

# 2006



The Bank of Punjab

## **Financial Statements**

for the year ended December 31, 2006



## Auditors' Report to the Members

We have audited the annexed balance sheet of **The Bank of Punjab** (the Bank) **as at December 31, 2006** and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (hereinafter referred to as the financial statements) for the year then ended, 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 Bank of Punjab Act, 1989, 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. The financial statements of the Bank as of December 31, 2005, were audited by another auditors whose report dated March 08, 2006 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than sixty percent of the total loans and advances of the Bank, we report that:-

- (a) in our opinion, proper books of account have been kept by the Bank as required by The Bank of Punjab Act, 1989, 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 Bank of Punjab Act, 1989, the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change in accounting policy as stated in Note 6.2 with which we concur;
  - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- (c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by The Bank of Punjab Act, 1989, the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2006, 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.

**Ford Rhodes Sidat Hyder & Co.**  
Chartered Accountants

Lahore - 28<sup>th</sup> February, 2007

## Balance Sheet

as at December 31, 2006

	Note	2006	Restated 2005
Rupees in '000'			
<b>Assets</b>			
Cash and balances with treasury banks	7	14,054,859	8,787,387
Balances with other banks	8	3,722,089	9,367,595
Lendings to financial institutions	9	11,846,823	7,593,681
Investments	10	28,233,211	18,026,181
Advances	11	101,319,954	63,623,705
Operating fixed assets	12	2,068,744	1,715,061
Deferred tax assets		-	-
Other assets	13	3,609,457	2,040,568
		<b>164,855,137</b>	111,154,178
<b>Liabilities</b>			
Bills payable	15	856,448	478,001
Borrowings	16	6,989,424	6,791,007
Deposits and other accounts	17	137,727,606	88,465,051
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	18	40,988	55,403
Deferred tax liabilities	19	298,616	220,177
Other liabilities	20	2,816,341	1,474,425
		<b>148,729,423</b>	97,484,064
<b>Net assets</b>		<b>16,125,714</b>	13,670,114
<b>Represented by</b>			
Share capital	21	2,902,490	2,349,719
Reserves		4,537,232	2,940,399
Unappropriated profit		3,219,246	1,486,755
		<b>10,658,968</b>	6,776,873
Surplus on revaluation of assets	22	5,466,746	6,893,241
		<b>16,125,714</b>	13,670,114
<b>Contingencies and commitments</b>	23		

The annexed notes from 1 to 45 form an integral part of these financial statements.

Chairman

President

Director

Director

## Profit and Loss Account

for the year ended December 31, 2006

	Note	2006	2005
		Rupees in '000'	
Mark-up/Return/Interest Earned	24	11,643,963	6,125,093
Mark-up/Return/Interest Expensed	25	7,573,722	2,668,739
Net Mark-up/ Interest Income		4,070,241	3,456,354
Provision against non-performing loans and advances	11.4	340,626	327,373
Provision for diminution in the value of investments	10.3	33,000	-
Bad debts written off directly	11.5	100	3,623
		373,726	330,996
Net Mark-up/ Interest Income after provisions		3,696,515	3,125,358
<b>Non mark-up/interest income</b>			
Fee, Commission and Brokerage Income		473,212	255,149
Dividend Income		1,385,875	753,669
Income from dealing in foreign currencies		239,804	93,208
Gain on sale of securities	26	389,063	3,163
Unrealized Gain / (Loss) on revaluation of investments classified as held for trading		-	-
Other Income	27	466,435	225,586
Total non-markup/interest Income		2,954,389	1,330,775
		6,650,904	4,456,133
<b>Non mark-up/interest expenses</b>			
Administrative expenses	28	1,751,970	1,274,971
Provision against lending to financial institutions		130,000	-
Provision against off balance sheet items		175	-
Provision against receivable from NIT		-	4,744
Other charges	29	38	11,461
Total non-markup/interest expenses		1,882,183	1,291,176
		4,768,721	3,164,957
Extra ordinary/unusual items		-	-
<b>Profit before taxation</b>		4,768,721	3,164,957
Taxation - Current	30	880,997	816,000
- Prior years		-	(147,300)
- Deferred	30	83,469	143,015
		964,466	811,715
<b>Profit after taxation</b>		3,804,255	2,353,242
Unappropriated profit brought forward		169,817	143,590
Transfer from surplus on revaluation of fixed assets - net of tax		6,174	3,166
		175,991	146,756
Profit available for appropriation		3,980,246	2,499,998
<b>Basic earnings per share - Rupees</b>	31	13.14	8.13
<b>Diluted earnings per share - Rupees</b>	32	13.14	8.13

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## Cash Flow Statement

for the year ended December 31, 2006

	Note	2006	2005
		Rupees in '000'	
<b>Cash flows from operating activities</b>			
Profit before taxation		4,768,721	3,164,957
Less: Dividend income		(1,385,875)	(753,699)
		<u>3,382,846</u>	<u>2,411,258</u>
Adjustments:			
Depreciation		130,779	77,799
Amortization		5,885	-
Provision against non-performing advances		340,626	327,373
Advances written-off		100	3,623
Provision for diminution in the value of investments / other assets		33,000	-
Provision against lendings to financial institutions		130,000	-
Provision for employee benefits		19,655	12,766
Provision against receivable from NIT		-	4,744
Provision for claim for recovery of shares		-	(12,434)
Provision against off-balance sheet item		175	-
Gain on sale of fixed assets		(1,088)	(540)
Gain on sale of investments		(389,063)	(3,163)
Finance charges on leased assets		4,368	5,205
		<u>274,437</u>	<u>415,373</u>
		<b>3,657,283</b>	<b>2,826,631</b>
(Increase) / Decrease in operating assets			
Lendings to financial institutions		(4,383,142)	(6,174,193)
Held-for-trading securities		43,972	(43,972)
Advances		(38,036,975)	(24,515,778)
Others assets (excluding advance taxation)		(1,564,534)	(1,053,474)
		<u>(43,940,679)</u>	<u>(31,787,417)</u>
Increase / (Decrease) in operating liabilities			
Bills Payable		378,447	210,888
Borrowings from financial institutions		198,417	3,959,402
Deposits		49,262,555	33,740,740
Other liabilities (excluding current taxation)		1,094,650	620,039
		<u>50,934,069</u>	<u>38,531,069</u>
		<b>10,650,673</b>	<b>9,570,283</b>
Payments of provision against off-balance sheet obligations		-	-
Income tax paid		(653,561)	(68,222)
<b>Net cash flows from operating activities</b>		<b>9,997,112</b>	<b>9,502,061</b>
<b>Cash flows from investing activities</b>			
Net investments in available-for-sale securities		(13,513,343)	(328,876)
Net investments in held-to-maturity securities		2,193,053	1,099,359
Net investments in Subsidiaries / Associates		-	(2,757)
Dividend income		1,381,520	725,098
Investments in operating fixed assets		(482,915)	(103,118)
Sale proceeds of property and equipment disposed-off		3,788	1,595
<b>Net cash flow from investing activities</b>		<b>(10,417,897)</b>	<b>1,391,301</b>
<b>Cash flows from financing activities</b>			
Payments of lease obligations		(28,915)	(36,188)
Issue of share capital		71,666	-
Dividend paid		-	-
<b>Net cash flows from financing activities</b>		<b>42,751</b>	<b>(36,188)</b>
Effects of exchange rate changes on cash and cash equivalents		-	-
<b>(Decrease) / Increase in cash and cash equivalents</b>		<b>(378,034)</b>	<b>10,857,174</b>
Cash and cash equivalents at beginning of the year	33	<u>18,654,982</u>	<u>7,797,808</u>
Cash and cash equivalents at end of the year	33	<u>18,276,948</u>	<u>18,654,982</u>

The annexed notes from 1 to 45 form an integral part of these financial statements.

Chairman

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Director

## Statement of Changes in Equity

for the year ended December 31, 2006

	Share capital	Statutory reserve	Capital Reserve		Revenue Reserve		Total
			Share Premium	For issue of bonus shares	General reserve	Unappropriated profit	
			Rupees	in	'000		
<b>Balance as at January 01, 2005 as previously reported</b>	1,506,230	772,000	2,049	301,246	1,695,350	143,590	4,420,465
Effect of change in accounting policy with respect to appropriation	-	-	-	(301,246)	(500,000)	801,246	-
<b>Balance as at January 01, 2005 - restated</b>	1,506,230	772,000	2,049	-	1,195,350	944,836	4,420,465
Transfer to general reserve	-	-	-	-	500,000	(500,000)	-
Transfer to reserve for issue of bonus shares	-	-	-	301,246	-	(301,246)	-
Profit for the year ended December 31, 2005	-	-	-	-	-	2,353,242	2,353,242
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	3,166	3,166
Transfer to statutory reserve	-	471,000	-	-	-	(471,000)	-
Transfer to general reserve	-	-	-	-	800,000	(800,000)	-
Transfer to reserve for issue of bonus shares	-	-	-	1,059,181	-	(1,059,181)	-
Issue of bonus shares	843,489	-	-	(843,489)	-	-	-
<b>Balance as at December 31, 2005</b>	<b>2,349,719</b>	<b>1,243,000</b>	<b>2,049</b>	<b>516,938</b>	<b>2,495,350</b>	<b>169,817</b>	<b>6,776,873</b>
<b>Balance as at January 01, 2006 as previously reported</b>	<b>2,349,719</b>	<b>1,243,000</b>	<b>2,049</b>	<b>516,938</b>	<b>2,495,350</b>	<b>169,817</b>	<b>6,776,873</b>
Effect of change in accounting policy with respect to appropriation	-	-	-	(516,938)	(800,000)	1,316,938	-
<b>Balance as at January 01, 2006 - restated</b>	<b>2,349,719</b>	<b>1,243,000</b>	<b>2,049</b>	<b>-</b>	<b>1,695,350</b>	<b>1,486,755</b>	<b>6,776,873</b>
Transfer to general reserve	-	-	-	-	800,000	(800,000)	-
Transfer to reserve for issue of bonus shares	-	-	-	516,938	-	(516,938)	-
Issue of bonus shares	516,938	-	-	(516,938)	-	-	-
Right issue	35,833	-	-	-	-	-	35,833
Premium on issue of shares	-	-	35,833	-	-	-	35,833
Profit for the year ended December 31, 2006	-	-	-	-	-	3,804,255	3,804,255
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	-	-	6,174	6,174
Transfer to statutory reserve	-	761,000	-	-	-	(761,000)	-
<b>Balance as at December 31, 2006</b>	<b>2,902,490</b>	<b>2,004,000</b>	<b>37,882</b>	<b>-</b>	<b>2,495,350</b>	<b>3,219,246</b>	<b>10,658,968</b>

The annexed notes from 1 to 45 form an integral part of these financial statements.

Chairman

President

Director

Director

## Notes to the Financial Statements

for the year ended December 31, 2006

### 1. Status and Nature of Business

The Bank of Punjab was constituted pursuant to The Bank of Punjab Act, 1989. It was given the status of a scheduled bank by the State Bank of Pakistan (SBP) on September 19, 1994. It is principally engaged in commercial banking and related services with its registered office at 7-Egerton Road, Lahore. The Bank has 266 branches (2005: 266 branches) in Pakistan and Azad Jammu and Kashmir at the year end. The Bank is listed on Lahore, Karachi and Islamabad Stock Exchanges. The majority shares of the Bank are held by the Government of Punjab.

### 2. Basis of preparation

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

### 3. Statement of compliance

**3.1** These financial statements have been prepared in accordance with the directives issued by the State Bank of Pakistan (SBP), requirements of The Bank of Punjab Act, 1989, the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984 and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) as are notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the directives issued by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP), The Bank of Punjab Act, 1989, the Banking Companies Ordinance, 1962 and the Companies Ordinance, 1984 differ with the requirements of these standards, the requirements of the said directives, The Bank of Punjab Act, 1989, the Banking Companies Ordinance, 1962 and the Companies Ordinance, 1984 take precedence. The Bank has adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for periods beginning on or after January 01, 2006.

**3.2** Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

The following IAS / IFRS / IFRIC interpretations, which have been published and / or revised and are applicable to the financial statements of the Bank covering accounting periods on or after January 01, 2007 or later periods:

(a) IAS 1 Presentation of financial statements — Capital disclosures	effective from January 01, 2007
(b) IFRIC 11, IFRS 2 — Group Treasury Share Transactions	effective from March 01, 2007
(c) IFRIC 12 — Service Concession Arrangements	effective from January 01, 2009

Adoption of above amendments would result in an impact on the extent of disclosures presented in the future financial statements of the Bank.

In addition to the above, a new series of standards called 'International Financial Reporting Standards' (IFRS) have been introduced and seven IFRSs have been issued by the IASB. Out of these following four IFRSs have been adopted by Securities and Exchange Commission of Pakistan (SECP) vide its S.R.O. (1)/2006 dated December 06, 2006:

(i) IFRS 2	Share-based payments
(ii) IFRS 3	Business combinations
(iii) IFRS 5	Non-current assets held for sale and discontinued operations
(iv) IFRS 6	Exploration for and evaluation of mineral resources

The Bank expects that the adoption of the above-mentioned pronouncements will have no significant impact on the financial statements in the period of initial application.



