- Rupees '000 -----			
Pakistan rupee	130,416,963	131,989,542	1,380,333	(192,246)
United States dollar	9,464,146	7,952,053	(1,291,550)	220,543
Great Britain pound	807,492	792,247	(22,356)	(7,111)
Japanese yen	114,944	144,599	32,103	2,448
Euro	379,231	310,321	(98,530)	(29,620)
Other currencies	6,014	28	-	5,986
	<u>141,188,790</u>	<u>141,188,790</u>	<u>-</u>	<u>-</u>
	2006			
	Assets	Liabilities and share holders' equity	Off-balance sheet items	Net foreign currency exposure
	----- Rupees '000 -----			
Pakistan rupee	110,381,317	107,580,673	(2,889,088)	(88,444)
United States dollar	4,218,827	6,321,645	2,166,779	63,961
Great Britain pound	540,298	1,323,677	763,983	(19,396)
Japanese yen	49,571	-	2,367	51,938
Euro	239,419	205,300	(42,734)	(8,615)
Other currencies	1,970	107	(1,307)	556
	<u>115,431,402</u>	<u>115,431,402</u>	<u>-</u>	<u>-</u>

47.4 Equity position risk

Equity position risk is the risk arising from taking long or short positions, in the trading book, in the equities and all instruments that exhibit market behaviour similar to equities. This results from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock or a defined basket of stocks.

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



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For the year ended December 31, 2007

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

2007												
Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments	
		Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years		
----- Rupees '000 -----												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.32	6,872,035	455,702	-	-	-	-	-	-	-	-	6,416,333
Balances with other banks	5.41	3,708,451	2,820,115	-	-	-	-	-	-	-	-	888,336
Lending to financial institutions	9.24	7,078,102	1,768,908	5,309,194	-	-	-	-	-	-	-	-
Investments	8.19	31,463,993	1,081,797	3,323,492	5,567,718	8,296,623	164,685	208,853	263,287	1,045,126	-	11,512,412
Advances	12.34	87,346,401	16,311,952	17,587,808	10,836,185	15,324,285	9,158,285	6,227,014	6,748,716	2,133,746	1,935,907	1,082,503
Other assets		1,694,692	-	-	-	-	-	-	-	-	-	1,694,692
		138,163,674	22,438,474	26,220,494	16,403,903	23,620,908	9,322,970	6,435,867	7,012,003	3,178,872	1,935,907	21,594,276
Liabilities												
Bills payable		2,406,927	-	-	-	-	-	-	-	-	-	2,406,927
Borrowings from financial institutions	6.66	9,995,855	675,243	5,273,290	2,012,767	309,904	698,387	253,859	281,844	209,648	-	280,913
Deposits and other accounts	6.76	101,879,244	36,209,052	18,395,137	7,590,863	16,305,712	1,728,423	1,868,857	350,915	-	-	19,430,285
Sub-ordinated loans	11.36	1,000,000	-	-	1,000,000	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	8.00	7,827	-	983	983	1,272	4,589	-	-	-	-	-
Other liabilities		6,301,101	-	-	-	-	-	-	-	-	-	6,301,101
		121,590,954	36,884,295	23,669,410	10,604,613	16,616,888	2,431,399	2,122,716	632,759	209,648	-	28,419,226
On-balance sheet gap		16,572,720	(14,445,821)	2,551,084	5,799,290	7,004,020	6,891,571	4,313,151	6,379,244	2,969,224	1,935,907	(6,824,950)
Off-balance sheet financial instruments												
Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.)		(2,200,000)	(2,200,000)	-	-	-	-	-	-	-	-	-
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		(2,200,000)	(2,200,000)	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap		(16,645,821)	2,551,084	5,799,290	7,004,020	6,891,571	4,313,151	6,379,244	2,969,224	1,935,907		
Cumulative Yield/Interest Risk Sensitivity Gap		(16,645,821)	(14,094,737)	(8,295,447)	(1,291,427)	5,600,144	9,913,295	16,292,539	19,261,763	21,197,670		
----- Rupees '000 -----												
2006												
Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments	
		Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years		
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.35	7,207,998	1,192,864	-	-	-	-	-	-	-	-	6,015,134
Balances with other banks	10.00	2,883,040	291,586	-	-	-	-	-	-	-	-	2,591,454
Lendings to financial institutions	9.49	4,608,205	1,309,293	3,298,912	-	-	-	-	-	-	-	-
Investments	8.73	22,472,012	3,446,083	3,995,256	55,991	2,617,678	24,567	16,901	16,901	1,126,297	-	11,172,338
Advances	11.64	74,468,644	9,994,778	15,410,735	9,324,835	26,863,204	3,869,960	3,623,807	2,749,851	785,515	126,140	1,719,819
Other assets		1,364,187	-	-	-	-	-	-	-	-	-	1,364,187
		113,004,086	16,234,604	22,704,903	9,380,826	29,480,882	3,894,527	3,640,708	2,766,752	1,911,812	126,140	22,862,932
Liabilities												
Bills payable		4,516,125	-	-	-	-	-	-	-	-	-	4,516,125
Borrowings from financial institutions	8.90	14,965,037	4,161,556	7,046,340	1,796,923	24,938	36,733	866,638	494,542	497,051	-	40,316
Deposits and other accounts	5.90	74,194,279	28,505,446	12,157,746	6,539,038	7,143,152	1,516,860	1,089,309	699,771	219,362	-	16,323,595
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	8.00	14,664	97	1,257	1,382	3,005	4,516	4,407	-	-	-	-
Other liabilities	12.10	5,320,149	-	-	750,000	-	-	-	-	-	-	4,480,048
		99,010,254	32,667,099	19,205,343	9,087,343	7,171,095	1,558,109	1,960,354	1,194,313	716,413	-	25,360,084
On-balance sheet gap		13,993,832	(16,432,495)	3,499,560	293,483	22,309,787	2,336,418	1,680,354	1,572,439	1,195,399	126,140	(2,497,152)
Off-balance sheet financial instruments												
Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.)		(1,396,238)	(33,330)	-	(1,336,500)	(26,408)	-	-	-	-	-	-
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		(1,396,238)	(33,330)	-	(1,336,500)	(26,408)	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap		(16,465,825)	3,499,560	(1,043,017)	22,283,379	2,336,418	1,680,354	1,572,439	1,195,399	126,140		
Cumulative Yield/Interest Risk Sensitivity Gap		(16,465,825)	(12,966,265)	(14,009,282)	8,274,097	10,610,515	12,290,869	13,863,308	15,058,707	15,184,847		

- 47.5.1** Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.
- 47.5.2** Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.
- 47.5.3** The interest rate exposure taken by the group arises from investing in corporate, small medium enterprises, consumer loans, investment banking and interbank activities where variation in market interest rates may affect the profitability of the group. This risk is addressed by an Asset and Liability Management Committee which reviews the interest rate dynamics at regular intervals and decides repricing of assets and liabilities ensuring that the spread of the group remains at an acceptable level.
- 47.5.4** The advances and deposits of the group are repriced on a periodic basis based on interest rates scenario.
- 47.5.5** Operating fixed assets and deferred tax assets and prepayments are non-financial assets. Similarly, provision for taxation, deferred tax liability and unearned commission are non-financial liabilities. These are not considered in the yield / interest risk sensitivity gap. The difference between the total assets and financial assets and total liabilities and financial liabilities is Rs. 3.025 billion and Rs. 3.343 billion respectively.

47.6 Liquidity Risk

Liquidity risk is the risk that the group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay investors and fulfill commitments to lend.

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

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

Monitoring and reporting of treasury and capital market maturities is done through monitoring of daily maturities. Similarly the overall liquidity maintenance is done through monthly maturity gap analysis at balance sheet level. Hence, monitoring and reporting takes the form of regular and periodic cash flow measurement and projections. Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.