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

#### **4. Basis of measurement**

These financial statements have been prepared under the historical cost convention, except that certain investments are carried at fair value and certain staff retirement benefits are carried at present value.

The preparation of financial statements in conformity with the International Financial Reporting Standards (IFRS) and statutory requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

#### **5. Critical accounting judgments and key sources of estimation uncertainty**

In applying the Bank's accounting policies, which are described in notes 6.1 to 6.15, the management has made the following judgments and estimated uncertainty that have a significant effect on the amounts recognized in the financial statements.

##### **5.1 Held-to-maturity securities**

As described in note 6.6, held-to-maturity securities are investments where the management has positive intent and ability to hold to maturity. The classification of these securities involves management judgment whether the financial assets are held to maturity investments.

##### **5.2 Provision against non-performing advances**

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

##### **5.3 Impairment of available-for-sale equity investments**

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

##### **5.4 Useful life of operating fixed assets**

Estimates of useful life of operating fixed assets are based on management's best estimate.

##### **5.5 Income taxes**

In making estimates for income taxes currently payable by the Bank, the management considers the current income tax law and the decisions of appellate authorities on certain issues in the past. There are various matters where the Bank's view differs with the view taken by the income tax authorities and such amounts are shown as a contingent liability.

## 5.6 Employees compensated absences

The value of provision for employees' compensated absences is determined using actuarial valuation. The valuation involves making use of assumptions about discount rates, mortality, expected rate of salary increases, retirement rates, and average leave utilization per year. Due to the degree of subjectivity involved and long-term nature of these plans, such estimates are subject to significant uncertainty.

## 6. Summary of significant accounting policies

### 6.1 Changes in accounting estimate

The benefit of forced sale value of collateral under BSD Circular No. 7 dated November 01, 2005 has been restricted to financing facilities of Rs. 10 million and above only, with effect from December 31, 2006. Previously, this benefit was restricted to financing facilities of Rs. 5 million and above only. This change in the provisioning requirement has been accounted for as a change in accounting estimate. Had the change not been made, specific provision against non-performing loans and advances would have been lower and consequently, profit before taxation and advances would have been higher by Rs. 79,222 (thousand).

### 6.2 Change in accounting policy

The Bank has changed its accounting policy pertaining to recognition of appropriations of profit declared subsequent to year end in accordance with the requirements of IAS 10 (Events after the balance sheet date). Appropriations of profit are now recognized in the period in which they are declared. Previously, appropriations made after the balance sheet date but before the authorization of financial statements for issue, were recognized as of the balance sheet date. The change in accounting policy has been accounted for retrospectively and comparative information has been restated in accordance with the benchmark treatment specified in IAS 8 (Accounting policies, changes in accounting estimates and errors). Had there been no change in the accounting policy, unappropriated profit would have been lower by Rs. (thousands) 1,316,938 (2005: Rs. (thousands) 801,246), revenue reserves would have been higher by Rs. (thousands) 800,000 (2005: Rs. (thousands) 500,000), and capital reserves would have been higher by Rs. (thousands) 516,938 (2005: Rs. (thousands) 301,246). The affect of this change in accounting policy has been reflected in the statement of changes in equity. The change has not resulted in any change in the profit after tax for the current and prior years.

### 6.3 Cash and Cash equivalents

Cash and cash equivalents include cash and balances with treasury banks, balances with other banks and call money lendings.

### 6.4 Revenue recognition

#### 6.4.1 Markup/return/interest income

Markup/return/interest on advances and return on investments are recognized in income on an accruals basis, except mark-up on classified loans and advances which is recognized when received. Interest/ markup on rescheduled/restructured advances and investments is recognized in accordance with Prudential Regulations of SBP.

#### 6.4.2 Dividend income

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

### 6.4.3 Lease finance income

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease periods so as to produce a constant periodic rate of return on the outstanding net cash investment in lease. Unrealized lease income is suspended, where necessary, in accordance with the requirements of the State Bank of Pakistan. Gains/losses on termination of lease contracts, documentation charges and other lease income are recognized as income when these are realized.

### 6.4.4 Fees and commission income

Fees and commission on letters of credit/guarantee are recognized on a receipt basis.

## 6.5 Advances including net investment in finance lease

Loans and advances and net investments in finance lease are stated net of provision for doubtful debts. Provision for doubtful debts is made in accordance with the Prudential Regulations prescribed by the State Bank of Pakistan and is charged to profit and loss account.

Leases where risks and rewards incidental to ownership are substantially transferred to lessee are classified as finance lease. A receivable is recognized at an amount equal to the present value of the lease payments including any guaranteed residual value.

## 6.6 Investments

The investments of the Bank are classified into the following categories:

(a) Held-for-trading securities

These are investments acquired principally for the purpose of generating profit from short term fluctuations in price or dealer's margin.

(b) Held-to-maturity securities

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

(c) Available-for-sale securities

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

According to BSD Circular No. 14, dated September 24, 2004 issued by the State Bank of Pakistan (SBP), investments classified as held to maturity are carried at amortized cost.

In accordance with the requirements of SBP, quoted securities are valued at market value. The surplus / (deficit) arising on quoted securities classified as available for sale is kept in a separate account shown in the balance sheet below equity. Unquoted securities are valued at cost less provision for impairment, if any.

On derecognition or impairment in quoted available-for-sale investments, the cumulative gain or loss previously reported as surplus / (deficit) on revaluation is included in the profit and loss account for the period.

Investment in subsidiary is carried at cost.

Provision for diminution in the values of securities (except participation term certificates and term finance certificates) is made after considering permanent impairment, if any, in their value. Provision for diminution in the values of participation term certificates and term finance certificates are made as per the prudential regulations issued by the State Bank of Pakistan.

Premium or discount on debt securities is amortized using the effective interest method and taken to interest income.

Profit and loss on sale of investments is taken to income currently.

#### **Trade and settlement date accounting**

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

### **6.7 Lending to/borrowing 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 obligations**

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counterparty liability is included in borrowings from financial institutions. The differential in sale and repurchase value is accrued on a pro-rata basis and recorded as interest expense.

#### **(b) Purchase under resale obligations**

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

### **6.8 Operating fixed assets and depreciation**

#### **Owned**

Operating fixed assets, other than land which is not depreciated, are stated at cost or revalued amounts less accumulated depreciation and accumulated impairment losses (if any). Land is carried at revalued amount.

Depreciation on operating fixed assets is charged to income using the diminishing balance method so as to write off the historical cost of the asset over its estimated useful life, except motor vehicles and office equipment on which depreciation is charged using the straight line basis. The rates at which the depreciation is charged are given in note 12.2 to these financial statements. Impairment loss or its reversal, if any, is also charged to income. When an impairment loss is recognized, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount over estimated useful life.

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

Surplus on revaluation of operating fixed assets is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of operating fixed assets (net of deferred taxation) is transferred directly to unappropriated profit.

### **Leased**

Property and equipment subject to finance lease are accounted for by recording the assets and the related liabilities. These are stated at fair value or present value of minimum lease payments whichever is lower at the inception of the lease less accumulated depreciation. Financial charges are allocated over the period of lease term so as to provide a constant periodic rate of financial charge on the outstanding liability. The property and equipment acquired under finance leasing contracts is depreciated over the useful life of the assets as per rates given in note 12.2 to these financial statements.

### **Intangible assets**

Intangible assets are stated at cost less accumulated amortization and impairment loss (if any). The cost of intangible assets is amortized over their useful lives, using the straight line method using the rate mentioned in note 12.3. Amortization on additions is charged from the month the assets are available for use while no amortization is charged in the month in which the assets are disposed.

### **Capital work-in-progress**

Capital work-in-progress is stated at cost. These are transferred to specific assets as and when assets are available for use.

## **6.9 Taxation**

### **Current**

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

### **Deferred**

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that the taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in income statement, except in the case of items credited or charged to equity in which case it is included in equity

The Bank also recognized deferred tax asset/liability on deficit/surplus on revaluation of fixed assets and securities which is adjusted against the related deficit/surplus in accordance with the requirements of International Accounting Standard 12, 'Income Taxes'.

## 6.10 Employee retirement and other benefits

### 6.10.1 Defined contribution plan — Provident Fund

The Bank operates an approved Provident Fund Scheme, covering all permanent employees. Contributions are made monthly by the Bank and the employees at the rate of 8.33% of basic pay. Contributions by the Bank are charged to income.

### 6.10.2 Employees compensated absences

The Bank makes annual provision in the accounts for its liabilities towards vested compensated absences accumulated by its employees on the basis of actuarial valuation. The most recent valuation was carried out at January 25, 2007 using the "Projected unit credit method". The principal assumptions used in the valuation at December 31, 2006 were as follows:

- Discount rate	10%
- Expected rate of eligible salary increase in future years	9%
- Average number of leaves utilized during the year	11 days
- Average number of leaves utilized during the year in excess of allocated leaves (i.e. 30 days)	1 day

The amount charged during the year is Rs. 19.655 million (2005: Rs. 12.766 million)

## 6.11 Foreign currencies

Transactions in foreign currency are translated to Rupees at the exchange rates prevailing on the date of transaction. Forward exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

All exchange differences are charged to income.

## 6.12 Provisions

Provisions are recorded when the Bank has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation.

## 6.13 Dividend distribution and appropriations

Dividend distributions and appropriation to reserves are recognized as a liability in the financial statements in the period in which these are approved. Transfer to statutory reserve and any of the mandatory appropriations as may be required by law are recognized in the period to which they relate.

## 6.14 Impairment

The carrying amounts of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

## 6.15 Financial instruments

### 6.15.1 Financial assets and liabilities

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

### 6.15.2 Offsetting

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

	Note	2006	2005
Rupees in '000'			
<b>7. Cash and Balances with treasury banks</b>			
In hand:			
- Local currency		1,614,837	1,611,102
- Foreign currency		128,462	31,864
		<b>1,743,299</b>	1,642,966
With State Bank of Pakistan in:			
- Local currency current account		9,580,437	5,051,289
- Foreign currency deposit account	7.1	507,350	174,365
		<b>10,087,787</b>	5,225,654
With National Bank of Pakistan in:			
- Local currency current account		2,100,773	1,769,767
- Local currency deposit account	7.2	123,000	149,000
		<b>2,223,773</b>	1,918,767
		<b>14,054,859</b>	8,787,387
<b>7.1</b>	The account is maintained with SBP under requirements of BSD Circular No. 18 dated March 31, 2001. Profit rates are announced by SBP on a monthly basis. Profit rates during the year ranged from 3.39% to 4.35% per annum (2005: 1.59% to 3.29% per annum).		
<b>7.2</b>	This represents short-term deposits bearing profit at a rate of 1.20% per annum (2005: 1.20% per annum).		
<b>8. Balances with other banks</b>			
In Pakistan:			
- On current account		681,289	417,933
- On deposit account	8.1	1,900,000	8,375,492
- On saving account	8.2	213,338	190,743
		<b>2,794,627</b>	8,984,168
Outside Pakistan:			
- On current account		135,632	67,417
- On deposit account	8.3	791,830	316,010
		<b>927,462</b>	383,427
		<b>3,722,089</b>	9,367,595

- 8.1** These represent short-term deposits maintained with various banks inside Pakistan at mark up rates ranging from 12.00% to 12.55% per annum (2005: 10.25% to 13.00% per annum).
- 8.2** These represent saving deposits maintained with various banks inside Pakistan at mark up rates ranging from 2.00% to 4.00% per annum (2005: 0.75% to 5.00% per annum).
- 8.3** These represent short-term deposits maintained with various banks outside Pakistan at mark up rates ranging from 5.25% to 5.28% per annum (2005: 4.32% to 4.52% per annum).

	Note	2006 Rupees in '000'	2005
<b>9. Lendings to financial institutions</b>			
Call money lendings	9.2	500,000	500,000
Repurchase agreement lendings (Reverse Repo)	9.3	9,281,823	5,383,681
Certificates of investment	9.4	1,700,000	685,000
Placements	9.5	365,000	1,025,000
		<b>11,846,823</b>	<b>7,593,681</b>
<b>9.1 Particulars of lending</b>			
In local currency		11,846,823	7,593,681
In foreign currencies		-	-
		<b>11,846,823</b>	<b>7,593,681</b>

- 9.2** This represents funds placed with a commercial bank in inter bank money market and carry mark up at the rate of 10.00% per annum (2005:11.75% per annum) with maturity on January 23, 2007.

**9.3 Securities held as collateral against lending to financial institutions**

Note	2006			2005			
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total	
Pakistan Market Treasury Bills	9.3.1	6,641,823	-	6,641,823	4,985,891	-	4,985,891
Pakistan Investment Bonds	9.3.1	2,640,000	-	2,640,000	-	-	-
Term Finance Certificates		-	-	-	397,790	-	397,790
		<b>9,281,823</b>	<b>-</b>	<b>9,281,823</b>	5,383,681	-	5,383,681

- 9.3.1** Pakistan Market Treasury Bills and Pakistan Investment Bonds have been purchased under resale agreements at the rates ranging from 8.25% to 9.30% per annum (2005: 7.00% to 13.00% per annum) with maturities up to March 14, 2007.

**9.4 Certificates of investment**

- 9.4.1** These represent Certificates of Investment at profit rates ranging from 12.19% to 22.00% per annum (2005:10.75% to 25.00% per annum) with maturities up to December 26, 2008.