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

Total	2007									
	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	
-----Rupees '000-----										
Assets										
Cash and balances with treasury banks *	6,872,035	-	-	-	-	-	-	-	-	
Balances with other banks	3,708,451	-	-	-	-	-	-	-	-	
Lendings to financial institutions	7,078,102	1,768,908	5,309,194	-	-	-	-	-	-	
Investments	31,463,993	999,086	3,382,118	6,015,895	7,951,149	9,553,252	316,421	2,064,527	1,181,545	
Advances	87,346,401	17,394,457	17,587,809	10,836,185	10,759,822	10,236,064	6,928,165	7,313,366	2,820,775	
Operating fixed assets	2,514,959	18,106	54,324	58,167	108,649	217,297	268,714	462,938	1,086,487	
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	
Other assets	2,204,849	540,118	121,002	-	1,271,353	-	272,376	-	-	
Total	141,188,790	31,301,161	26,454,447	16,910,247	20,090,973	20,006,613	7,785,676	9,840,831	5,088,807	3,710,035
Liabilities										
Bills payable	2,406,927	-	-	-	-	-	-	-	-	
Borrowings from financial institutions	9,995,855	956,156	5,273,290	2,012,767	309,904	698,387	253,859	281,844	209,648	
Deposits and other accounts **	101,879,244	55,827,515	18,395,137	7,402,685	16,305,712	1,728,423	1,868,857	350,915	-	
Sub-ordinated loans	1,000,000	-	-	200	200	400	400	800	998,000	
Liabilities against assets subject to finance lease	7,827	616	261	629	1,835	4,486	-	-	-	
Deferred tax liabilities - net	2,691,966	-	-	-	-	-	-	2,691,966	-	
Other liabilities	6,951,750	3,046,514	485,188	325,063	1,029,823	492,235	427,542	1,145,385	-	
Total	124,933,569	62,237,728	24,153,876	9,741,344	17,647,474	2,923,931	2,550,658	4,470,910	1,207,648	-
Net assets	16,255,221	(30,936,567)	2,300,571	7,168,903	2,443,499	17,082,682	5,235,018	5,369,921	3,881,159	3,710,035
Share capital	5,296,445	-	-	-	-	-	-	-	-	
Reserves	3,567,033	-	-	-	-	-	-	-	-	
Unappropriated profit	1,505,053	-	-	-	-	-	-	-	-	
Minority interest	75,333	-	-	-	-	-	-	-	-	
Surplus on revaluation of assets	5,811,357	-	-	-	-	-	-	-	-	
Total	16,255,221	-	-	-	-	-	-	-	-	
-----Rupees '000-----										
2006										
Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	
-----Rupees '000-----										
Assets										
Cash and balances with treasury banks *	7,207,998	-	-	-	-	-	-	-	-	
Balances with other banks	2,883,040	-	-	-	-	-	-	-	-	
Lendings to financial institutions	4,608,205	1,309,293	3,298,912	-	-	-	-	-	-	
Investments	22,472,012	3,523,405	3,995,256	2,951,614	3,165,463	402,509	5,733,302	886,709	1,813,755	
Advances	74,468,644	11,888,548	15,410,734	9,324,836	8,853,910	8,818,183	7,459,839	6,061,832	2,381,987	
Operating fixed assets	2,239,392	16,147	48,446	48,446	96,892	193,784	239,637	412,844	968,920	
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	
Other assets	1,552,111	93,367	98,990	38,980	1,294,718	161	25,895	-	-	
Total	115,431,402	26,921,798	22,852,338	12,363,876	13,410,983	9,414,637	13,458,673	7,361,385	5,164,662	4,483,051
Liabilities										
Bills payable	4,516,125	-	-	-	-	-	-	-	-	
Borrowings from financial institutions	14,965,037	4,201,873	7,046,339	1,796,923	24,938	36,733	866,638	494,542	497,051	
Deposits and other accounts **	74,194,279	45,048,404	12,157,745	6,539,038	7,143,152	1,516,860	1,089,309	699,771	-	
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	
Liabilities against assets subject to finance lease	14,664	96	1,258	1,382	3,005	4,516	4,407	-	-	
Deferred tax liabilities - net	1,841,651	-	-	-	-	-	-	1,841,651	-	
Other liabilities	5,924,656	636,479	249,239	141,600	1,033,000	456,235	889,749	1,688,873	828,635	
Total	101,456,412	54,402,977	19,454,581	8,478,943	8,204,095	2,014,344	2,850,103	4,724,837	1,325,686	846
Net assets	13,974,990	(27,481,179)	3,397,757	3,884,933	5,206,888	7,400,293	10,608,570	2,636,548	3,838,976	4,482,205
Share capital	4,237,157	-	-	-	-	-	-	-	-	
Reserves	3,079,527	-	-	-	-	-	-	-	-	
Unappropriated profit	1,897,574	-	-	-	-	-	-	-	-	
Minority interest	96,425	-	-	-	-	-	-	-	-	
Surplus on revaluation of assets	4,664,307	-	-	-	-	-	-	-	-	
Total	13,974,990	-	-	-	-	-	-	-	-	

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

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

Notes to the Consolidated Financial Statements

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FAYSAL BANK

47.6.2 Maturities of Assets and Liabilities - Based on expected maturities

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

Total	2007									
	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	
-----Rupees '000-----										
Assets										
Cash and balances										
with treasury banks	6,872,035	2,524,368	1,191,274	525,804	943,090	261,942	371,756	332,509	404,634	316,658
Balances with other banks	3,708,451	3,708,451	-	-	-	-	-	-	-	-
Lendings to financial institutions	7,078,102	1,768,908	5,309,194	-	-	-	-	-	-	-
Investments	31,463,993	999,086	3,382,118	6,015,895	7,951,149	9,553,252	316,421	1,975,412	1,270,660	-
Advances	87,346,401	17,394,457	17,587,809	10,836,185	10,759,821	10,236,064	6,928,165	7,313,366	2,820,775	3,469,759
Operating fixed assets	2,514,959	18,106	54,324	58,167	108,650	217,297	268,714	462,938	1,086,487	240,276
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	2,204,849	666,371	121,480	-	1,144,622	-	272,376	-	-	-
	141,188,790	27,079,747	27,646,199	17,436,051	20,907,332	20,268,555	8,157,432	10,084,225	5,582,556	4,026,693
Liabilities										
Bills payable	2,406,927	2,406,927	-	-	-	-	-	-	-	-
Borrowings from financial institutions	-	9,995,855	5,273,290	2,012,767	309,904	698,387	253,859	281,844	209,648	-
Deposits and other accounts	101,879,244	16,749,069	21,096,335	10,433,421	20,228,269	5,289,559	7,671,845	7,013,841	6,662,926	6,733,979
Sub-ordinated loans	1,000,000	-	-	200	200	400	400	800	998,000	-
Liabilities against assets subject to finance lease	7,827	-	982	983	1,272	4,590	-	-	-	-
Deferred tax liabilities - net	2,691,966	-	-	-	-	-	-	2,691,966	-	-
Other liabilities	6,951,750	3,046,514	485,188	325,063	1,029,823	492,235	427,542	1,145,385	-	-
	124,933,569	23,158,666	26,855,795	12,772,434	21,569,468	6,485,171	8,353,646	11,133,836	7,870,574	6,733,979
Net assets	16,255,221	3,921,081	790,404	4,663,617	(662,136)	13,783,384	(196,214)	(1,049,611)	(2,288,018)	(2,707,286)
Share capital	5,296,445									
Reserves	3,567,033									
Unappropriated profit	1,505,053									
Minority interest	75,333									
Surplus on revaluation of assets	5,811,357									
	16,255,221									

47.7 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk and losses originate from operational process reliability, IT security, natural disasters, dependence on key suppliers, frauds, errors, customer service quality, regulatory compliance, retention of staff and social and environment impacts. The bank has implemented risk controls and loss mitigation actions for curtailing operational risk. Operational risk management unit has been centralized under risk management department, with representatives in each department, which have processes and systems in place to address operational risks within their areas. These include key controls and the provision of business continuity plans to protect against each disruption. An operational loss database has been established which will further strengthen the process of operational risk management.

**48. DATE OF AUTHORISATION FOR ISSUE**

These consolidated financial statements were authorised for issue on February 21, 2008 by the Board of Directors of the bank.

49. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 21, 2008 has proposed a cash dividend of Rs. 2.5 per share (2006: Rs 2.5 per share) and a transfer of Rs. Nil (2006: Rs. 33.085 million) to Capital Market Reserve. These appropriations will be approved in the forthcoming Annual General Meeting. The consolidated financial statements for the year ended December 31, 2007 do not include the effect of current year's appropriations which will be accounted for in the consolidated financial statements for the year ending December 31, 2008.

50. GENERAL**50.1 Presentation and disclosures in the annual financial statements**

These financial statements have been prepared using the revised format of financial statements prescribed through BSD circular No. 04 dated February 17, 2006 issued by the State Bank of Pakistan. The format for presentation of financial statements became applicable for annual financial statements for periods commencing from January 01, 2006. The changes in the revised format for presentation of financial statements include the introduction of disclosures in respect of segment details with respect of business activities and capital adequacy and expanded disclosures in respect of derivative instruments and risk management. As per SBP Circular No. BSD/SU-4/546/101/2007 dated January 13, 2007, it had been clarified that disclosures pertaining to Basel II would be applicable after final implementation, i.e. completion of trial run. These financial statements, therefore, do not include these specific disclosures.

50.2 Amendments to published standards and new interpretations effective in 2007

Amendment to IAS 1- "Presentation of Financial Statements - Capital Disclosures", introduced new disclosures about the level of an entity's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures given in note 46.1 to the financial statements.

Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 01, 2007 which are not considered relevant nor have any significant effect on the bank's operations have not been considered in these financial statements.



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

The following standards, amendments and interpretation of approved accounting standards, are effective for accounting periods beginning from the dates specified below.