**9.4.2** This includes Certificates of Investment (COIs) of Crescent Standard Investment Bank Limited (CSIBL) for Rs. 1,130 million which have not been encashed since their maturity date in July 2006. The management of the Bank has been pursuing recovery of the said amount with the Administrator of CSIBL as appointed by the Securities and Exchange Commission of Pakistan (SECP). Further, the Bank filed an application in the Honourable High Court of Sindh for attachment of seven floors of a property situated at 10-B, Main Boulevard, Block E-11, Gulberg III Lahore, known as Crescent Standard Tower, held as collateral against a facility originally granted by another commercial bank, which was subsequently assigned to The Bank of Punjab. The Bank holds original title deed documents of the above-mentioned seven floors duly checked and vetted by the Nazir appointed by the Honourable Court, vide its order dated December 07, 2006.

The Bank has now filed a recovery suit against its other facilities, including COIs, in the Honourable Court, legal proceedings for which are in process. However, based on legal opinion and taking into account the forced sale value of the said property, the Bank has recorded a provision of Rs. 130 million against these Certificates of Investment (COIs) in accordance with the Prudential Regulations.

**9.5** These represent placements carrying profit at rates ranging from 12.00% to 13.00% per annum (2005: 10.50% to 13.50% per annum) with maturities up to March 22, 2007.

## 10. Investments

### 10.1 Investments by types:

Note	2006			2005		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	Rupees			in '000'		
<b>Held-for-trading securities</b>						
Ordinary shares of listed companies and modarabas	-	-	-	43,972	-	43,972
<b>Available-for-sale securities</b>						
Pakistan Market Treasury Bills	8,200,261	288,924	8,489,185	-	-	-
Pakistan Investment Bonds	788,678	-	788,678	-	-	-
Ordinary shares of listed companies and modarabas	10.5	147,920	147,920	48,020	-	48,020
Preference shares of listed companies	10.6	210,908	210,908	205,908	-	205,908
Ordinary shares of unlisted companies	10.6.1	25,000	25,000	-	-	-
NIT units	10.7	2,792,859	2,792,859	2,184,359	-	2,184,359
Investment in funds	10.8	4,382,541	4,382,541	1,973,797	-	1,973,797
Term Finance Certificates (TFCs)		3,664,887	3,664,887	2,187,488	-	2,187,488
<b>Held-to-maturity securities</b>						
Pakistan Market Treasury Bills	-	-	-	919,450	-	919,450
Pakistan Investment Bonds	2,955,518	-	2,955,518	3,718,245	350,000	4,068,245
WAPDA Bonds	101,638	-	101,638	262,514	-	262,514
<b>Subsidiary</b>						
Punjab Modaraba Services (Private) Limited	10.9	160,000	-	160,000	-	160,000
Add: Share deposit money		4,943	-	4,943	-	4,943
		164,943	-	164,943	-	164,943
<b>Total investments at cost</b>		23,435,153	288,924	23,724,077	11,708,696	12,058,696
Less: Provision for diminution in value of investments	10.3	33,400	-	33,400	400	400
<b>Investments - net of provisions</b>		23,401,753	288,924	23,690,677	11,708,296	12,058,296
Add: Surplus on revaluation of available-for-sale securities	22.2	4,542,534	-	4,542,534	5,967,885	5,967,885
<b>Total investments at market value</b>		27,944,287	288,924	28,233,211	17,676,181	18,026,181

## 10.2 Investments by segments:

Note	2006			2005		
	Held by bank	Further Given as collateral	Total	Held by bank	Further Given as collateral	Total
	Rupees			In '000'		
<b>Federal government securities:</b>						
Market Treasury Bills	8,200,261	288,924	8,489,185	919,450	-	919,450
Pakistan Investment Bonds	3,744,196	-	3,744,196	3,718,245	350,000	4,068,245
<b>Fully paid up ordinary shares/units:</b>						
Listed companies	10.5	147,920	-	147,920	91,992	91,992
Unlisted companies	10.6.1	25,000	-	25,000	-	-
Shares -unlisted subsidiary company	10.9	160,000	-	160,000	160,000	160,000
Share deposit money - unlisted subsidiary company	10.9	4,943	-	4,943	4,943	4,943
NIT units	10.7	2,792,859	-	2,792,859	2,184,359	2,184,359
Investment in funds	10.8	4,382,541	-	4,382,541	1,973,797	1,973,797
<b>Preference shares:</b>						
Listed companies	10.6	210,908	-	210,908	205,908	205,908
<b>Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:</b>						
Listed Term Finance Certificates	10.10	824,405	-	824,405	549,102	549,102
Unlisted Term Finance Certificates	10.1	2,840,482	-	2,840,482	1,638,386	1,638,386
WAPDA Bonds		101,638	-	101,638	262,514	262,514
<b>Total Investments at cost</b>		<b>23,435,153</b>	<b>288,924</b>	<b>23,724,077</b>	11,708,696	12,058,696
Less: Provision for diminution in value of investment	10.3	33,400	-	33,400	400	400
Investments - net of provisions		<b>23,401,753</b>	<b>288,924</b>	<b>23,690,677</b>	11,708,296	12,058,296
Add: Surplus on revaluation of available-for-sale securities	22.2	4,542,534	-	4,542,534	5,967,885	5,967,885
<b>Total Investments at market value</b>		<b>27,944,287</b>	<b>288,924</b>	<b>28,233,211</b>	17,676,181	18,026,181

**10.2.1** Pursuant to the requirements of BSD Circular no. 7 dated May 30, 2006, which allows a one time reclassification of securities between the three categories, the Bank reclassified Market Treasury Bills and Pakistan Investment Bonds having book values of Rs.6,620 million and Rs.1,049 million respectively, from held-to-maturity to available-for-sale category.

	Note	2006	2005
		Rupees in '000'	
<b>10.3 Particulars of provision for diminution in value of investments</b>			
Opening balance		400	400
Charge for the year	10.3.2	33,000	-
Closing balance		33,400	400
<b>10.3.1 Particulars of provision in respect of type and segment</b>			
<b>Available-for-sale securities</b>			
Term Finance Certificates (TFCs)		33,000	-
<b>Held-to-maturity securities</b>			
WAPDA Bearer Bonds		400	400
		33,400	400

**10.3.2** This represents provision for diminution in the value of investment in Term Finance Certificates (TFCs) of Crescent Standard Investment Bank Limited (CSIBL). Legal proceedings for recovery of the amount due are in process as explained in note 9.4.2 to these financial statements.

#### 10.4 Quality of available-for-sale securities

##### Ordinary shares of listed companies / modarabas

	2006		2005	
	Market Value	Rating	Market value	Rating
	Rupees in '000'		Rupees in '000'	
Trust Modaraba	2	Un-rated	6	Un-rated
Trust Leasing and Investment Bank	121,110	AA-, A1+	7	AA-, A1+
First National Bank Modaraba	7,775	A-, A-2	9,780	A-, A-2
Zephyr Textiles Limited	29,626	Un-rated	38,227	Un-rated
	<u>158,513</u>		<u>48,020</u>	

##### Preference shares of listed companies

Pak Elektron Limited	80,000	A, A1	80,000	Un-rated
Shakarganj Mills Limited	75,000	Un-rated	75,000	Un-rated
Azgard Nine Limited	43,271	A, A1	30,908	A, A1
Trust Leasing & Investment Bank Limited	-	AA-, A1+	20,000	AA-, A1+
Fazal Cloth Mills Limited	25,000	Un-rated	-	Un-rated
	<u>223,271</u>		<u>205,908</u>	

##### Listed Term Finance Certificates

Al-Zamin Leasing Modaraba	3,509	A	5,160	A-
Atlas Investment Bank Limited	-	-	8,327	A-, A2
Ittehad Chemicals Limited	12,990	A	20,817	A
Jahangir Siddiqui Investment Company Limited	18,728	AA+	24,975	AA+
MCB Bank Limited	181,709	AA	174,790	AA-
Pharmagen Limited	37,143	A-	55,714	A-
United Bank Limited	49,962	AA-	49,981	AA-
Shakarganj Mills Limited	-	-	7,995	A-
Sui Southern Gas Company Limited	-	-	8,327	AA
Sui Southern Gas Company Limited	13,989	AA	37,470	AA
Union Bank Limited	49,950	AA	49,970	A+
Bank AL Habib Limited	9,992	AA-	9,996	AA-
Trust Leasing and Investment Bank Limited	38,700	AA	48,000	AA
Trust Leasing and Investment Bank Limited	18,064	AA	22,580	AA
Nishat Mills Limited	71,928	A+, A1	89,928	A+, A1
JS ABAMCO	69,430	AA-	-	-
Orix Leasing Pakistan Limited	222,000	AA+	-	-
WorldCall Communications Limited	34,500	AA-	-	-
Crescent Leasing Corporation Limited	30,600	A-	40,000	AA-
	<u>863,194</u>		<u>654,030</u>	

	2006		2005	
	Market Value	Rating	Market value	Rating
	Rupees in '000'		Rupees in '000'	
<b>Unlisted Term Finance Certificates</b>				
Al-Abbas Sugar Mills Limited	-	-	43,421	A
Dewan Mushtaq Textile Mills Limited	9,375	Un-rated	28,125	Un-rated
Dewan Textile Mills Limited	12,500	Un-rated	37,500	Un-rated
Crescent Commercial Bank Limited	-	-	9,996	A
Orient Petroleum Limited	4,167	A, A-1	8,333	A, A-1
Pakistan International Airlines Corporation	97,121	Un-rated	102,371	Un-rated
Pakistan Mobile Communications (Private) Limited	240,000	AA-, A1	300,000	AA-, A1
Crescent Leasing Corporation Limited	25,000	A-	25,000	AA-
Crescent Steel and Allied Products Limited	46,875	AA-	65,625	AA-
Jamshoro Joint Venture Limited	62,500	A+	68,430	A+
Jamshoro Joint Venture Limited	-	-	19,070	A+
Pakistan Mobile Communications (Private) Limited	100,000	AA-, A1	100,000	AA-, A1
Pakistan Mobile Communications (Private) Limited	50,000	AA-, A1	50,000	AA-, A1
Security Leasing Corporation	18,750	A-, A2	25,000	A-, A2
Azgard Nine Limited	37,500	A+	50,000	A+
Crescent Standard Investment Bank Limited	132,000	Suspended	198,000	A-
Escorts Investment Bank Limited	149,880	A+	149,940	A+
Reliance Export Limited	180,000	Un-rated	180,000	Un-rated
Dewan Cement Limited	38,810	A, A1	47,177	A, A1
Dewan Cement Limited	470	A, A1	470	A, A1
Azgard Nine Limited	24,990	A+	25,000	A+
Azgard Nine (Dominion Fertilizer (Private) Limited)	950,000	Un-rated	-	-
Zaver Petroleum Limited	250,000	Un-rated	-	-
Pakistan Mobile Communications (Private) Limited	129,974	AA-, A1	-	-
Jahangir Siddiqui Company Limited	25,000	AA+	-	-
First National Equities Limited	75,000	A-	-	-
JS ABAMCO Limited	30,570	AA-	-	-
Syed Bhais (Private) Limited	150,000	Un-rated	-	-
	<b>2,840,482</b>		<b>1,533,458</b>	

	2006		2005	
	Market Value	Rating	Market value	Rating
	Rupees in '000'		Rupees in '000'	
<b>Mutual Funds</b>				
Crosby Dragon Fund	-	-	44,371	Un-rated
Pakistan Income Fund	897,666	4-Star	161,191	A+ (f)
Pakistan Stock Market Fund	123,927	5-Star	170,804	AA (f)
Pakistan Capital Market Fund	79,002	5-Star	44,292	Un-rated
Pakistan Strategic Allocation Fund	148,750	5-Star	175,250	Un-rated
Pakistan Int'l Element Islamic Fund	193,141	Un-rated	-	-
Unit Trust of Pakistan	308,388	5-Star	369,246	AA (f)
Unit Trust of Pakistan - Income Fund	549,468	5-Star	565,037	Un-rated
Unit Trust of Pakistan - Islamic Fund	92,364	3-Star	111,368	Un-rated
UTP-Large Capital Fund (ABAMCO Composite Fund)	160,000	4-Star	200,000	Un-rated
UTP Fund of Funds	12,398	Un-rated	12,500	Un-rated
UTP Aggressive Asset Allocation Fund	54,100	5-Star	50,000	Un-rated
UTP A30 + Fund	25,385	Un-rated	-	-
UTP ABAMCO Capital Protected Fund	50,000	Un-rated	-	-
Faysal Balanced Growth Fund	62,135	3-Star	44,464	Un-rated
Atlas Stock Market Fund	20,262	4-Star	13,334	Un-rated
Atlas Fund of Funds	10,030	4-Star	11,940	Un-rated
Atlas Islamic Fund	50,000	Un-rated	-	-
AKD Opportunity Fund	95,300	Un-rated	-	-
AMZ Plus Income Fund	603,825	A (f)	-	-
AMZ Plus Stock Market Fund	241,442	Un-rated	-	-
Askari Income Fund	101,277	Un-rated	-	-
KASB Liquid Fund	26,323	Un-rated	-	-
Meezan Islamic Fund	25,000	Un-rated	-	-
NAFA Cash Fund	53,617	A (f)	-	-
NAMCO Balance Fund	75,000	Un-rated	-	-
Reliance Income Fund	25,531	Un-rated	-	-
United Composite Islamic Fund	25,025	Un-rated	-	-
United Growth & Income Fund	25,011	Un-rated	-	-
	<b>4,134,367</b>		<b>1,973,797</b>	

The above ratings represent instrument ratings for the respective securities. Wherever instrument ratings are not available, entity ratings have been disclosed. Two ratings in one column represent long-term and short-term rating of the entity respectively. The ratings have been obtained from Pakistan Credit Rating Agency (PACRA) and JCR-VIS.

## 10.5 Ordinary shares of listed companies and modarabas

Number of shares/ Certificates		Name of company/modaraba	Rupees in '000'	
2006	2005		2006	2005
<b>Held-for-trading</b>				
-	72,500	National Bank of Pakistan	-	13,629
-	97,000	Sui Northern Gas Pipelines Limited	-	6,760
-	248,000	Pakistan Telecommunication Company Limited	-	16,001
-	44,500	MCB Bank Limited	-	7,447
-	5,000	Sui Southern Gas Company Limited	-	135
			-	43,972
<b>Available-for-sale</b>				
500	500	Trust Modaraba	6	6
3,105,381	1,208	Trust Leasing and Investment Bank Limited (Formerly Trust Leasing Corporation)	99,907	7
978,000	978,000	National Bank Modaraba	9,780	9,780
3,822,698	3,822,698	Zephyr Textile Limited	38,227	38,227
			147,920	48,020
			147,920	91,992

## 10.6 Preference shares of listed companies

Number of shares		Name of company		
2006	2005			
8,000,000	8,000,000	Pak Elektron Limited (PEL)	80,000	80,000
7,500,000	7,500,000	Shakarganj Mills Limited	75,000	75,000
3,090,794	3,090,794	Azgard-9 Limited	30,908	30,908
-	2,000,000	Trust Leasing and Investment Bank Limited (Formerly Trust Leasing Corporation)	-	20,000
2,500,000	-	Fazal Cloth Mills Limited	25,000	-
			210,908	205,908

**Other particulars of preference shares are as follows:**

Particulars	Nominal value per share	Profit rate per annum	Profit payment	Redemption terms
<b>Listed</b>				
Pak Elektron Limited (PEL)	10	Dividend of 9.50% per annum payable if and when declared by the company on a cumulative basis.	Annually	Call option subject to maximum of 75% and 100% of the issue size within 90 days of the end of each semi annual period commencing from 3rd & 5th anniversary respectively. Conversion option on the formula mentioned in the prospectus is exercisable after the 5th anniversary of the issue.
Shakarganj Mills Limited	10	Preferred right of dividend at 8.50% per annum on a cumulative basis.	Annually	Principal will be redeemed at the end of 5th year from the issue date. Conversion option is exercisable at the end of every financial year from the date of issue or in whole or in part OR convertible by the company in whole or part through tender.
Azgard Nine Limited	10	Fixed dividends at 8.95% p.a. to be declared within 3-months of close of financial year on a cumulative basis.	Annually	50% of the issue amount at the end of 5th year of issuance/ allotment and remaining 50% at the end of 6th year subject to the provisions of Section 85 of the Companies Ordinance, 1984.

**10.6.1 Ordinary shares of unlisted companies and modarabas**

Number of shares/ Certificates		Name of company/modaraba	Rupees in '000'	
2006	2005		2006	2005
2,000,000	-	Emirates Global Islamic Bank (Chief Executive Officer: Mr. Syed Tariq Hussain)	25,000	-

**10.7** These represent 158,950,857 (2005: 150,875,685) NIT units valued at market closing rate. In order to mitigate the risk of adverse fluctuation in prices Government of Pakistan has issued a letter of comfort (LOC) assuring NIT to facilitate redemption of 149,837,570 units at Rs13.7 per unit if the bank continues to hold the units till June 30, 2007.

Consequent to the decision regarding privatization of NIT, the Privatization Commission, Ministry of Privatization, Government of Pakistan through its letter dated November 27, 2005 has communicated to the Bank that the Government has decided to offer all LOC Holders an opportunity for the acquisition of rights to manage their proportionate funds under "Split Sell & Settle" Scheme.

Under the Scheme LOC holders have following two options:

- Option "A": The LOC holder(s) would be offered the right to manage the split fund representing the relevant LOC Holder's portion of the assets/shares and pay for the management rights as per terms contained in the Scheme. The LOC holder(s) would also agree to abide by all the conditions in the regulatory framework under the NBFC rules or any other condition prescribed by the regulator(s) at the time of issuance of the license.
- Option "B": The LOC Holder's units under LOC to continue to be managed by NITL heretofore as part of a separate split fund.

The Privatization Commission through management of NITL is in the process of finalizing these options with the LOC holders before expiry of the term of LOC on June 30, 2007.

## 10.8 Investment in funds

Number of Units		Name of fund	2006	2005
2006	2005		Rupees in '000'	
-	500,000	Crosby Dragon Fund	-	44,371
17,033,515	2,957,093	Pakistan Income Fund	911,191	161,191
1,504,877	1,504,876	Pakistan Stock Market Fund	170,804	170,804
6,899,730	4,485,000	Pakistan Capital Market Fund	105,000	44,292
17,500,000	17,500,000	Pakistan Strategic Allocation Fund	175,250	175,250
4,033,014	-	Pakistan Int'l Element Islamic Fund	200,000	-
41,830	41,830	Unit Trust of Pakistan	369,246	369,246
1,032,563	1,032,563	Unit Trust of Pakistan - Income Fund	565,037	565,037
159,061	159,061	Unit Trust of Pakistan - Islamic Fund	111,368	111,368
20,000,000	20,000,000	UTP-Large Capital Fund (Formerly: ABAMCO Composite Fund)	200,000	200,000
250,000	250,000	UTP Fund of Funds	12,500	12,500
1,000,000	1,000,000	UTP Aggressive Asset Allocation Fund	50,000	50,000
500,000	-	UTP A30 + Fund	25,000	-
500,000	-	UTP ABAMCO Capital Protected Fund	50,000	-
617,476	500,000	Faysal Balanced Growth Fund	62,223	44,464
36,690	29,770	Atlas Stock Market Fund	13,334	13,334
1,253,700	1,253,700	Atlas Fund of Funds	11,940	11,940
100,000	-	Atlas Islamic Fund	50,000	-
2,000,000	-	AKD Opportunity Fund	100,000	-
5,679,748	-	AMZ Plus Income Fund	600,000	-
2,487,045	-	AMZ Plus Stock Market Fund	250,000	-
953,107	-	Askari Income Fund	100,000	-
250,000	-	KASB Liquid Fund	24,648	-
500,000	-	Meezan Islamic Fund	25,000	-
5,095,000	-	NAFA Cash Fund	50,000	-
7,500,000	-	NAMCO Balance Fund	75,000	-
500,000	-	Reliance Income Fund	25,000	-
250,000	-	United Composite Islamic Fund	25,000	-
242,959	-	United Growth & Income Fund	25,000	-
			<b>4,382,541</b>	<b>1,973,797</b>

## 10.9 Subsidiary

## Punjab Modaraba Services (Pvt.) Ltd.

16,000,000 (2005: 16,000,000) ordinary shares of Rs. 10 each

Share deposit money Rs. 4,943 (thousands) (2005 Rs. 4,943 (thousands))

Holding: 100% (2005: 100%)

Period of financial statements - December 31, 2006

Break up value of investments based on last audited financial statements Rs.172,658 thousand (2005: Rs 173,241 thousand).

## 10.10 Term Finance Certificates-Listed

Number of certificates		Nominal Value per certificate	Name of company/modaraba	2006	2005
2006	2005			Rupees in '000'	
1,032	1,032	5	Al-Zamin Leasing Modaraba	3,509	5,160
5,000	5,000	5	Atlas Investment Bank Limited	-	8,327
5,000	5,000	5	Ittehad Chemicals Limited	12,490	20,817
5,000	5,000	5	Jahangir Siddiqui Investment Company Limited	18,728	24,975
35,000	35,000	5	MCB Bank Limited	174,720	174,790
13,000	13,000	5	Pharmagen Limited	37,143	55,714
10,000	10,000	5	United Bank Limited	49,962	49,981
-	4,000	5	Shakarganj Mills Limited	-	7,995
-	500	100	Sui Southern Gas Company Limited	-	8,327
750	750	100	Sui Southern Gas Company Limited	12,490	37,470
10,000	10,000	5	Union Bank Limited	49,950	49,970
2,000	2,000	5	Bank Al-Habib Limited	9,992	9,996
12,000	12,000	5	Trust Leasing and Investment Bank Limited (Formerly Trust Leasing Corporation)	36,000	48,000
4,516	4,516	5	Trust Leasing and Investment Bank Limited (Formerly Trust Leasing Corporation)	18,064	22,580
6,000	-	5	World Call Communication	30,000	-
40,000	-	5	Orix Leasing Pakistan Limited	200,000	-
13,886	-	5	JS ABAMCO	69,430	-
10,000	10,000	5	Crescent Leasing Corporation Limited	30,000	40,000
18,000	18,000	5	Nishat Mills Limited	71,928	89,928
				<b>824,405</b>	<b>654,030</b>



**Other particulars of listed TFCs are as follows:**

Particulars	Profit rate per annum	Profit payment	Redemption terms
Al-Zamin Leasing Modaraba	Minimum 8.00% per annum and if modaraba generates more profit that shall be distributable among TFC holders proportionately based on a certain formula.	Semi-annually	Principal amount relating to each redemption of TFC will be repaid amounting to Rs. 1,600, 1,700 and 1,700 for 3rd, 4th and 5th year respectively.
Ittehad Chemicals Limited	Floating, SBP discount rate + 250 bps. Floor: 12.00% p.a. & Cap: 16.00% p.a.	Semi-annually	Principal to be repaid in equal semi annual installments with a grace period of 2 years from the issue date, subject to call option exercisable after a period of 24 months from issue date.
Jahangir Siddiqui Investment Company Limited	Floating cut-off yield of last 5-years PIBs SBP auction + 150 bps. Floor: 9.00% p.a. & Cap: 13.00% p.a.	Semi-annually	Principal to be repaid in four equal semi annual installments commencing from 42nd month from the issue date.
MCB Bank Limited	Floating last cut-off yield of 5-years PIBs + 150 bps. Floor: 11.75% p.a. & Cap: 15.75% p.a.	Semi-annually	Principal to be repaid in 54th, 60th and 66th month in proportion to 40%, 30% and 30% of issue amount respectively.
Pharmagen Limited	Floating weighted average of last 3 cut-off rates of 5-year PIBs + 250 bps. Floor 8.50% p.a. & Cap: 11.50% p.a.	Semi-annually	18 months grace period. Principal will be redeemed semi-annually starting from 24th month of issue date. Callable, fully or partially, after 2-years of issue.
United Bank Limited	Fixed at 100 bps + trading yield of 8-year PIBs as quoted on Reuters page 'PKRV'	Semi-annually	The instrument is structured to redeem 0.25% of principal in the first 78 months and remaining principal in 3 semi annual installments of 0.20% each of the issue amount respectively, starting from 84th month.
Sui Southern Gas Company Limited	Floating SBP discount rate + 110 bps. Floor: 11.50% p.a. & Cap: 16.00% p.a.	Semi-annually	Principal to be repaid in 8 equal semi annual installments starting from 30th month from issue date.
Union Bank Limited	Floating last cut-off yield of 5-year PIBs auction + 75 bps. Floor: 5.00% p.a. & Cap: 10.75% p.a.	Semi-annually	A nominal amount i.e. 0.16% of the total issue amount will be repaid equally in each of the redemption periods of first 4 years and after that 5% of total issue amount each in 54th and 60th month, 19.92% of total issue amount each in 66th and 72nd month and 25% of total issue amount in 78th and 84th month.
Bank Al-Habib Limited	Floating Average 6-months KIBOR + 150 bps. Floor: 3.50% p.a. & Cap: 10.00% p.a.	Semi-annually	0.02% of principal to be redeemed in 13 equal semi annual installments starting from 6th month of issue and 3 equal semi annual installments of 33.25% of principal amount after 84th month.
Trust Leasing and Investment Bank Limited (Formerly Trust Leasing Corporation Limited)	Floating 6-month KIBOR + 300 bps. Floor: 6.00% p.a. & Cap: 10.00% p.a.	Semi-annually	Principal to be repaid in 10 equal semi annual installments commencing 6th month from the issue date. Callable at any time after 36 months from the issue date.
Trust Leasing and Investment Bank Limited (Formerly Trust Leasing Corporation Limited)	Floating 6-month KIBOR + 200 bps with no floor or cap.	Semi-annually	Principal to be repaid in 10 equal semi annual installments commencing 6th month from the issue date.
World Call Communication Limited	Floating 6-month KIBOR + 2.75% with no floor or cap.	Semi-annually	Principal to be repaid in equal semi annual installments commencing after a grace period of 2 years.
Orix Leasing Pakistan Limited	Floating 6-month KIBOR + 1.50% with no floor or cap.	Semi-annually	.08% of the principal amount to be redeemed during first two years in four equal semi annual installments in arrears and the remaining 99.92% to be redeemed during last three years in 6 equal semi annual installments in arrears.
JS ABAMCO	Floating 6-month KIBOR + 2.00%. Floor: 8.00% & Cap: 16.00%.	Semi-annually	Principal to be repaid in equal semi annual installments with a grace period of 1 year.
Crescent Leasing Corporation Limited	Floating cut-off yield of last successful SBP auction of 5-year PIBs + 160 bps.	Semi-annually	Principal to be redeemed in 10 equal semi-annual installments commencing from the 6th month of issue date. Callable anytime in full after 18th month of issue.
Nishat Mills Limited	Floating weighted average cut-off yield of last three auctions of 6-months TBs + 170 bps with no floor or cap.	Semi-annually	Principal to be repaid in 5 equal semi annual installments after grace period of 30 months from issue date.