Particulars	Effective date
Revised IAS 1 - Presentation of financial statements. The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics. The changes affect the presentation of owner changes in equity and of comprehensive income. It introduces a requirement to include in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.	effective for annual accounting periods beginning on or after January 01, 2009
Revised IAS 23 - Borrowing costs. Revised IAS 23 removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have an effect on Group's financial statements.	effective from accounting period beginning on or after January 01, 2009
IFRIC 9 - Reassessment of embedded derivative.	effective during the year but will be applied together with the application of IAS 39
IFRIC 11 - IFRS 2 - Group and Treasury Share Transactions . IFRIC 11 requires that a share based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as equity settled share based payment regardless of how the equity instruments are obtained. IFRIC 11 is not expected to have any material impact on the Bank's financial statements.	effective for annual periods beginning on or after 1 March 2007
IFRIC 12 – Service Concession Arrangements. IFRIC 12 provides guidance on certain recognition and measurement issues that arise in accounting for public- to-private concession arrangements. IFRIC 12 is not relevant to the Bank's operations.	effective from accounting period beginning on or after January 01, 2008
IFRIC 13- Customer Loyalty Programmes. IFRIC 13 addresses the accounting by entities that operates, or otherwise participate in, customer loyalty programmes for their customers.	effective from accounting period beginning on or after July 01, 2008
IFRIC 14 IAS 19- The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction. IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on minimum funding requirements (MFR) for such asset.	effective from accounting period beginning on or after January 01, 2008.



50.4 Comparatives

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

Reclassification from		Reclassification to		Reason for reclassification	Rupees in '000s
Note	Component	Note	Component		
26.1 (ii)	Direct Credit Substitutes - Contingent liability - guarantees favouring banking companies and other financial institutions	26.2	Transaction related contingent liabilities - Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:	Based on clarification in Prudential Regulations for Corporate / Commercial banking received from the State Bank regarding differentiation of Standby Letter of Credit (SBLC) and Letter of Credit (LC) vide BPRD Circular Letter No. 33 of 2007.	
		(i)	Government		25,982
		(ii)	Banking companies and other financial institutions		196,671
		(iii)	Others		124,691
25.3	Trade-related contingent liabilities - Letters of credit	25.1 (iii)	Direct Credit Substitutes - Contingent liability - guarantees favouring others		4,115,050

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

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

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

Acting President & CEO

Director

Director

Director

Annexure I to the Consolidated Financial Statements



Statement showing details of investments in ordinary and preference shares / certificates of listed and unlisted companies / modarabas / mutual funds and Term Finance Certificates and bonds as referred to in note 12 to the consolidated financial statements.

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

Ordinary shares / certificates of Rs 10 each		Name of company/ modaraba/ mutual fund	2007		2006		Quality of Available for Sale Securities Medium to Long Term Rating Assigned (where available)
2007	2006		At Cost Rupees'000	Market Values Rupees'000	2007	2006	
Closed end Mutual funds							
3,994,716	3,994,716	Al-Meezan Mutual Fund	35,263	35,263	50,733	51,332	4-Star
-	1,397,000	Dominion Stock Fund *	-	1,816	-	2,514	
2,000,000	2,000,000	NAMCO Balanced Fund	20,000	20,000	16,700	20,000	
-	500,000	Pakistan Premier Fund	-	-	-	6,500	4-Star
345,000	345,000	Pakistan Strategic Allocation Fund	3,681	3,681	3,140	2,933	4-Star
2,812,895	2,812,895	UTP Large CAP Fund (Formerly Abamco Composite Fund)	27,888	27,888	22,784	22,503	4-Star
Modarabas							
-	2,102,500	B.R.R. International Modaraba	-	15,364	-	12,510	
2,990,000	2,990,000	First Habib Modaraba **	22,656	22,656	24,219	20,631	AA
67	469,067	First HBL Modaraba	1	3,840	1	3,987	AA-
5,271,591	5,271,591	First Prudential Modaraba	8,741	8,741	12,915	9,225	
-	252,821	Standard Chartered Modaraba	-	2,778	-	3,843	
Leasing Companies							
206	1,336,706	Pakistan Industrial & Commercial Leasing Limited	1	17,244	1	2,206	
Investment Banks / Investment Companies							
2,703,600	7,243,000	Atlas Bank Limited (Formerly Dawood Bank Limited)	27,036	90,604	45,961	105,748	A-
1,709,700	1,709,557	Prudential Investment Bank Limited *	12,528	12,528	4,958	4,274	
Textile Spinning							
1,613,000	1,613,000	Asim Textile Mills Limited ***	19,516	19,516	2,016	1,774	
127,045	127,045	Crown Textile Mills Limited ***	1,239	1,239	-	-	
99,500	99,500	Dewan Farooq Spinning Mills Limited	995	995	796	453	BBB+
586,093	-	Hira Textile Mills Limited	7,326	-	4,659	-	
Textile Composite							
-	706,000	Azgard Nine Limited	-	16,841	-	15,461	
-	236,500	Nishat Mills Limited	-	19,715	-	20,765	
2,500,000	2,500,000	Zahur Textile Mills Limited ***	2,500	2,500	-	-	
Cement							
-	715,000	D.G. Khan Cement	-	64,532	-	45,009	
Power Generation and Distribution							
891,500	1,550,000	Hub Power Company Limited	30,004	52,167	27,190	41,850	
939,375	939,375	Ideal Energy Limited *	28,181	28,181	14,091	14,560	
723,000	723,000	Kohinoor Energy Limited	23,174	23,174	22,991	18,003	
Oil and Gas Exploration Companies							
-	563,100	Oil and Gas Development Company Limited	-	67,230	-	64,588	
-	200,000	Pakistan Oilfields Limited	-	63,746	-	69,950	
-	500,700	Pakistan Petroleum Limited	-	106,293	-	116,162	
Technology & Communication							
1,329,000	5,750,000	Pakistan Telecommunication Company Limited	82,009	354,809	55,884	254,725	
Fertilizer							
1,374,615	2,101,330	Fauji Fertilizer Company Limited	100,000	150,058	163,236	221,795	
-	5,921,000	Fauji Fertilizer Bin Qasim	-	174,641	-	168,749	
			<u>452,739</u>	<u>1,414,599</u>	<u>472,276</u>	<u>1,322,050</u>	

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

- Dominion Stock Fund – NIL (2006: 28.00%)
- Prudential Investment Bank Limited – 17.10% (2006: 17.10%)
- Asim Textile Mills Limited – 10.62% (2006: 10.62%)
- Ideal Energy Limited – 11.74% (2006: 11.74%)

**Certificates of Rs 5 each

***Delisted companies



2. Details of investments in unlisted companies are as follows:

Ordinary shares / certificates of Rs 10 each 2007	Name of company/ modaraba/ mutual fund 2006	2007	2006	2007	2006	Quality of Available for Sale Securities
		At Cost Rupees'000	At Cost Rupees'000	Market Values Rupees'000	Market Values Rupees'000	Medium to Long Term Rating Assigned (where available)
Faysal Asset Management Limited		15,000	15,000	Not Applicable		AM3+
1,500,000 (2006:1,500,000) ordinary shares of Rs 10 each The bank holds 30% (2006: 30%) of investee's capital. Chief Executive: Mr. Salman Haider Shaikh Break up value of share: Rs 18.36 (2006: Rs 19.10) Period of financial statements: June 30, 2007						
Al Hamra Avenue (Private) Limited		243,750	243,750	Not Applicable		
24,375,000 (2006 : 24,375,000) ordinary shares of Rs 10 each The bank holds 17.38% of investee's capital. Chief Executive: Mr. Habib Ahmed Break up value per share: Rs. 11.38 (2006: Rs 10.00) Period of financial statements: June 30, 2007						
Al Hamra Hills (Private) Limited		125,000	125,000	Not Applicable		
12,500,000 (2006 : 12,500,000) ordinary shares of Rs 10 each The bank holds 14.71% (2006 : 15.15%) of investee's capital. Chief Executive: Mr. Habib Ahmed Break up value per share: Rs. 9.76 (2006: Rs. 10.30) Period of financial statements: June 30, 2007						
DHA Cogen Limited		325,000	325,000	Not Applicable		
32,500,000 (2006 : 32,500,000) ordinary shares of Rs 10 each The bank holds 18.52% (2006 : 20.87%) of investee's capital. Chief Executive: Mr. Waqas Mohsin Break up value per share: Rs. 10.00 (2006: Rs. 10.00) Period of financial statements: June 30 ,2007						
First Capital Investment (Private) Limited *		750	750	Not Applicable		AM4+
150,000 (2006 : 150,000) ordinary shares of Rs 10 each The bank holds 3.95 % (2006: 3.95%) of investee's capital. Chief Executive: Mr. Faisal Portik Break up value per share: Not Available (2006: Rs 10.99)						
Himont Chemical (Private) Limited*		1,037	1,037	Not Applicable		
810,000 (2006 : 810,000) ordinary shares of Rs 10 each The bank holds 2.92 % (2006: 2.92%) of investee's capital. Chief Executive: Mr. Sohail A Siddiqui Break up value per share: Not Available (2006: Rs (8.00))						
Sukhchayn Gardens (Private) Limited		273,186	273,186	Not Applicable		
660,000 (2006 : 660,000) ordinary shares of Rs 100 each The bank holds 15.00% (2006 : 15.00%) of investee's capital. Chief Executive: Mr. Shujaat Azeem Break up value per share: Rs. 170.85 Period of financial statements: June 30, 2006						
		983,723	983,723			

*Fully provided for investments



3. Preference shares – Listed companies

Shares of each Rs 10		Name of Company	Rate	2007		2006		Quality of Available for Sale Securities
2007	2006			At Cost	Market Values	At Cost	Market Values	
				Rupees'000		Rupees'000		Medium to Long Term Rating Assigned
2,249,000	2,249,000	Azgard Nine Limited	8.95% Cumulative	22,490	22,490	18,554	15,743	A+
24,394,111	24,394,611	Maple Leaf Cement Factory Limited	9.75% Cumulative Convertible	243,937	243,937	219,547	231,744	A+
10,000,000	10,000,000	Pak Elektron Limited	9.50% Cumulative Convertible	100,000	100,000	100,000	100,000	A
12,625,000	-	Pak Elektron Limited	9.50% Cumulative Convertible	126,250	-	126,250	-	A
				<u>492,677</u>	<u>366,427</u>	<u>464,351</u>	<u>347,487</u>	

4. Preference shares – Unlisted companies

Shares of each Rs 10		Name of Company	% of Holding	2007		2006	Quality of Available for Sale Securities
2007	2006			At Cost	Market Values		
-	9,400,000	Dalda Foods (Pvt) Limited Rate: 8.75% Cumulative for first 4 years	50%	-	94,000	Not Applicable	
2,500,000	2,500,000	Fazal Cloth Mills (Pvt) Limited Chief Executive: Mr. S H Naseem Ahmad Rate: 2.5% above six months KIBOR	10%	25,000	25,000	Not Applicable	
				<u>25,000</u>	<u>119,000</u>		

5. Details of investments in open ended mutual funds:

Ordinary shares / certificates of Rs 10 each		Name of company/modaraba/ mutual fund	2007		2006		Quality of Available for Sale Securities
2007	2006		At Cost	Market Values	At Cost	Market Values	
Open ended Mutual funds							
1,310,292	2,119,689	Faysal Balanced Growth Fund	80,374	152,638	142,167	213,304	MFR-3 Star
-	2,774,752	Faysal Income & Growth Fund	-	250,000	-	250,005	
2,100,000	-	Faysal Savings Growth Fund	207,411	-	220,815	-	T4-Star
-	145,000	KASB Liquid Fund	-	15,002	-	15,186	
-	5,052,793	NAFA Cash Fund	-	50,000	-	53,155	
154,885,924	172,421,351	National Investment (Unit) Trust	2,670,544	2,895,623	9,254,895	7,733,097	T4-Star
-	241,051	Pakistan Income Fund	-	7,928	-	12,703	
			<u>2,958,329</u>	<u>3,371,191</u>	<u>9,617,877</u>	<u>8,277,450</u>	

6. Term Finance Certificates - Listed, Secured

Al Zamin Leasing Modaraba - First Tranche	8,660	17,320	3,275	15,868	A
5,094 (2006: 5,094) certificates of Rs. 5,000 each					
Mark-up: Minimum 8.00%, on PLS basis					
Redemption: Three annual installments commencing December 24, 2006					
Maturity: December 2008					
Modaraba Management Company: Al Zamin Modaraba Management (Private) Limited					
CEO of Management Company : Mr. Basheer Ahmed Chowdry					
Balances carried forward	<u>8,660</u>	<u>17,320</u>	<u>3,275</u>	<u>15,868</u>	



	2006	2006	2007	2006	Quality of Available for Sale Securities
	Rupees'000	At Cost Rupees'000	Market Values Rupees'000	Rupees'000	Medium to Long Term Rating Assigned
Balances brought forward	8,660	17,320	3,275	15,868	
Al Zamin Leasing Modaraba - Second Tranche	49,710	49,710	47,225	45,788	A
9,942 (2006: 9,942) certificates of Rs. 5,000 each					
Mark-up: Minimum 9.5% on PLS Basis (4% above six months KIBOR - Floor 11%)					
Redemption: Three annual installments commencing May 2008					
Maturity: May 2010					
Modaraba Management Company: Al Zamin Modaraba Management (Private) Limited					
CEO of Management Company : Mr. Basheer Ahmed Chowdry					
Azgard Nine	158,073	258,097	164,396	262,175	AA-
31,640 (2006: 51,640) certificates of Rs. 5,000 each					
Mark-up: 2.40% above six months KIBOR rate with no floor and cap					
Redemption: 10 unequal semi-annual installments commencing from the 30th month					
Maturity: September 2012					
Chief Executive Officer: Mr. Ahmad Shaikh					
Bank Al Falah Limited - Second Issue	-	75,582	-	74,070	
Nil (2006: 15,128) certificates of Rs. 5,000 each					
Mark-up: 1.5% above six months KIBOR					
Redemption: 0.25% per annum in first 78 months, balance in 3 semi annual installments of 33.25% each starting from 84th month.					
Maturity: November, 2012					
Chief Executive Officer: Mr. Sirajuddin Aziz					
Bank Al Falah Limited - Third Issue	-	49,981	-	49,106	
Nil (2006: 10,000) certificates of Rs. 5,000 each					
Mark-up: 1.5% above six months KIBOR					
Redemption: 0.25% per annum in first 78 months, balance in 3 semi annual installments of 33.25% each starting from 84th month.					
Maturity: November, 2013					
Chief Executive Officer: Mr. Sirajuddin Aziz					
Bank Al Habib Limited -Unsecured	99,880	99,920	96,384	91,936	AA-
20,000 (2006: 20,000) certificates of Rs. 5,000 each					
Mark-up: 1.5% above six months KIBOR, with floor-3.50% & cap-10%					
Redemption: 0.25% per annum in first 78 months, balance in 3 semi annual installments of 33.25% each starting from 84th month.					
Maturity: July 2012					
Chief Executive Officer: Mr. Abbas D. Habib					
Chanda Oil and Gas Securitization Company Limited	147,485	177,800	152,175	176,254	
40,968 (2006:40,968) certificates of Rs.5,000 each					
Mark-up: 3.25% above three months KIBOR rate, with floor-8.95% & cap-13%					
Redemption: Unequal quarterly installments starting six months from the date issue					
Maturity: August 2011					
Chief Executive Officer: Mr. Khurshid Zafar					
Balances carried forward	463,808	728,410	463,455	715,197	

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FAYSAL BANK

	2007	2006	2007	2006	Quality of Available for Sale Securities
	Rupees'000	At Cost	Market Values	Rupees'000	Medium to Long Term Rating Assigned
Balances brought forward	463,808	728,410	463,455	715,197	
Crescent Leasing Corporation Limited	-	1,355	-	1,374	
Nil (2006: 271) certificates of Rs. 5,000 each					
Mark-up: 2% above the cut off yield of 5 year Pakistan Investment Bonds; Floor-12% per annum; Cap-15.75% per annum					
Redemption: At maturity					
Maturity: September, 2007					
Chief Executive Officer: Mr. Javed A. Callea					
Crescent Standard Investment Bank Limited (Formerly: Pacific Leasing Limited)	13,264	18,915	13,264	18,915	Suspended
8,000 (2006: 8,000) certificates of Rs. 5,000 each					
Mark-up: 2% above SBP discount rate; Floor-9.75% per annum Cap-13.5% per annum					
Redemption: Six semi – annual installments commencing January 2005					
Maturity: July, 2007					
Chief Executive Officer: Mr. Badr-ud-din Khan					
Jahangir Siddiqui & Co. Limited	3,272	9,817	3,326	9,925	AA+
2,621 (2006: 2,621) certificates of Rs. 5,000 each					
Mark-up: 1.5% above the cut off yield of 5 year Pakistan Investment Bonds; Floor-7.50 % per annum; Cap-13% per annum					
Redemption: Four semi – annual installments commencing October 2006					
Maturity: April, 2008					
Chief Executive Officer: Mr. Munaf Ibrahim					
Jahangir Siddiqui & Co. Limited - Fourth Tranche	49,980	50,000	51,479	51,000	AA+
10,000 (2006: 10,000) certificates of Rs. 5,000 each					
Mark-up: 2.5% above six months KIBOR					
Redemption: 0.18% of principal in the first 54 months, remaining 99.82% in equal installments in 60th & 66th month					
Maturity: May 2012					
Chief Executive Officer: Mr. Munaf Ibrahim					
Nishat Mills Limited	23,976	47,952	23,976	47,952	
12,000 (2006: 12,000) certificates of Rs. 5,000 each					
Mark-up: 1.7% above 6 month Treasury Bills rate					
Redemption: Five semi – annual installments commencing from 36th month					
Maturity: September, 2008					
Chief Executive Officer: Mrs. Naz Mansha					
Pakistan Services Limited	21,663	43,325	21,951	43,586	A
15,173 (2006: 15,173) certificates of Rs. 5,000 each					
Mark-up: 2.25% above SBP discount rate; Floor-9.75% per annum Cap-13.75% per annum					
Redemption: Seven semi – annual installments commencing November 12,2005					
Maturity: November, 2008					
Chief Executive Officer: Mr. Murtaza Hashwani					
Balances carried forward	575,963	899,774	577,451	887,949	