## 10.11 Term Finance Certificates-Unlisted

Number of certificates		Nominal Value per certificate	Name of company/modaraba	2006	2005
2006	2005	Rupees in '000'		Rupees in '000'	Rupees in '000'
15,000	15,000	5	Al-Abbas Sugar Mills Limited	-	43,421
20,000	20,000	5	Dewan Mushtaq Textile Mills Limited	9,375	28,125
20,000	20,000	5	Dewan Textile Mills Limited	12,500	37,500
4,000	4,000	5	Crescent Commercial Bank Limited	-	9,996
5,000	5,000	5	Orient Petroleum Limited	4,167	8,333
21,000	21,000	5	Pakistan International Airlines Corporation	97,121	102,371
60,000	60,000	5	Pakistan Mobile Communication (Private) Limited	240,000	300,000
5,000	5,000	5	Crescent Leasing Corporation Limited	25,000	25,000
5,000	5,000	5	Azgard Nine Limited	24,990	25,000
15,000	15,000	5	Crescent Steel & Allied Products Limited	46,875	65,625
13,686	13,686	5	Jamshoro Joint Venture Limited	62,500	68,430
4,158	4,158	5	Jamshoro Joint Venture Limited	-	19,070
20,000	20,000	5	Pakistan Mobile Communication (Private) Limited	100,000	100,000
10,000	10,000	5	Pakistan Mobile Communication (Private) Limited	50,000	50,000
5,000	5,000	5	Security Leasing Corporation	18,750	25,000
10,000	10,000	5	Azgard Nine Limited	37,500	50,000
66,000	66,000	5	Crescent Standard Investment Bank Limited	132,000	198,000
5,000	5,000	30	Escorts Investment Bank	149,880	149,940
18	-	10,000	Reliance Export Limited	180,000	180,000
2	-	60,036/ 4,000	Dewan Cement Limited (Formerly Pakland Cement Limited)	38,810	47,177
1	-	1,078	Dewan Cement Limited (Formerly Pakland Cement Limited)	470	470
950	-	1,000	Azgard Nine Limited	950,000	-
26,000	-	5	Pakistan Mobile Communication (Private) Limited	129,974	-
15,000	-	5	First National Equities	75,000	-
5,000	-	5	Jahangir Siddiqui Investment Company	25,000	-
50,000	-	5	Zaver Petroleum Limited	250,000	-
6,114	-	5	JS ABAMCO	30,570	-
10	-	15,000	Syed Bhais (Private) Limited	150,000	-
				<b>2,840,482</b>	<b>1,533,458</b>

## Other particulars of Unlisted TFCs are as follows:

Particulars	Profit rate per annum	Profit payment	Redemption terms
Dewan Mushtaq Textile Mills Limited (Chief Executive Officer: Mr. Dewan Muhammad Ayub Khalid)	Floating SBP discount rate + 150 bps. Floor: 7.50% p.a. & Cap: 12.50% p.a.	Quarterly	Redemption will be made through equal quarterly installments, the first commencing from the 3rd month from the date of issue. Callable in part or full after 1st year of the issue date.
Dewan Textile Mills Limited (Chief Executive Officer: Mr. Dewan Ghulam Mustafa Khalid)	Floating SBP discount rate + 150 bps. Floor: 7.50% p.a. & Cap: 12.50% p.a.	Quarterly	Redemption will be made through equal quarterly installments, the first commencing from the 3rd month from the date of issue. Callable in part or full after 1st year of the issue date.
Crescent Commercial Bank Limited (Chief Executive Officer: Mr. Shehzad Naqvi)	Weighted average of last 3 cut-off of 3-years PIBs + 3%. Floor: 7.00% p.a. & Ceiling: 13.00% p.a.	Semi-annually	Principal to be repaid in 4 equal semi annual installments with 1 year grace period. Callable in full after 1st year of the issue date.
Orient Petroleum Limited (Chief Executive Officer: Mr. Anwar Moin)	Floating SBP discount rate + 100 bps. Floor: 8.00% p.a. & Cap: 13.00% p.a.	Semi-annually	Equal semi annual installments.
Pakistan International Airlines Corporation (Chief Executive Officer: Mr. Tariq Kirmani)	Floating SBP discount rate + 50 bps. Floor: 8.00% p.a. & Cap: 12.50% p.a.	Semi-annually	2.50% of principal to be redeemed in 6 equal semi annual installments starting from 24th month of issue date and 6 equal semi annual installments of 14.17% of issue amount.
Pakistan Mobile Communication (Private) Limited (Chief Executive Officer: Zouhair Abdul Khaliq)	Floating average 6-months KIBOR on start of every six months + 1.60% p.a. Floor: 4.95% p.a. & Cap: 12.00% p.a.	Semi-annually	Principal to be repaid in 5 equal semi annual installments first of which will fall due 36th month after disbursement. Call option in part or whole of the outstanding issue amount can be exercisable by the issuer from the 36th month till 45th month from the issue date.
Crescent Leasing Corporation Limited (Chief Executive Officer: Mr. Javaid Ahmad Khaliq)	Floating Ask Side of the 6-months KIBOR on Reuters + 175 bps with no floor or cap.	Semi-annually	Principal will be redeemed in 10 equal installments commencing from 6th month from the issue date with call option exercisable, in full or partial, at anytime after 18th month from the issue date.

Particulars	Profit rate per annum	Profit payment	Redemption terms
Azgard Nine Limited (Chief Executive Officer: Mr. Ahmad H. Sheikh)	Floating 6-month KIBOR + 2.40% with no floor or cap.	Semi-annually	Principal to be repaid in 10 semi annual installments starting from 36th month of the issue date. Conversion option which allows the TFC holder the right to convert upto 30% of the value of these TFCs into ordinary shares (non-voting).
Crescent Steel & Allied Products Limited (Chief Executive Officer: Mr. Ahsan Saleem)	Floating 6-month TB rate of last SBP auction + 250 bps with no floor and cap of 9.00% p.a.	Semi-annually	Principal will be redeemed in 8 equal installments commencing from 18th month from the issue date with call option exercisable at anytime after the 18th month from the issue date with 60 days notice period.
Jamshoro Joint Venture Limited (Chief Executive Officer: Mr. Iqbal Zafaruddin Ahmed)	Floating latest cut-off yield of 5-year PIBs +400 bps. Floor: 9.75% p.a.	Semi-annually	Principal will be redeemed in 16 quarterly installments commencing from 18th month from the first draw down of funds or 12 months from the last draw down of funds, whichever is earlier.
Pakistan Mobile Communication (Private) Limited (Chief Executive Officer: Mr. Zouhair Abdul Khaliq)	Floating average 6-months KIBOR on start of every six months + 1.60% p.a. Floor: 4.95% p.a. & Cap: 12.00% p.a.	Semi-annually	Principal to be repaid in 5 equal semi annual installments first of which will fall due 36th month after disbursement. Call option in part or whole of the outstanding issue amount can be exercisable by the issuer from the 36th month till 45th month from the issue date.
Pakistan Mobile Communication (Private) Limited (Chief Executive Officer: Mr. Zouhair Abdul Khaliq)	Floating SA of last three 6-month TBs cut-off rates + 2.25% p.a. Floor: 6.50% p.a. & Cap: 12.00% p.a.	Semi-annually	Principal to be repaid in 5 equal semi annual installments, the first such installment falling due 36th month after disbursement.
Security Leasing Corporation (Chief Executive Officer: Mr. Muhammad Rasheed Khan)	Floating Average 6-months KIBOR Ask Rate + 190 bps.	Semi-annually	Principal will be redeemed in 4 equal semi annual installments commencing from 30th month from the issue date, after the grace period of 24 months. Call option exercisable in part or full after 18th month of the issue date.
Azgard Nine Limited (Chief Executive Officer: Mr. Ahmad H. Shaikh)	Floating 6-month KIBOR as quoted on Reuters page at 11:30 am + 175 bps.	Semi-annually	Principal to be repaid in 8 equal semi annual installments starting from 18th month of the issue date.
Crescent Standard Investment Bank Limited (Administrator: Mr. Badr-Ud-Din Khan)	Floating average 6-months KIBOR Ask Side + 250 bps. Floor: 6.50% p.a. & no cap/ceiling.	Semi-annually	Principal shall be retired through 5 semi annual installments each of Rs 66 million, first repayment will be due on February 7, 2005.
Escorts Investment Bank (Chief Executive Officer: Mr. Rashid Mansur)	Floating average 6-months KIBOR Ask Side + 275 bps. Floor: 5.00% p.a. & Cap: 10.00% p.a.	Semi-annually	2 years grace period, principal redemption in six equal semi annual installments starting from 30th month subject to call option exercisable at any time after 3 years in whole or in part at 60 days notice at a premium of 1% on outstanding value.
Reliance Export Limited (Chief Executive Officer: Mr. Saddaruddin Hashwani)	Floating 6-month KIBOR Ask side + 250 bps with no floor or cap.	Semi-annually	Principal to be repaid in 12 stepped up semi annual installments starting from 18th month of the issue date.
Dewan Cement Limited (Chief Executive Officer: Mr. Dewan Muhammad Yousaf Farooqui)	Floating 6-month KIBOR Ask side + 2.50%.	Semi-annually	Principal to be repaid in 12 equal semi annual installments starting from June 2006.
Dewan Cement Limited (Chief Executive Officer: Mr. Dewan Muhammad Yousaf Farooqui)	NIL	-	Principal to be repaid in 4 equal semi annual installments commencing from June 2012.
Azgard Nine Limited (Chief Executive Officer: Mr. Ahmad H. Shaikh)	Floating 6-month KIBOR Ask side + 3.25% with no floor or cap	Quarterly	Principal to be repaid in 24 equal installments starting from 15th month of the issue date.
Pakistan Mobile Communication (Private) Limited (Chief Executive Officer: Mr. Zouhair Abdul Khaliq)	Floating 6-month KIBOR Ask side + 2.85% p.a. & no floor or cap	Semi-annually	Principal to be repaid in 6 semi-annual installments starting from 54th month of the issue date.
First National Equities Limited (Chief Executive Officer: Mr. Amjad Pervaiz)	Floating 6-month KIBOR Ask side + 2.5% p.a. with no floor and cap of 15%	Semi-annually	Principal to be repaid in equal semi annual installments with a grace period of 6 months, commencing from date of initial disbursement.
Jahangir Saddiqui Company Limited (Chief Executive Officer: Mr. Munaf Ibrahim)	Floating 6-month KIBOR Ask side + 2.5% with floor 6.00% and cap 16.00%	Semi-annually	0.18 % of the principle to be repaid from 6th to 54th month, 49.9 % in 60th month and remaining 49.9 % in 66th month from date of first issue.
Zaver Petroleum Limited (Chief Executive Officer: Mr. Fawad Ahmed Mukhtar)	Floating 6-month KIBOR Ask side + 3.25% with no floor or cap	Semi-annually	Principal to be repaid in 8 semi-annual installment starting from 18th month of the issue date.
JSABAMCO (Chief Executive Officer: Mr. Najam Ali)	Floating 6-month KIBOR + 2.00%. Floor: 8.00% & Cap: 16.00%.	Semi-annually	Principal to be repaid in equal semi annual installments with a grace period of 3 years.
Syed Bhais (Private) Limited (Chief Executive Officer: Mr. Zamir Ahmed Khan)	Average Ask rate of 3-months KIBOR + 300 bps with no floor and no cap.	Quarterly	Principal to be repaid in 16 quarterly installments after the grace period of 2 years.

**10.12** Market Treasury Bills and Pakistan Investment Bonds are held with State Bank of Pakistan and are eligible for rediscounting with State Bank of Pakistan.