	2007	2006	2007	2006	Quality of Available for Sale Securities
	Rupees'000	At Cost	Market Values	Rupees'000	Medium to Long Term Rating Assigned
Balances brought forward	575,963	899,774	577,451	887,949	
Trust Leasing & Investment Bank Limited - First Tranche	33,014	49,521	32,829	50,066	AA
16,507 (2006: 16,507) certificates of Rs. 5,000 each					
Mark-up: 3% above six months KIBOR rate; Floor-6% per annum					
Cap-10% per annum					
Redemption: Ten semi – annual installments commencing 6 months from date of issue					
Maturity: July 2009					
Chief Executive Officer: Mr. Jawaid B. Shaikh					
Trust Leasing & Investment Bank Limited - Second Tranche	73,350	97,800	74,084	99,228	AA
24,450 (2006: 24,450) certificates of Rs. 5,000 each					
Mark-up: 2% above six months KIBOR rate; with no floor and no cap					
Redemption: Ten semi – annual installments commencing 6 months from date of issue					
Maturity: November 2010					
Chief Executive Officer: Mr. Jawaid B. Shaikh					
United Bank Limited - First Issue	249,712	249,808	230,359	229,598	AA
50,000 (2006: 50,000) certificates of Rs. 5,000 each					
Mark-up: 8.45% per annum					
Redemption: 0.25% per annum is first 78 months, balance in 3 semi annual installments of 33.25% each starting from 84th month.					
Maturity: July 2012					
Chief Executive Officer: Mr. Atif R. Bokhari					
United Bank Limited - Second Issue	99,990	99,994	93,181	94,754	AA
20,000 (2006: 20,000) certificates of Rs. 5,000 each					
Mark-up: 9.49% per annum					
Redemption: At maturity					
Maturity: March 2013					
Chief Executive Officer: Mr. Atif R. Bokhari					
United Bank Limited - Third Issue	-	82,160	-	82,259	
Nil (2006: 16,432) certificates of Rs. 5,000 each					
Mark-up: 1.70% above six months KIBOR rate					
Redemption: 0.20% of principal in the first 60 months and remaining in six semi annual installments of 16.33% each, starting from 66th month					
Maturity: September 2014					
Chief Executive Officer: Mr. Atif R. Bokhari					
Balances carried forward	<u>1,032,029</u>	<u>1,479,057</u>	<u>1,007,904</u>	<u>1,443,854</u>	

Annexure I to the Consolidated Financial Statements



FAYSAL BANK

	2007	2006	2007	2006	Quality of Available for Sale Securities
	Rupees'000	At Cost	Market Values	Rupees'000	Medium to Long Term Rating Assigned
Balances brought forward	1,032,029	1,479,057	1,007,904	1,443,854	
Naimat Bisal Oil and Gas Securitization Company Limited	55,329	79,039	56,463	78,888	A+
22,000 (2006: 22,000) certificates of Rs. 5,000 each					
Mark-up: 2.50% above six months KIBOR rate, Floor-7.50%, Cap-13%					
Redemption: 3% of principal during first six months, and remaining 97% in 54 equal monthly installments thereafter.					
Maturity: April, 2010					
Chief Executive Officer: Mr. Intisar-ul-Hasan Alvi					
Financial Receivables Securitization Co. Ltd.	99,980	100,000	103,479	100,000	AA-
20,000 (2006: 20,000) certificates of Rs. 5,000 each					
Mark-up: 2.00% above six months KIBOR rate, Floor-8%, Cap-16%					
Redemption: Equal Semi annual installment with a grace period of 1 year					
Maturity: December 2013					
Chief Executive Officer: Mr. S. M. Nasir Raza					
Tele Card Limited	255,900	329,217	217,668	322,633	BBB
70,233 (2006 : 70,263) certificates of Rs. 5,000 each					
Mark-up: 3.75% above six months KIBOR rate, with no floor and no cap					
Redemption: Ten unequal semi-annual installments commencing 18 months from the last date of public subscription.					
Maturity: April 2011					
Chief Executive Officer: Mr. Shahid Feroz					
	<u>1,443,238</u>	<u>1,987,313</u>	<u>1,385,514</u>	<u>1,945,375</u>	
Term Finance Certificates - Unlisted					
Dewan Cement Ltd. (formerly Pakland Cement Limited)	412,459	504,397	Not applicable		
Mark-up: 2.50% above six months KIBOR rate, with no floor and no cap					
Redemption: Repayment in 19 unequal semi annual installments upto July 2013					
Maturity: July 2013					
Chief Executive Officer: Mr. Dewan M. Yousuf Farooqui					
Dewan Hattar Cement Ltd. (formerly Saadi Cement Limited)	494,342	594,357	Not applicable		
Mark-up: 2.50% above six months KIBOR rate, with no floor and no cap					
Redemption: Repayment in 19 unequal semi annual installments upto July 2013					
Maturity: July 2013					
Chief Executive Officer: Mr. Dewan M. Yousuf Farooqui					
	<u>906,801</u>	<u>1,098,754</u>			



Statement showing written-off loans or any other financial relief of five hundred thousand rupees or above provide during the year ended December 31, 2007 as referred to in note 13.8 to the consolidated financial statements.

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's/ Husband's name	Outstanding Liabilities at beginning of year			Total		Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Accrued Interest Not Debited	Principal	Interest/ Mark-up written-off				
1	2	3	4	5	6	7	8	9	10	11	12	
1	M/s Nimer Industrial Chemicals Limited	Mr. Louis Tucker Link (Non-resident)	N/A	25,466	-	30,247	55,713	17,466	-	30,247	47,713	
		Mr. Abdul Jaail Jamil 270-45-348601										
		Mr. George Rapport (Non-resident)										
		Mr. Sheikh Amar Hameed 274-49-355141										
		Mr. Saeeduzaman 271-49-197832										
		Mr. Javed S Arif 517-86-113782										
		Mr. Zafar Mahmood 502-69-184969										
TOTAL:				25,466	-	30,247	55,713	17,466	-	30,247	47,713	

Rupees in '000

Combined Pattern of CDC and Physical Share Holdings as at 31-12-2007



FAYSAL BANK LIMITED		COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS AS AT 31-12-2007			
CATEGORY NO.	CATEGORIES OF SHAREHOLDERS	NUMBER OF SHARES HELD	CATEGORY WISE NO. OF SHAREHOLDERS	CATEGORY WISE SHARES HELD	PERCENTAGE %
1	INDIVIDUALS		11,985	35,740,191	6.75
2	INVESTMENT COMPANIES		20	3,120,144	0.59
3	JOINT STOCK COMPANIES		149	2,719,518	0.51
4	DIRECTORS ,CHIEF EXECUTIVE OFFICER AND THEIR SPOUSE AND MINOR CHILDREN HRH PRINCE MOHAMED AL-FAISAL AL-SAUD (A/C - Shamil Bank of Bahrain B.S.C.) MR. ZIAD H. RAWASHDEH (A/C - Shamil Bank of Bahrain. B.S.C.) MR. GRAHAM RODERICK WALKER MR. SANALLAH QURESHI MR. SHAHID AHMAD MR. TARIQ IQBAL KHAN (Nominee - NIT)	1,371 998 - 35,803 20,002 -	4	58,174	0.01
5	COMPANY SECRETARY				
6	EXECUTIVES		8	249,946	0.05
7	NIT / ICP NATIONAL BANK OF PAKISTAN , TRUSTEE DEPTT. INVESTMENT CORPORATION OF PAKISTAN	13,088,275 18,897	3 3	13,107,172	2.47
8	ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES SHAMIL BANK OF BAHRAIN (SPONSOR COMPANY) FAISAL FINANCE (LUXEMBOURG) MFAI (JERSEY) LTD. FAISAL FINANCE (SWITZERLAND) S.A. FAISAL PRIVATE BANK (SWITZERLAND) SA MFAI (JERSEY) LIMITED DMI (JERSEY) LIMITED	238,042,486 45,420,385 17,619,976 11,355,095 5,765,801 13,642,356 22,710,192	14	354,556,291	66.94
9	PUBLIC SECTOR COMPANIES AND CORPORATIONS				
10	BANKS, DFIs, NBFIs, INSURANCE COMPANIES, MODARABAS & MUTUAL FUNDS		49	35,607,468	6.72
11	FOREIGN INVESTORS		58	83,438,205	15.75
12	CO-OPERATIVE SOCIETIES		1	625	0.00
13	CHARITABLE TRUSTS		8	607,053	0.11
14	OTHERS		15	439,686	0.08
TOTALS			12,317	529,644,473	100.00

SHARE-HOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST IN THE LISTED COMPANY

TOTAL PAID-UP CAPITAL OF THE COMPANY 529,644,473 SHARES
 10% OF THE PAID-UP CAPITAL OF THE COMPANY 52,964,447 SHARES

NAME(S) OF SHARE-HOLDER(S)	DESCRIPTION	NO. OF SHARES HELD	PERCENTAGE %
SHAMIL BANK OF BAHRAIN B.S.C. (SPONSOR COMPANY)	FALLS IN CATEGORY # 8	238,042,486	44.94

NOTE :

Shamil Bank of Bahrain B.S.C. holds the shares of Faysal Bank Limited in =03= different folios in Physical form and also holding shares in CDC under =01= CDC account.



Combined Pattern of CDC and Physical Share Holdings as at 31-12-2007

Category no.	Categories of Shareholders	No. of Shareholders	Shares held	Percentage
1	Individuals	11985	35,740,191	6.75
2	Investment Companies	20	3,120,144	0.59
3	Joint Stock Companies	149	2,719,518	0.51
4	Directors, Chief Executives Officers and their Spouse and Minor Children	4	58,174	0.01
5	Executives	8	249,946	0.05
6	NIT / ICP	6	13,107,172	2.47
7	Associated Companies , Undertaking and Related Parties	14	354,556,291	66.94
8	Public Sector Companies and Corporations	0	0	0.00
9	Bank DFIs Insurance Companies Modarbas and Mutual Funds	49	35,607,468	6.72
	9.1 Financial Institutions	12	2,333,274	0.44
	9.2 Leasing Companies	4	100,464	0.02
	9.3 Insurance Companies	10	32,101,157	6.06
	9.4 Modarabas	2	728	0.00
	9.5 Mutual Funds	21	1,071,845	0.20
10	Foreign Investors	58	83,438,205	15.75
11	Co-operative Societies	1	625	0.00
12	Charitable Trusts	8	607,053	0.11
13	Others	15	439,686	0.08
		12317	529,644,473	100.00

FAYSAL BANK LIMITED
 PATTERN OF SHARE HOLDINGS CDC
 AND PHYSICAL AS ON 31/12/2007



FAYSAL BANK

NUMBER OF SHARE HOLDERS	SHARE HOLDING		TOTAL SHARES HELD
4,435	1-	100	298,606
2,355	101-	500	638,442
1,167	501-	1,000	919,225
3,427	1,001-	5,000	6,222,118
409	5,001-	10,000	2,961,524
129	10,001-	15,000	1,588,967
64	15,001-	20,000	1,130,473
54	20,001-	25,000	1,178,743
26	25,001-	30,000	710,725
32	30,001-	35,000	1,016,797
15	35,001-	40,000	560,495
13	40,001-	45,000	547,905
12	45,001-	50,000	586,555
9	50,001-	55,000	476,114
6	55,001-	60,000	336,334
11	60,001-	65,000	680,159
6	65,001-	70,000	404,725
5	70,001-	75,000	361,114
5	75,001-	80,000	383,585
5	80,001-	85,000	411,072
4	85,001-	90,000	352,677
4	90,001-	95,000	370,850
7	95,001-	100,000	688,931
5	100,001-	105,000	509,489
6	105,001-	110,000	638,850
1	110,001-	115,000	110,312

NUMBER OF SHARE HOLDERS	SHARE HOLDING		TOTAL SHARES HELD
1	115,001-	120,000	115,700
4	120,001-	125,000	493,569
2	125,001-	130,000	255,294
2	130,001-	135,000	267,250
3	140,001-	145,000	428,019
2	150,001-	155,000	307,077
2	155,001-	160,000	315,275
2	160,001-	165,000	325,268
2	165,001-	170,000	335,817
2	175,001-	180,000	354,415
2	180,001-	185,000	363,600
3	185,001-	190,000	561,875
1	190,001-	195,000	191,250
1	195,001-	200,000	198,625
2	200,001-	205,000	400,054
2	205,001-	210,000	418,425
2	210,001-	215,000	420,305
3	215,001-	220,000	649,700
1	240,001-	245,000	240,033
3	245,001-	250,000	740,656
3	250,001-	255,000	755,285
1	255,001-	260,000	259,575
1	260,001-	265,000	264,095
1	265,001-	270,000	269,600
2	270,001-	275,000	540,436
1	280,001-	285,000	284,600



FAYSAL BANK

FAYSAL BANK LIMITED
PATTERN OF SHARE HOLDINGS CDC
AND PHYSICAL AS ON 31/12/2007



NUMBER OF SHARE HOLDERS	SHARE HOLDING	TOTAL SHARES HELD	NUMBER OF SHARE HOLDERS	SHARE HOLDING	TOTAL SHARES HELD
1	295,001-	300,000	1	1,260,001-	1,265,000
		300,000			1,261,676
1	300,001-	305,000	1	1,395,001-	1,400,000
		300,562			1,397,400
1	320,001-	325,000	1	1,680,001-	1,685,000
		324,060			1,682,235
2	345,001-	350,000	1	1,760,001-	1,765,000
		695,200			1,761,140
1	375,001-	380,000	1	1,805,001-	1,810,000
		375,020			1,807,037
1	380,001-	385,000	1	2,130,001-	2,135,000
		382,000			2,134,613
1	390,001-	395,000	1	2,520,001-	2,525,000
		391,100			2,523,353
1	420,001-	425,000	1	5,275,001-	5,280,000
		424,268			5,277,500
1	450,001-	455,000	1	5,430,001-	5,435,000
		450,532			5,431,500
3	495,001-	500,000	1	5,765,001-	5,770,000
		1,500,000			5,765,801
1	500,001-	505,000	1	5,945,001-	5,950,000
		500,070			5,945,192
1	515,001-	520,000	1	6,710,001-	6,715,000
		515,200			6,713,875
1	520,001-	525,000	1	7,140,001-	7,145,000
		521,250			7,142,503
1	530,001-	535,000	1	10,830,001-	10,835,000
		532,800			10,833,872
1	720,001-	725,000	1	11,355,001-	11,360,000
		721,803			11,355,095
1	745,001-	750,000	1	13,640,001-	13,645,000
		746,600			13,642,356
1	775,001-	780,000	1	17,615,001-	17,620,000
		777,781			17,619,976
2	870,001-	875,000	1	22,710,001-	22,715,000
		1,746,100			22,710,192
1	945,001-	950,000	1	24,635,001-	24,640,000
		945,965			24,637,161
1	965,001-	970,000	1	26,215,001-	26,220,000
		969,926			26,217,908
1	990,001-	995,000	1	28,095,001-	28,100,000
		990,312			28,095,555
1	995,001-	1,000,000	2	45,420,001-	45,425,000
		1,000,000			90,840,770
1	1,025,001-	1,030,000	1	181,515,001-	181,520,000
		1,026,835			181,519,023
1	1,050,001-	1,055,000			
		1,050,950			
1	1,140,001-	1,145,000			
		1,141,046			
1	1,155,001-	1,160,000			
		1,158,775			
				12,317	529,644,473

Faysal Bank - Branch Network



FAYSAL BANK

SOUTHERN REGION

Karachi

Karachi Main Branch
Faysal House,
ST - 2, Shahr-e Faisal, Karachi
Tel: 021 2795200, 111-747-747
Fax: 021 2795234

Karachi I.I. Chundrigar Road Branch
11/13, Trade Centre,
I.I. Chundrigar Road, Karachi.
Tel: 021 2638011-20
Fax: 021 2637975

Karachi Clifton Branch
Quality Heights,
K.D.A. Scheme No.5, Clifton, Karachi.
Tel: 021 5863771-73
Fax: 021 5863774-75

Karachi Gulshan Branch
B-35, Block 13-A, Main University Road,
Gulshan-e-Iqbal, Karachi.
Tel: 021 4994261-63
Fax: 021 4994260

Karachi Jodia Bazar Branch
G-2, Plot No. MR-6/52/1,
Small Trade Centre, Ram Bharti Street,
Jodia Bazar, Karachi.
Tel: 021 2443795, 2444073
Fax: 021 2444107

Karachi D.H.A. Branch
23-C, Phase-VI, Khayaban-e-Shahbaz,
Defence Housing Authority, Karachi.
Tel: 021 5856053-54
Fax: 021-5857761, 5845490

Karachi Shaheed-e-Millat Road Branch
Iqbal Arcade, Plot # 6, 3/7 D.M.C. Society,
Shaheed-e-Millat Road, Karachi
Tel: 021 4388103-7
Fax: 021 4385547, 4388105

Karachi North Nazimabad Branch
Plot No. D-6, Block-D, KDA Scheme No.2,
North Nazimabad, Karachi.
Tel: 021 6625517-18
Fax: 021 6625578, 6670090

Karachi Shahrah-e-Faisal Branch
Business Avenue Center,
Block No.6, P.E.C.H.S., Karachi.
Tel: 021 4315634-36
Fax: 021 4315638, 4389437

Karachi Cloth Market Branch
BR-2, 1/1, Bander Quarters,
New Neham Road, Kharadar, Karachi.
Tel: 021 2439021-22, 2435923
Fax: 21 2432408

Karachi S.I.T.E. Branch
Plot No. B-17, Estate Avenue,
S.I.T.E., Karachi.
Tel: 021 2585921-23, 2855918
Fax: 021 2585337

Karachi Mohammad Ali Society Branch
Plot No.2-F (Commercial),
M.A.C.H.S., Karachi.
Phone No: 021 4390511-13
Fax: 021 4390515

Karachi Korangi Road Branch
Speedy Towers, 129/1 & II,
Main Korangi Road, Phase-I, DHA, Karachi.
Tel: 021 5390541-42, 5391345-47
Fax: 021 5805651