	2006	2005						
	Rupees in '000'							
<b>11. Advances</b>								
Loans, cash credits, running finances etc.:								
- In Pakistan	88,533,343	58,771,710						
- Outside Pakistan	-	-						
	<u>88,533,343</u>	<u>58,771,710</u>						
Net investment in finance lease:								
- In Pakistan	3,828,382	3,026,657						
- Outside Pakistan	-	-						
	<u>3,828,382</u>	<u>3,026,657</u>						
Financing in respect of CFS	-	371,874						
Bills discounted and purchased (excluding treasury bills):								
- Payable in Pakistan	8,058,451	809,892						
- Payable outside Pakistan	2,050,544	1,473,375						
	<u>10,108,995</u>	<u>2,283,267</u>						
Advances - gross	<u>102,470,720</u>	64,453,508						
Less: Provision for non-performing advances:								
- Specific	(1,058,717)	(732,673)						
- General	(92,049)	(97,130)						
Advances - net of provision	<u>101,319,954</u>	<u>63,623,705</u>						
<b>11.1 Particulars of advances (Gross)</b>								
<b>11.1.1</b> In local currency	102,470,720	64,453,508						
In foreign currencies	-	-						
	<u>102,470,720</u>	<u>64,453,508</u>						
<b>11.1.2</b> Short-term advances upto one year	68,612,018	46,207,163						
Long-term advances for over one year	33,858,702	18,246,345						
	<u>102,470,720</u>	<u>64,453,508</u>						
<b>11.2 Net investment in finance lease</b>								
	2006			2005				
	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' )			
	in							
Lease rentals receivable	764,003	4,003,444	-	4,767,447	952,701	2,962,058	27,572	3,942,331
Residual value	-	-	-	-	-	-	-	-
Minimum lease payments	764,003	4,003,444	-	4,767,447	952,701	2,962,058	27,572	3,942,331
Less: Financial charges for future periods	294,505	644,560	-	939,065	307,701	599,006	8,967	915,674
Present value of minimum lease payments	<u>469,498</u>	<u>3,358,884</u>	<u>-</u>	<u>3,828,382</u>	<u>645,000</u>	<u>2,363,052</u>	<u>18,605</u>	<u>3,026,657</u>

- 11.3** Advances include Rs. 2,345,754 thousand (2005: Rs. 1,359,567 thousand) which have been placed under non-performing status as detailed below:-

Category of Classification	2006								
	Rupees in '000'								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Other assets especially mentioned	179,487	-	179,487	-	-	-	-	-	-
Substandard	148,508	-	148,508	17,730	-	17,730	17,730	-	17,730
Doubtful	361,584	-	361,584	101,547	-	101,547	101,547	-	101,547
Loss	1,656,175	-	1,656,175	939,440	-	939,440	939,440	-	939,440
	<u>2,345,754</u>	<u>-</u>	<u>2,345,754</u>	<u>1,058,717</u>	<u>-</u>	<u>1,058,717</u>	<u>1,058,717</u>	<u>-</u>	<u>1,058,717</u>

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

Note	2006			2005		
	Specific	General	Total	Specific	General	Total
	Rupees			in '000'		
Opening balance	732,673	97,130	829,803	462,845	53,340	516,185
Charge for the year	467,133	-	467,133	369,871	43,790	413,661
Less: Reversals	(121,425)	(5,081)	(126,506)	(86,288)	-	(86,288)
	345,708	(5,081)	340,627	283,583	43,790	327,373
Less: Amounts written off 11.5	(19,664)	-	(19,664)	(13,755)	-	(13,755)
Closing balance	<u>1,058,717</u>	<u>92,049</u>	<u>1,150,766</u>	<u>732,673</u>	<u>97,130</u>	<u>829,803</u>

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

	2006			2005		
	Specific	General	Total	Specific	General	Total
	Rupees			in '000'		
In local currency	1,058,717	92,049	1,150,766	732,673	97,130	829,803
In foreign currencies	-	-	-	-	-	-
	<u>1,058,717</u>	<u>92,049</u>	<u>1,150,766</u>	<u>732,673</u>	<u>97,130</u>	<u>829,803</u>

- 11.4.2** General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by Prudential Regulations issued by State Bank of Pakistan.

	Note	2006	2005
		Rupees in '000'	
<b>11.5 Particulars of write offs:</b>			
<b>11.5.1</b> Against Provisions	11.4	19,664	13,755
Directly charged to Profit & Loss account		100	3,623
		<u>19,764</u>	<u>17,378</u>
<b>11.5.2</b> Write Offs of Rs. 500,000 and above	11.6	17,247	15,721
Write Offs of Below Rs. 500,000		2,517	1,657
		<u>19,764</u>	<u>17,378</u>
<b>11.6 Details of loan written off of Rs. 500,000/- and above</b>			
In pursuance of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2006 is given at Annexure-1.			
<b>11.7 Particulars of loans and advances to directors, associated companies, etc.</b>			
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons			
Balance at beginning of year		1,130,400	258,140
Loans granted during the year		228,157	934,100
Less: Repayments		(362,762)	(61,840)
Balance at end of year	11.7.1	<u>995,795</u>	<u>1,130,400</u>
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of year		703,360	517,621
Loans granted during the year		25,000	300,000
Less: Repayments		(164,103)	(114,261)
Balance at end of year		<u>564,257</u>	<u>703,360</u>
		<u>1,560,052</u>	<u>1,833,760</u>
<b>11.7.1</b> These represent staff loans given to executives and officers in accordance with their terms of employment and advance given under consumer finance schemes of the Bank.			

	Note	2006 Rupees in '000'	2005
<b>12. Operating fixed assets</b>			
Capital work-in-progress	12.1	177,991	19,725
Property and equipment	12.2	1,860,287	1,695,336
Intangible assets	12.3	30,466	-
		<u>2,068,744</u>	<u>1,715,061</u>
<b>12.1 Capital work-in-progress</b>			
Civil works		162,198	8,375
Equipments		13,084	-
Advances to suppliers and contractors		2,709	11,350
		<u>177,991</u>	<u>19,725</u>
<b>12.2 Property and equipment</b>			

	Cost / revalued amount				Depreciation				Book value as at December 31, 2006	Rate of Depreciation %	
	Opening balance as at January 01, 2006	Additions	Deletions/ Adjustments	Revaluation	Closing balance as at December 31, 2006	Opening balance as at January 01, 2006	Charge	Deletions/ Adjustments			Closing balance as at December 31, 2006
	Rupee in '000'										
Free hold land	1,096,335	7,762	-	-	1,104,097	-	-	-	-	1,104,097	-
Building on free hold land	348,056	120,213	-	-	468,269	12,074	18,724	-	30,798	437,471	5
Furniture, fixture and office equipment	431,110	155,550	(5,390)	-	581,270	220,900	89,704	(3,874)	306,730	274,540	10-33.33
Vehicles	23,353	2,750	(4,969)	-	21,134	21,696	795	(3,981)	18,510	2,624	20
	<u>1,898,854</u>	<u>286,275</u>	<u>(10,359)</u>	<u>-</u>	<u>2,174,770</u>	<u>254,670</u>	<u>109,223</u>	<u>(7,855)</u>	<u>356,038</u>	<u>1,818,732</u>	
<b>Assets held under finance lease</b>											
Furniture, fixture and office equipment	71,790	-	-	-	71,790	34,322	13,186	-	47,508	24,282	20
Vehicles	30,824	12,155	(2,023)	-	40,956	17,140	8,370	(1,827)	23,683	17,273	20
	<u>102,614</u>	<u>12,155</u>	<u>(2,023)</u>	<u>-</u>	<u>112,746</u>	<u>51,462</u>	<u>21,556</u>	<u>(1,827)</u>	<u>71,191</u>	<u>41,555</u>	
<b>2006</b>	<u>2,001,468</u>	<u>298,430</u>	<u>(12,382)</u>	<u>-</u>	<u>2,287,516</u>	<u>306,132</u>	<u>130,779</u>	<u>(9,682)</u>	<u>427,229</u>	<u>1,860,287</u>	
	Cost / revalued amount				Depreciation				Book value as at December 31, 2005	Rate of Depreciation %	
	Opening balance as at January 1, 2005	Additions	Deletions/ Adjustments	Revaluation	Closing balance as at December 31, 2005	Opening balance as at January 1, 2005	Charge	Deletions/ Adjustments			Closing balance as at December 31, 2005
	Rupee in '000'										
Free hold land	294,466	-	-	801,869	1,096,335	-	-	-	-	1,096,335	-
Building on free hold land	196,677	13,333	(56,805)	194,851	348,056	56,805	12,074	(56,805)	12,074	335,982	5
Furniture, fixture and office equipment	321,757	83,157	(4,243)	-	431,110	167,425	41,671	(3,415)	220,900	210,210	10-33.33
Vehicles	23,864	-	30,439 (511)	-	23,353	20,695	1,498	15,219 (497)	21,696	1,657	20
	<u>836,764</u>	<u>96,490</u>	<u>(61,559)</u> <u>30,439</u>	<u>996,720</u>	<u>1,898,854</u>	<u>244,925</u>	<u>55,243</u>	<u>(60,717)</u> <u>15,219</u>	<u>254,670</u>	<u>1,644,184</u>	
<b>Assets held under finance lease</b>											
Furniture, fixture and office equipment	102,229	-	(30,439)	-	71,790	33,311	16,230	(15,219)	34,322	37,468	20
Vehicles	26,233	5,146	(555)	-	30,824	11,156	6,326	(342)	17,140	13,684	20
	<u>128,462</u>	<u>5,146</u>	<u>(30,994)</u>	<u>-</u>	<u>102,614</u>	<u>44,467</u>	<u>22,556</u>	<u>(15,561)</u>	<u>51,462</u>	<u>51,152</u>	
<b>2005</b>	<u>965,226</u>	<u>101,636</u>	<u>(62,114)</u>	<u>996,720</u>	<u>2,001,468</u>	<u>289,392</u>	<u>77,799</u>	<u>(61,059)</u>	<u>306,132</u>	<u>1,695,336</u>	

### 12.2.1 Detail of disposal of operating fixed assets

Particulars	Cost	Book value	Sale price	Profit	Mode of disposal	Particulars of purchasers
		Rupees in '000'				
Honda Civic	1,226	327	328	1	As per policy	Mr. Shahzad Hassan Pervez - Chairman
Toyota Corolla	1,080	323	335	12	As per policy	Mr. Hamesh Khan - President
Toyota Corolla	753	-	138	138	As per policy	Mr. Nadeem Amir - Executive
Suzuki Baleno	734	61	200	139	As per policy	Mr. Zulma-e-Azam - Executive
Toyota Corolla	847	339	508	169	As per policy	Mr. M. Shahzad Sadiq - Ex-Executive
<b>2006</b>	<b>4,640</b>	<b>1,050</b>	<b>1,509</b>	<b>459</b>		
2005	555	222	350	128		

The above-mentioned detail of disposals of operating fixed assets represents those assets that were either sold (otherwise than through a regular auction) to Chief Executive or a director or an executive or a shareholder holding not less than ten percent of the voting shares of the Bank or any related party, irrespective of the value, and in the case of any other person if the original cost or the book value of the asset or assets in aggregate exceeds Rs. 1 million or Rs.0.250 million respectively (whichever is lower).

12.2.2 Freehold land and buildings were revalued on June 30, 2005 by M/s Indus Surveyors (Private) Limited, an independent valuer, on the basis of fair market value. This valuation resulted in a surplus of Rs.801,869 thousand and Rs.194,851 thousand in respect of freehold land and buildings respectively.

#### Rupees in '000'

Total revalued amount of land	1,096,335
Total revalued amount of buildings	334,723

Had the land and buildings not been revalued, their carrying amounts as at December 31, 2006 would have been as follows:

	2006	2005
	Rupees in '000'	
Land	340,228	294,466
Buildings	153,659	145,545

12.2.3 The carrying amount of fully depreciated assets that are still in use is Rs.1,214 (2005: Rs.1,018).

### 12.3 Intangible assets

	COST			AMORTIZATION			Book value as at December 31, 2006	Rate of amortization %
	Opening balance as at January 01, 2006	Closing balance as at December 31, 2006	Opening balance as at January 01, 2006	Closing balance as at December 31, 2006	Book value as at December 31, 2006			
		Additions	Amortization					
	Rupees in '000'			Rupees in '000'			Rupees in '000'	
License	-	35,100	-	5,850	5,850	29,250	33.33	
Software	-	1,251	-	35	35	1,216	33.33	
<b>2006</b>	<b>-</b>	<b>36,351</b>	<b>-</b>	<b>5,885</b>	<b>5,885</b>	<b>30,466</b>		
2005	-	-	-	-	-	-		



	Note	2006 Rupees in '000'	2005
<b>13. Other assets</b>			
Income/mark-up accrued in local currency		3,353,800	1,890,922
Advances, deposits, advance rent and other prepayments		102,571	117,456
Non-banking assets acquired in satisfaction of claims	13.1	49,742	-
Suspense account		112	-
Excise duty recoverable		16,365	16,365
Against recoverable from NIT		36,790	36,790
Against claim for recovery of shares		18,570	18,570
Others		103,232	32,190
		<b>3,681,182</b>	2,112,293
Less Provision:			
-Excise duty recoverable		(16,365)	(16,365)
-Against recoverable from NIT		(36,790)	(36,790)
-Against claim for recovery of shares	13.2	(18,570)	(18,570)
	13.3	(71,725)	(71,725)
Other assets - net of provision		<b>3,609,457</b>	2,040,568

**13.1** This represents the market values of a residential property and a shop amounting to Rs.45,240 thousand and Rs.4,502 thousand respectively acquired by the Bank in settlement of these debts.

**13.2** This amount represents the cost of 2,785,074 shares of Sui Northern Gas Pipelines Limited (SNGPL) net of subsequent recoveries handed over in the previous years to M/s S. H. Bukhari Securities (Private) Limited (SHB), an ex-member of Lahore Stock Exchange (Guarantee) Limited (LSE) for the transfer into their account with the Central Depository Company Limited (CDC). After transferring the shares to CDC, the said member fraudulently and unlawfully withdrew the same from the CDC account. The Bank, however had never instructed or authorized the member to trade in these shares. The matter was reported to LSE and also to the Securities and Exchange Commission of Pakistan (SECP) for recovery of the said 2,785,074 shares from the member.