Karachi New Challi Branch
Abid Chamber, Plot No. SR.6/9,
Shahrah-e-Liaquat, Karachi.
Tel: 021 2214903-5
Fax: 021 2214907

North Karachi Industrial Area Branch
SA-2 (ST 1/1) Sector 12-B,
North Karachi Industrial Area,
North Karachi Township, Karachi
Tel: 021 6957155, 6958033
Fax: 021 6924238

Karachi Gulshan Chowrangi Branch
Shop No.1-4, Ground Floor,
Sana Arcade, Plot No.ZC-6,
Block No.7, Gulshan-e-Iqbal,
KDA Scheme 24, Karachi.
Tel: 021 4815319, 4815308
Fax: 021 4815308

Karachi Korangi Industrial Area Branch
Plot No.51 / 9, Sector 15,
Main Road, Korangi Industrial Area,
Tel: 021 5077191-5
Fax: 021 5077196

Karachi Timber Market Branch
Plot # 6/2 Old Haji Camp,
Siddiq Wahab Road, Lee Quarters, Karachi.
Tel: 021 2745889-95
Fax: 021 2745901

Karachi Clifton Block II Branch
B-3 & B-4, Plot No. FLI,
Block II, Clifton, Karachi
Tel: 021 5877921-23
Fax: 021 5877925

Karachi Khayaban-e-Mujahid Branch
43-C, Stadium Lane 2,
Khayaban-e-Mujahid,
D.H.A. Phase 5, Karachi.
Tel: 021 5349109-13
Fax: 021 5349114

Karachi Gulistan-e-Jauhar Branch
Shop # 29 & 30, Ruli Lake Drive,
Block 18, K.D.A. Scheme No. 36,
Gulistan-e-Jauhar, Karachi.
Tel: 021 4026856-57
Fax: 021 4026858

Karachi D.H.A. Phase IV Branch
14-C, Sunset Commercial Street No.2,
Phase IV, D.H.A., Karachi.
Tel: 021 5802422
Fax: 021 5802426

Karachi Khayaban-e-Tanzeem Branch
14-C, Khayaban-e-Tanzeem,
Tauheed Commercial, DHA Phase V
Tel: 021 5877908-10
Fax: 021 5877847

Karachi Dhoraji Branch
Shop no. 4, Lubna Plaza, Plot no. 448,
C.P Berar Co-Operative Housing Society,
Dhoraji, Karachi
Tel: 021 4860851-3
Fax: 021 4860856

Karachi Nazimabad Branch
Plot No. 16, Row No.1, Sub Block A,
Block-III, (III-A, 1/16), Nazimabad, Karachi.
Tel: 021 6707418-24
Fax: 021 6707425

Karachi Saba Avenue
Shop No. 2 & 3, Ground Floor,
Plot No. 36-C, Badar Commercial Street,
Street No.6, Phase-V Extension,
DHA, Karachi.
v: 021 5245376-9, 5243985
Fax: 021 5348929

Karachi Khalid Bin Waleed Road Branch
Plot No 89-B, Block-2, P.E.C.H.S., Karachi.
Tel: 021 4302245-51
Fax: 021 4302252

Karachi Saddar Branch
Shop No. 10 & 11, Ground Floor, Madina
Centre, Plot Svey No. 31/2 Survey Sheet
No. SB-5, Saddare Bazar Quarters
Karachi.
Tel: 021 5621501-02

Karachi Korangi No. 2 Branch
Q-14, Ground Floor,
Sector 33-A, Korangi No.2,
Korangi Township, Karachi
Tel: 021 5071758-60
Fax: 021 5071128

Karachi Gulshan Block. 2 Branch
A-287, Block-2, KDA Scheme-24,
Gulshan-e-Iqbal, Karachi
Tel: 021 4972673
Fax: 021 4972416

Hyderabad

Hyderabad Branch
Plot No.339, Main Bohra Bazar,
Saddar, Hyderabad
Tel: 0222 2728356-59
Fax: 0222 2728360

Quetta

Quetta Branch
Shahrah-e-Adalat, Quetta
Tel: 081 2836451-2
Fax: 081 2824834

Quetta Fatima Jinnah Road Branch
Yousuf Center, Fatima Jinnah Road, Quetta
Tel: 081 2824807 2824973
Fax: 081 2824834

CENTRAL REGION

Lahore

Lahore Mall Branch
43,Shahrah-e-Quaid-e-Azam, Lahore.
Tel: 042 7314051-54
Fax: 042 7236018

Lahore Gulberg Branch
95, B-II, M.M. Alam Road,
Gulberg-III, Lahore.
Tel: 042 5755190-94, 5712748
Fax: 042 5755196, 5763406

Lahore DHA-H Block Branch
136/1, Block-H, Commercial Area Phase-I,
DHA, Lahore Cantt.
Tel: 042 5897712-17
Fax: 042 5897720, 5899794

Lahore Garden Town Branch
4-Aibak Block, Garden Town, Lahore.
Tel: 042 5889810-24
Fax: 042 5889675

Lahore Circular Road Branch
Babar Center, 51, Circular Road, Lahore.
Tel: 042 7673001-6
Fax: 042 7673007

Lahore Shalimar Gardens Branch
Chowk Shalimar Bagh, Baghbanpura,
Lahore.
Tel: 042 6844712-14
Fax: 042 6844744

Lahore Z-Block, DHA, Branch
Z-10, Street no. 10, Phase III
Lahore Cantt.
Tel: 042 5743741-43
Fax: 042 5743745

Lahore Allama Iqbal Town Branch
18-Hunza Block, Main Road,
Allama Iqbal Town, Lahore
Tel: 042 5437006-10
Fax: 042 4537005

Lahore Upper Mall Branch
309-A, Upper Mall, Lahore.
Tel: 042 5715393-95
Fax: 042 5710187

Lahore Main Boulevard, Gulberg Branch
59-A, Main Boulevard, Gulberg, Lahore.
Tel: 042 5872811-14
Fax: 042 5872815

Lahore Model Town Branch
13-Bank Square Market,
Model Town, Lahore.
Tel: 042 5884705-7
Fax: 042 5854816

Lahore Badami Bagh Branch
1-Taj Chambers, Badami Bagh, Lahore.
Tel: 042 7705336-43
Fax: 042 7705551

Lahore Faisal Town Branch
25-D, Main Boulevard, Faisal Town, Lahore
Tel: 042 5201992-7
Fax: 042 5201998

Lahore Thokar Niaz Baig Branch
Jamal Market, Ali Town, Opp. Lahore
University,
Thokar Niaz Baig, Raiwind Road, Lahore.
Tel: 042 5304392

Fax: 42 5314016

Lahore Shah Alam Market Branch
41 - Alamgir Market,
Main Shah Alam Market, Lahore.
Tel: 042 7675503-04, 7675619
Fax: 042 7675504

Lahore Shadman Branch
11 - A, Shadman I, Jail Road, Lahore
Tel: 042 7599242
Fax: 042 7599363

Lahore Bedian Road Branch
Bedian Road, Near DHA Phase VI,
Lahore Cantt.
Tel: 042 5720254
Fax: 042 5740237

Lahore Urdu Bazar Branch
S-38, R-205-A, Cattle Street,
Circular Road, Urdu Bazar, Lahore
Tel: 042 7314616-20
Fax: 042 7314629

Lahore Johar Town Branch
435-G-1, Johar Town, Lahore
Tel: 042 5301392-93
Fax: 042 5301393

Lahore Shahdara Branch
G.T.Road, Shahdara, Lahore.
Tel: 042 7902501-508

Lahore Ichra Branch
172, Ferozpur Road, Ichra, Lahore.
Tel: 042 7569934-35
Fax: 042 7580488

Lahore Walton Cantt. Branch
36-Jinnah Plaza, Main Boulevard Defence
Link DHA Road, Walton Cantt. Lahore.
Tel: 042 8550192, 8550109
Fax: 042 6604308

Lahore Liberty Market Branch
37-E, III Saeed Alam Tower,
Liberty Market, Gulberg III, Lahore.
Tel: 042 5752108-9, 5753425
Fax: 042 5750366

Lahore Mcleod Road Branch
Usman Plaza, Opposite: Lahore Hotel
Mcleod Road, Lahore.
Tel: 042 6370024 & 6370041
Fax: 042 6370041

Lahore Mughalpur Branch
3/15 Jahangir Road, Lal Pul, Near AFC
Mughalpur, Lahore
Tel: 042 6352177-86
Fax:

Lahore Qartaba Chowk Branch
3 Ferozpur Road, Muzang
Chungi, Lahore
Phone No: 042 7574680-82
Fax: 042 7574662

Lahore Ghazi Chowk Branch
8-A, Awaisia Cooperative Housing Society
Ghazi Chowk, Link College Road, Lahore
Tel: 042 5212250-59

Lahore Choburji Branch
50, Choburji Branch, Lahore
Tel: 042 7009302-04

Lahore New Airport Road Branch
Adjoining Divine Mega-2 Plaza,
New Airport Road, Lahore Cantt
Tel: 042 5745791, 5730877



FAYSAL BANK

Faysal Bank - Branch Network

Bahawalpur

Bahawalpur Branch
2 - Rehman Society, Noor Mahal Road,
Bahawalpur
Tel: 062 2730691-94
Fax: 062 2730695

Faisalabad

Faisalabad Civil Lines Branch
Bilal Road, Civil Lines, Faisalabad.
Tel: 041 2644481-84
Fax: 041 2644486

Faisalabad Liaquat Road Branch
3-Liaquat Road, Faisalabad
Tel: 041 2617403-08, 627808
Fax: 041 2627809

Faisalabad Ghulam Muhammad Abad Branch
39-B, Usman Plaza, Sadar Bazar,
Ghulam Muhammad Abad, Faisalabad.
Tel: 041 2691262, 2699162, 2691375,
2692575
Fax: 041 2692814

Faisalabad D-Ground Branch
447-D, Peoples Colony, Faisalabad
Tel: 041 8730403, 8730443
Fax: 041 8732196

Gujranwala

Gujranwala Branch
Zia Plaza, G.T. Road, Gujranwala.
Tel: 055 3730301-3
Fax: 055 3730304

Jhang

Jhang Branch
P-10/1/A, Katchery Road,
Near Session Chowk, Saddar, Jhang.
Tel: 047 7650650, 7626590
Fax: 047 7629545

Multan

Multan Bosan Road Branch
I/A-2, Officers Colony, Bosan Road, Multan
Tel: 061 6214902-13
Fax: 061 6214900

Multan Old Bahawalpur Road Branch
129/1, Old Bahawalpur Road, Multan.
Tel: 061 4784491-94
Fax: 061 4784490

Multan Qaddafi Chowk Branch
709, Qaddafi Chowk
Khanewal Road, Near Daewoo Terminal, Multan
Tel: 061 6784276-81
Fax: 061 6784271

Okara

Okara Branch
Mandi Road
Tel: 044 2551773
Fax: 044 2551774

Rahim Yar Khan

Rahimyar Khan Branch
27- Town Hall opp. City Park
Tel: 068 5889413-15
Fax: 068 5889420

Sadiqabad Branch
Allama Iqbal Road,
Sadiqabad District, Rahim Yar Khan
Tel: 068 5702440
Fax: 068 5702139

Sargodha

Sargodha Branch
University Road, Sargodha.
Tel: 048 9230793-4
Fax: 048 9230792

Sialkot

Sialkot Branch
Plot No.B1-16S-98B,
17-Paras Road, Opp. CC & I, Sialkot.
Tel: 0432 292501-3

Fax: 432 292444

Vehari

Vehari Branch
47-A, Karkhana Bazar, Vehari.
Tel: 067 3366401, 3366491
Fax: 067 3366402

Dera Ghazi Khan Branch
342, Kampur Road, Dera Ghazi Khan
Tel: 0642 468769-72
Fax: 0642 468775

Burewala

Burewala Branch
25-C, Multan Road, Burewala
Tel: 067 3773011-18
Fax: 067 3359331

Sahiwal

Sahiwal Branch
Sarwar Shaheed Road,
Sahiwal.
Tel: 040 4224060-61
Fax: 040 4224015

NORTHERN REGION

Islamabad

Islamabad Jinnah Avenue Branch
15-West, Jinnah Avenue,
Blue Area, Islamabad.
Tel: 051 2275096-99
Fax: 051 2275095

Islamabad F-10 Markaz Branch
2-G, Capital Business Centre,
F-10 Markaz, Islamabad.
Tel: 051 2104456-57
Fax: 051 2104459

Islamabad F-7 Markaz Branch
Shop No.1, Plot 12-D,
Jinnah Super Market,
F-7 Markaz, Islamabad.
Tel: 051 2652386, 2652591
Fax: 051 2652665

Islamabad I-10 Markaz Branch
3-G, Munawar Plaza,
Markaz I-10, Islamabad.
Tel: 051 4102105-8
Fax: 051 4102117

Islamabad F-11 Markaz Branch
Plot No. 14, F-11 Markaz, Sector F-11,
Islamabad.
Tel: 051-2228141-4
Fax: 051 2228145

Islamabad F-8 Markaz Branch
13 Rawal Arcade, Markaz F-8, Islamabad
Tel: 092 51 2817256
Fax: 092 51 2817263

Rawalpindi

Rawalpindi Haider Road Branch
32, Haider Road, Rawalpindi.
Tel: 051 5701018-22
Fax: 051 5525879

Rawalpindi Satellite Town Branch
City Shopping Centre, 5th Road,
Satellite Town, Rawalpindi
Tel: 051 4424969-72
Fax: 051 4424962

Rawalpindi Rajabazar Branch
1-U, Iqbal Road, Fawwara Chowk,
Rajabazar, Rawalpindi.
Tel: 051 5530661
Fax: 051 5530671

Rawalpindi Westridge Branch
RV Arcade, 1193-1196,
Peshawar Road, Rawalpindi
Tel: 051 5468734-36
Fax: 051 5468737

Rawalpindi Sadiqabad Branch
72-C, Satellite Town (Sadiqabad Road) Rawalpindi,
Opp. Bilal Hospital
Tel: 0308 5204617-19
Fax: 051 4422794

Jhelum

Jhelum Dina Branch
1880 Al-Bilal Plaza, GT Road, Dina,
District Jhelum.
Tel: 0 54 636828-32

Jhelum Branch
225/226, Kohinoor Bank Square,
Old G.T. Road, Jhelum Cantt District
Jhelum.
Tel: 0544 624901 & 622153
Fax: 0544 626948

Peshawar

Peshawar Cantt. Branch
Cantonment Plaza, Supermarket,
Saddar Road, Peshawar.
Tel: 091 5270176-78
Fax: 091 5270631

Peshawar Hayatabad Branch
S.S./ Royal Plaza, Jamrud Road,
Hayatabad, Peshawar.
Tel: 091 5818379, 5812049
Fax: 091 5811488

Peshawar City Branch
Tariq Market, New Rampura Gate,
Ashraf Road, Peshawar City
Tel: 091 2593827, 2591876
Fax: 091 2591817

Peshawar University Road Branch
4652-4670, Omer Plaza, Jahangirabad,
University Road, Peshawar.
Tel: 091 5711401-6, 5711409

Peshawar Khyber Bazar Branch
417-D, outside Bajori Gate,
(Shoba Chowk) Khyber Bazar,
Peshawar.
Tel: 0912219860
Fax: 091 2220471-3

Gujar Khan

Gujar Khan Branch
B-111-215-D, Ward No.5,
Main G.T. Road, Gujar Khan.
Tel: 051 3514968, 051 3514996
Fax: 051 3514613

Gujrat

Gujrat Branch
Noble Furniture Plaza, G.T. Road, Gujrat
Tel: 053 3536781-4
Fax: 053 3524185

Kharian

Kharian Branch
Rizwan Plaza, G.T. Road, Kharian.
Tel: 0537 536068-70
Fax: 0537 536066

Mirpur (Azad Kashmir)

Mirpur Branch
Mian Muhammad Road,
Opposite Quaid-e-Azam Stadium,
Mirpur Azad Kashmir
Tel: 058610 45100-3
Fax: 058610 43601

Swat

Mingora Branch
1st Floor, Abasin Plaza, Green Chowk,
Madyan Road, Mingora-Swat.
Tel: 0946 720001-3
Fax: 0946 720004

Mandi Bahauddin

Mandi Bahauddin Branch
Furniture Point, Railway Road,
Mandi Bahauddin.
Tel: 0546 600721-23, 0546 600733

Form of Proxy



FAYSAL BANK

I/We _____ of _____
a member (s) of FAYSAL BANK LIMITED and holding _____ ordinary shares, as per Register Folio No/Participant's ID/CDC sub Account No _____ hereby appoint _____ Folio No/Participant's ID/CDC sub Account No _____ or failing him/her _____ of _____ as my / our proxy to vote and act for me / us on my / our behalf at the Annual General Meeting of the Bank to be held on March 28, 2008 and at any adjournment thereof.

Signed _____ day of _____, 2008

Witness:

1. _____

2. _____

Notes:

1. A member entitled to attend and vote at a Meeting is entitled to appoint another member as a proxy to attend, speak and vote for him/her.
2. An instrument of proxy applicable for the meeting is being provided with the notice sent to the members. Further copies of the instrument of proxy, if required may be obtained from the Registered Office of the Bank during normal office hours or photocopy of the same may be used for the purpose.
3. An instrument of proxy and a Power of Attorney or other authority (if any) under which it is signed, or notarized copy of such Power of Attorney must be valid and deposited at the Registered Office of the Bank not less than 48 hours before the time of the Meeting.
4. In case of Proxy for an individual beneficial Owner of CDC, attested copies of beneficial owner's CNIC or passport, Account and Participant's I.D. numbers must be deposited alongwith the Form of Proxy. In case of proxy for corporate members, he/she should bring the usual documents required for such purpose.
5. Shareholders are requested to notify change in their address, if any.

Revenue Stamp
of Rs. 5/-

Signature of
Member (s)



FAYSAL BANK



www.faysalbank.com



FAYSAL BANK