Apart from reporting the matter to LSE and SECP, the Bank also registered an FIR with Federal Investigation Agency (FIA) to initiate criminal proceedings against the directors, employees / agents of the said member. Subsequent to the investigation proceedings by FIA the case was transferred to National Accountability Bureau (NAB). As a result of investigation proceedings at NAB authorities are in the process of recovery. Meanwhile the Defaulters Committee of LSE has also paid an amount of Rs. 7,726 thousand out of the amount realized from assets of the SHB held by LSE and NAB authorities have so far paid to the Bank recoveries of Rs. 12,434 thousand under plea bargain arrangements with the accused. This amount has also been accounted for as partial payment towards the total amount agreed under plea bargain arrangements. As a matter of prudence though without prejudice to the Bank's claim against M/s S.H. Bukhari Securities (Private) Limited at various forums and the court of law, the balance claim amount has already been fully provided for by the Bank.

	Note	2006	2005
		Rupees in '000'	
<b>13.3 Provision against other assets</b>			
Opening balance		71,725	79,415
Charge for the year		-	4,744
Reversals		-	12,434
Amount Written off		-	-
Closing balance		71,725	71,725
<b>14. Contingent assets</b>			
Contingent assets		Nil	Nil
<b>15. Bills payable</b>			
In Pakistan		856,448	478,001
Outside Pakistan		-	-
		856,448	478,001
<b>16. Borrowings</b>			
In Pakistan		6,989,424	6,791,007
Outside Pakistan		-	-
		6,989,424	6,791,007
<b>16.1 Particulars of borrowings with respect to Currencies</b>			
In local currency		6,989,424	6,791,007
In foreign currencies		-	-
		6,989,424	6,791,007
<b>16.2 Details of borrowings Secured / Unsecured</b>			
<b>Secured</b>			
Borrowings from State Bank of Pakistan			
-Under export refinance scheme	16.2.1	6,000,500	2,336,007
Repurchase agreement borrowings	16.2.2	288,924	350,000
		6,289,424	2,686,007
<b>Unsecured</b>			
Call borrowings	16.2.3	700,000	4,105,000
		6,989,424	6,791,007
<b>16.2.1</b>	These are secured against bank's cash and security balances held by SBP. Mark-up on these borrowings is payable quarterly at rates ranging from 6.50% to 7.50% per annum (2005: 7.50% per annum). Maturity of the borrowing is upto June 2007.		
<b>16.2.2</b>	Mark-up is payable on borrowings under repurchase agreement at a rate of 8.75% (2005: 8.25% to 8.30%) per annum. Maturity of the borrowing is on January 06, 2007.		
<b>16.2.3</b>	This represents funds borrowed from scheduled banks in the inter bank money market, which carry markup at a rate of 10.50% (8% to 10%) per annum having maturity upto February 13, 2007.		

	2006	2005
	Rupees in '000'	
<b>17. Deposits and other accounts</b>		
<b>Customers</b>		
Fixed deposits	54,115,307	35,786,752
Savings deposits	51,699,612	32,137,063
Current Accounts - Non-remunerative	18,652,922	15,499,755
Sundry deposits, margin accounts, etc.	1,138,856	1,009,841
	<b>125,606,697</b>	84,433,411
<b>Financial Institutions</b>		
Remunerative deposits	11,947,282	3,659,223
Non-remunerative deposits	173,627	372,417
	<b>12,120,909</b>	4,031,640
	<b>137,727,606</b>	88,465,051
<b>17.1 Particulars of deposits</b>		
In local currency	135,264,964	87,590,916
In foreign currencies	2,462,642	874,135
	<b>137,727,606</b>	88,465,051

**18. Liabilities against assets subject to finance lease**

	2006			2005		
	Minimum lease payments	Financial charges for future periods	Principal outstanding Rupees	Minimum lease payments in '000'	Financial charges for future periods	Principal outstanding
Not later than one year	20,908	3,090	17,818	29,482	3,664	25,818
Later than one year and not later than five years	27,039	3,869	23,170	32,726	3,141	29,585
	<b>47,947</b>	<b>6,959</b>	<b>40,988</b>	62,208	6,805	55,403

Financial charges, included in the lease rentals, are determined on the basis of discount factors applied at the rates ranging from 6.75% to 13.15% per annum (2005: 6.75% to 8.50% per annum). The bank has an option to purchase the assets upon completion of lease term and has the intention to exercise the option.

The amount of future payments of the lease and the period in which these payments will become due are as follows:

Years	Rupees in '000'
2007	20,908
2008	9,459
2009	9,720
2010	4,737
2011	3,123
	47,947
Less: Finance charge for the future periods	6,959
	<b>40,988</b>

	Note	2006 Rupees in '000'	2005
<b>19. Deferred tax liabilities</b>			
<b>Deferred tax arising due to:</b>			
-Accelerated depreciation		267,634	184,647
-Revaluation surplus		63,650	68,198
-Others		(32,668)	(32,668)
		<u>298,616</u>	<u>220,177</u>
<b>20. Other liabilities</b>			
Mark-up/ Return/ Interest payable in local currency		1,873,671	936,413
Mark-up/ Return/ Interest payable in foreign currency		4,814	2,249
Accrued expenses		8,272	29,582
Unclaimed dividends		2,831	2,936
Branch adjustment account		85,229	38,602
Provision for taxation		501,516	274,080
Provision for employees compensated absences		93,804	74,149
Provision against off-balance sheet obligations	20.1	1,196	1,021
Others		245,008	115,393
		<u>2,816,341</u>	<u>1,474,425</u>
<b>20.1 Provision against off-balance sheet obligations</b>			
Opening balance		1,021	1,021
Charge for the year		175	-
Closing balance		<u>1,196</u>	<u>1,021</u>
<b>21. Share capital</b>			
<b>21.1 Authorized capital</b>			
		<u>2006</u> Number	<u>2005</u> Number
		1,000,000,000	1,000,000,000
	Ordinary shares of Rs. 10 each	<u>10,000,000</u>	<u>10,000,000</u>
<b>21.2 Issued, subscribed and paid-up</b>			
		<u>2006</u> Number	<u>2005</u> Number
	Ordinary shares of Rs. 10 each	19,333,340	15,750,000
	Fully paid in cash	270,915,660	219,221,860
	Issued as bonus shares	<u>290,249,000</u>	<u>234,971,860</u>
		<u>193,333</u>	<u>157,500</u>
		<u>2,709,157</u>	<u>2,192,219</u>
		<u>2,902,490</u>	<u>2,349,719</u>

	2006	2005
	Rupees in '000'	
<b>22. Surplus on revaluation of assets</b>		
<b>22.1 Surplus on revaluation of fixed assets</b>	<b>996,720</b>	996,720
- Opening balance	(3,166)	-
- Transferred to un-appropriated profit in respect of incremental depreciation charged during the year-net of tax	(6,174)	(3,166)
- Accumulated incremental depreciation-net of tax	(9,340)	(3,166)
	<b>987,380</b>	993,554
Less: Related deferred tax liability		
- Opening balance	(68,198)	-
- Deferred tax liability recorded during the year	5,030	(68,198)
- Closing balance	(63,168)	(68,198)
	<b>924,212</b>	925,356
<b>22.2 Surplus on revaluation of Available-for-sale securities</b>		
Federal and Provincial Government securities	365,840	-
Quoted securities	26,046	20,535
Other securities	4,150,648	5,947,350
	<b>4,542,534</b>	5,967,885
	<b>5,466,746</b>	6,893,241
<b>23. Contingencies and commitments</b>		
<b>23.1 Direct Credit Substitutes</b>		
These include general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities issued in favour of:		
- Government	-	-
- Financial institutions	-	-
- Others	10,799,599	2,576,582
	<b>10,799,599</b>	2,576,582
<b>23.2 Transaction-related Contingent Liabilities</b>		
These include performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credit related to particular transactions issued in favour of:		
- Government	5,361,747	4,252,433
- Financial institutions	50,000	73,495
- Others	4,744,689	1,102,738
	<b>10,156,436</b>	5,428,666

	2006	2005
	Rupees in '000'	
<b>23.3 Trade-related Contingent Liabilities</b>		
These include letters of credit issued in favour of:		
- Government	2,039,822	3,045,858
- Financial institutions	-	-
- Others	16,225,594	7,694,594
	<u>18,265,416</u>	<u>10,740,452</u>
<b>23.4 Income tax related contingency</b>		
The Income Tax Department has filed an appeal with the Honourable Income Tax Appellate Tribunal (ITAT) against the order of Commissioner of Income Tax (Appeals) disallowing add-back of charge for the year 2003, 2004 and 2005 in respect of provision for doubtful debts. The stated appeal is currently in process in the ITAT. However, the management of the Bank, based on the opinion of tax advisors, is confident of a favourable outcome of the decision and has therefore, not made any provision in these financial statements.		
In the event that the appeals are decided against the Bank, a further tax liability of Rs. 70,505 thousand (2005: Rs.44,461 thousand) may arise in these financial statements.		
<b>23.5 Other Contingencies</b>		
Claims against bank not acknowledge as debt	<u>428,812</u>	<u>403,484</u>
<b>23.6 Commitments in respect of forward exchange contracts</b>		
Purchase	783,998	268,336
Sale	2,101,934	1,569,803
	<u>2,885,932</u>	<u>1,838,139</u>
<b>23.7 Commitments for the acquisition of operating fixed assets</b>	<u>8,597</u>	<u>8,839</u>

	2006	2005
	Rupees in '000'	
<b>24. Mark-up / return / interest earned</b>		
a) On Loans and advances to:		
i) Customers	9,523,894	4,707,525
ii) Financial Institutions	93,293	166,933
b) On Investments in:		
i) Available for sale Securities	961,323	215,414
ii) Held to Maturity Securities	292,214	463,925
c) On Deposits with financial institutions	327,631	318,208
d) On Securities purchased under resale agreements	445,608	253,088
	<b>11,643,963</b>	<b>6,125,093</b>
	<b>11,643,963</b>	<b>6,125,093</b>
<b>25. Mark-up / return / interest expensed</b>		
Deposits	7,275,220	2,465,625
Securities sold under repurchase agreements	6,053	54,177
Other short term borrowings	227,522	87,049
Premium paid on Pakistan Investment Bonds	64,927	61,888
	<b>7,573,722</b>	<b>2,668,739</b>
	<b>7,573,722</b>	<b>2,668,739</b>
<b>26. Gain on sale of securities</b>		
Federal Government Securities		
- Pakistan Investment Bonds	-	200
Mutual funds units	389,063	2,963
	<b>389,063</b>	<b>3,163</b>
	<b>389,063</b>	<b>3,163</b>
<b>27. Other income</b>		
Rent on lockers	4,258	3,972
Net profit on sale of property and equipment	1,088	540
Provision no longer required due to recovery on account of claim for shares	-	12,434
Service charges	242,413	136,140
Others	218,676	72,500
	<b>466,435</b>	<b>225,586</b>
	<b>466,435</b>	<b>225,586</b>

	Note	2006	2005
		Rupees in '000'	
<b>28. Administrative expenses</b>			
Salaries, allowances, etc.		1,023,485	716,371
Contribution to defined contribution plan		29,801	25,894
Provision against compensated absences		19,655	12,766
Non-executive directors' fees, allowances and other expenses		32	16
Rent, taxes, insurance, electricity, etc.		175,524	137,621
Legal and professional charges		6,920	7,735
Communications		30,782	29,380
Repairs and maintenance		35,971	29,645
Finance charges on leased assets		4,368	5,205
Stationery and printing		37,364	36,911
Advertisement and publicity		12,566	10,126
Donations		-	10,045
Auditors' remuneration	28.1	2,302	2,292
Depreciation	12.2	130,779	77,799
Amortization		5,885	-
Traveling		28,511	18,753
Vehicle expenses		73,179	51,562
Cash remittance charges		14,605	12,216
Bank charges		62,695	41,528
Others		57,546	49,106
		<u>1,751,970</u>	<u>1,274,971</u>
<b>28.1 Auditors' remuneration</b>			
Audit fee		1,175	1,175
Special certifications and sundry advisory services		618	675
Out-of-pocket expenses		509	442
		<u>2,302</u>	<u>2,292</u>
<b>29. Other charges</b>			
Penalties imposed by State Bank of Pakistan		38	11,461
<b>30. Taxation</b>			
<b>For the year</b>			
Current		880,997	816,000
Deferred		83,469	110,935
		<u>964,466</u>	<u>926,935</u>
<b>For the prior year (s)</b>			
Current		-	(147,300)
Deferred		-	32,080
		-	(115,220)
		<u>964,466</u>	<u>811,715</u>



	Note	2006 Rupees in '000'	2005
<b>30.1 Relationship between tax expense and accounting profit</b>			
Profit before tax		<b>4,768,721</b>	3,164,957
		<b>%</b>	<b>%</b>
Applicable tax rate		<b>35</b>	38
Tax effect of			
- Inadmissible expenses		<b>0.93</b>	0.13
- Separate block income		<b>(8.72)</b>	(7.86)
- Income exempt from tax & others		<b>(2.86)</b>	(0.04)
- Computation adjustments		<b>(4.13)</b>	0.06
- Prior year provision effect		<b>-</b>	(4.65)
Effective tax rate		<b>20.22</b>	25.64
<b>31. Basic earnings per share</b>			
<b>31.1 Basic earnings per share - pre tax</b>			
Profit for the year - Rupees in thousand		<b>4,768,721</b>	3,164,957
Weighted average number of ordinary shares - Number		<b>289,602,365</b>	289,558,881
Basic earnings per share - pre tax - Rupees		<b>16.47</b>	10.93
<b>31.2 Basic earnings per share - after tax</b>			
Profit for the year - Rupees in thousand		<b>3,804,255</b>	2,353,242
Weighted average number of ordinary shares - Number		<b>289,602,365</b>	289,558,881
Basic earnings per share - after tax - Rupees		<b>13.14</b>	8.13
<b>32. Diluted earnings per share</b>			
Basic and diluted earnings per share are same.			
<b>33. Cash and cash equivalents</b>			
Cash and Balance with Treasury Banks		<b>14,054,859</b>	8,787,387
Balance with other banks		<b>3,722,089</b>	9,367,595
Call money lending		<b>500,000</b>	500,000
		<b>18,276,948</b>	18,654,982
<b>34. Staff strength</b>			
Permanent		<b>2,854</b>	2,928
Temporary/on contractual basis		<b>825</b>	499
Deputed staff		<b>2</b>	2
Bank's own staff strength at the end of the year		<b>3,681</b>	3,429
Outsourced	34.1	<b>130</b>	25
Total Staff Strength		<b>3,811</b>	3,454
<b>34.1</b> Outsourced staff includes gunmen and janitorial staff hired by the Bank.			

**35. Defined benefit plan****35.1 General description**

The Bank makes annual provision in the financial statements for its liabilities towards vested compensated absences accumulated by its employees on the basis of actuarial valuation. The actuary has used Projected Unit Credit actuarial cost method for calculations. The employees of the Bank are entitled to take the leave as Leave Preparatory to Retirement (LPR) immediately before retirement. These leaves are subject to retirees' unutilized privilege leave balance with an upper limit of 180 days. Alternatively, the retiree may receive a lump-sum cash amount equal to 180 days gross pay at the time of retirement in lieu of LPR of 180 days. Privilege leave accrues at the rate of 30 days per year. Moreover, any unutilized privilege leaves over 180 days is ignored and the earned leaves encashment is made on gross salaries.

There being no specific asset earmarked for the payment of this benefit, consequently, the fair value of plan assets is Nil.

**35.2 Principal actuarial assumptions**

The principal actuarial assumptions have been given in note 6.10.2 to these financial statements.

	2006	2005
	Rupees in '000'	
<b>35.3 Reconciliation of payable to defined benefit plan</b>		
Present value of defined benefit obligations	93,804	74,149
Fair value of any plan assets	-	-
Net actuarial gains or losses not recognized	-	-
Past service cost not yet recognized	-	-
Any amount not recognized as an asset	-	-
	93,804	74,149
<b>35.4 Movement in payable to defined benefit plan</b>		
Opening balance	74,149	61,383
Charge for the year	19,655	12,766
Closing balance	93,804	74,149
<b>35.5 Charge for defined benefit plan</b>		
Current service cost	9,855	6,858
Interest cost	6,673	4,911
Actuarial gains and losses	3,127	997
	19,655	12,766
<b>35.6 Actual return on plan assets</b>	-	-

**36. Defined contribution plan**

The Bank operates an approved Provident Fund Scheme, covering all permanent employees. Contributions are made monthly by the Bank and the employees at the rate of 8.33% of basic pay. Contributions by the Bank are charged to income.

### 37. Compensation of directors and executives

The aggregate amount charged in the financial statements for remuneration, including benefits to the Chairman, President/ Managing Director, Directors and Executives of the bank was as follows:

	Chairman		President/ Chief Executive		Directors		Executives	
	2006	2005	2006	2005	2006	2005	2006	2005
	<b>Rupees in '000'</b>							
Fees	-	-	-	-	32	16	-	-
Managerial remuneration	704	509	9,916	6,161	-	-	16,164	7,372
Bonus	352	196	27,089	17,974	-	-	10,514	2,342
Contribution to defined contribution plan	-	-	-	-	-	-	598	245
Rent and house maintenance	-	-	270	270	-	-	6,705	2,949
Utilities	240	80	414	414	-	-	1,676	738
Medical	-	-	-	-	-	-	1,676	737
Other allowances	149	468	-	-	-	-	361	48
	<b>1,445</b>	<b>1,253</b>	<b>37,689</b>	<b>24,819</b>	<b>32</b>	<b>16</b>	<b>37,694</b>	<b>14,431</b>
Number of persons	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>7</b>	<b>8</b>	<b>30</b>	<b>13</b>

The Chairman, President/Managing Director and Executives are provided with free use of bank's maintained cars.

### 38. Fair value of financial instruments

#### 38.1 On-balance sheet financial instruments

	2006		2005	
	Book value	Fair value	Book value	Fair value
	<b>Rupees in '000'</b>			
<b>Assets</b>				
Cash and balances with treasury banks	14,054,859	14,054,859	8,787,387	8,787,387
Balances with other banks	3,722,089	3,722,089	9,367,595	9,367,595
Lendings to financial institutions	11,846,823	11,846,823	7,593,681	7,593,681
Investments	28,233,211	28,233,211	18,026,181	18,026,181
Advances	101,319,954	101,319,954	63,623,705	63,623,705
Other assets	3,367,545	3,367,545	1,890,925	1,890,925
	<b>162,544,481</b>	<b>162,544,481</b>	<b>109,289,474</b>	<b>109,289,474</b>
<b>Liabilities</b>				
Bills payable	856,448	856,448	478,001	478,001
Borrowings	6,989,424	6,989,424	6,791,007	6,791,007
Deposits and other accounts	137,727,606	137,727,606	88,465,051	88,465,051
Liabilities against assets subject to finance lease	40,988	40,988	55,403	55,403
Other liabilities	2,105,222	2,105,222	1,056,991	1,056,991
	<b>147,719,688</b>	<b>147,719,688</b>	<b>96,846,453</b>	<b>96,846,453</b>

#### 38.2 Off-balance sheet financial instruments

Forward purchase of foreign exchange	783,998	783,998	268,336	268,336
Forward sale of foreign exchange	2,101,934	2,101,934	1,569,803	1,569,803

### 39. Segment Details with respect to business activities

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

	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services
Rupees in '000'					
<b>2006</b>					
Total income	4,057,006	1,296,283	9,078,373	150,200	16,490
Total expenses	(2,875,515)	(983,299)	(6,902,222)	(29,791)	(3,270)
Net income	1,181,491	312,984	2,176,151	120,409	13,220
Segment Assets (Gross)	29,650,127	9,780,425	71,327,122	-	-
Segment Non Performing Loans	1,262,400	506,827	1,838,927	-	-
Segment Provision Required	163,400	309,494	841,272	-	-
Segment Liabilities	29,650,127	9,780,425	71,327,122	-	-
Segment Return on net Assets (ROA) (%)	13.68	13.25	12.73	N/A	N/A
Segment Cost of funds (%)	9.70	10.05	9.68	N/A	N/A
<b>2005</b>					
Total income	2,235,789	913,142	4,216,254	77,849	12,834
Total expenses	(1,459,474)	(666,216)	(2,951,360)	(21,956)	(3,620)
Net income	776,315	246,926	1,264,894	55,893	9,214
Segment Assets (Gross)	19,327,414	7,947,883	38,414,585	-	-
Segment Non Performing Loans	400	585,878	773,690	-	-
Segment Provision Required	400	292,115	537,688	-	-
Segment Liabilities	19,327,414	7,947,883	38,414,585	-	-
Segment Return on net Assets (ROA) (%)	11.57	11.49	10.98	N/A	N/A
Segment Cost of funds (%)	7.55	8.38	7.68	N/A	N/A

#### Mapping criteria

Return on net assets has been calculated on the basis of weighted average of segment-wise assets deployed during the year.

Cost of funds has been calculated on the basis of weighted average of segment-wise liabilities outstanding during the year.

Income and expenses have been pro-rated on the basis of management's professional judgment and mapping policy of the same has been approved by the Assets and Liabilities Committee (ALCO).

Common expenses have been allocated to segments on the basis of total income.

#### 40. Related party transactions

Related parties comprise subsidiary, key management personnel and entities in which key management personnel are office holders/members. The Bank in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payables. Amounts due from key management personnel are shown under receivables and remuneration of key management personnel is disclosed in Note 37.

	2006	2005
	Rupees in '000'	
<b>Punjab Modaraba Services (Private) Limited</b> (wholly owned subsidiary of the Bank)		
Deposits in current account	61	102
<b>First Punjab Modaraba</b> (Modaraba floated by the wholly owned subsidiary of the Bank)		
Advances		
Outstanding at beginning of the year	703,360	1,100,414
Made during the year	1,437,838	1,987,981
Repaid/matured during the year	(1,576,219)	(2,385,035)
Outstanding at the end of the year	564,979	703,360
Provision for doubtful debts	-	-
Mark-up/return earned	64,882	91,349
Deposits in current account	2,732	1,247
Lease liability		
Outstanding at beginning of the year	15,808	21,775
Lease contracts entered into during the year	12,155	6,398
Repayments of lease rentals	(13,329)	(12,365)
Outstanding at the end of the year	14,634	15,808
Security deposit receivable in respect of leases	7,402	6,435
<b>Bankers Avenue Co-operative Housing Society</b> (A co-operative society managed by key management personnel of the Bank)		
Deposits in saving account	17,948	20,028

#### 41. Capital adequacy

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

	2006	2005		
	Rupees in '000'			
<b>Regulatory Capital Base</b>				
<b>Tier I Capital</b>				
Shareholders Capital	2,902,490	2,349,719		
Reserves	4,537,232	2,940,399		
Unappropriated profits	3,219,246	1,486,755		
	<b>10,658,968</b>	6,776,873		
Less: Adjustments	(183,103)	(191,841)		
<b>Total Tier I Capital</b>	<b>10,475,865</b>	6,585,032		
<b>Tier II Capital</b>				
Subordinated Debt (upto 50% of total Tier I Capital)	-	-		
General Provisions subject to 1.25% of Total Risk Weighted Assets	92,049	97,130		
Revaluation Reserve (upto 50%)	2,489,891	3,405,516		
<b>Total Tier II Capital</b>	<b>2,581,940</b>	3,502,646		
<b>Eligible Tier III Capital</b>	-	-		
<b>Total Regulatory Capital</b> (a)	<b>13,057,805</b>	10,087,678		
<b>Risk-Weighted Exposures</b>				
	<b>Book Value</b>	<b>Risk Adjusted Value</b>	<b>Book Value</b>	<b>Risk Adjusted Value</b>
<b>Credit Risk</b>				
Balance Sheet Items:-				
Cash and other liquid assets	17,776,948	1,189,172	18,154,982	2,257,272
Money at call	500,000	100,000	500,000	100,000
Investments	30,002,007	13,747,263	19,969,028	10,621,259
Loans and Advances	99,437,444	87,256,638	62,510,731	54,044,021
Fixed Assets	2,068,744	2,068,744	1,715,061	1,715,061
Assets deducted from capital	164,943	-	164,943	-
Other Assets	3,920,366	3,920,366	2,040,568	1,978,488
	<b>153,870,452</b>	<b>108,282,183</b>	<b>105,055,313</b>	<b>70,716,101</b>
Off Balance Sheet items				
Loan Repayment Guarantees	10,710,788	10,710,788	2,546,294	2,535,631
Performance Bonds	9,626,487	2,231,593	3,734,447	1,863,987
Stand By Letters of Credit	18,073,113	8,029,694	10,548,062	3,757,249
Outstanding Foreign Exchange Contracts				
-Purchase	748,747	2,959	268,336	1,033
-Sale	2,101,934	8,408	1,569,804	6,279
	<b>41,261,069</b>	<b>20,983,442</b>	<b>18,666,943</b>	<b>8,164,179</b>
Credit risk-weighted exposures		129,265,625		78,880,280
<b>Market Risk</b>				
General market risk		-		-
Specific market risk		198,489		56,595
Market risk-weighted exposures		198,489		56,595
<b>Total Risk-Weighted exposures</b> (b)		<b>129,464,114</b>		<b>78,936,875</b>
Capital Adequacy Ratio [ (a) / (b) x 100]		10.09		12.78

## 42. Risk management

The principal risks associated with the banking business are credit risk, market risk, liquidity risk and operational risk.

### 42.1 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligations and cause the other party to incur a financial loss. The Bank manages its exposure to credit risk by pursuing an effective credit policy approved by the Board of Directors and undertaking all lending activities in accordance with standard practices and procedures as laid down in the Credit Policy Manual. The Bank's credit process currently entails assessment of credit worthiness of potential customers, pre-sanction evaluation of credit proposal, adequacy and quality checks over collateral and examination of charge documents before disbursements. The Bank will also continue to keep its focus on expansion through diversified exposure. Further, to strengthen the portfolio and as a matter of prudence, adequate provisions against non-performing advances are accounted for in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

Out of total financial assets of Rs. 162,544,481 thousand (2005: Rs. 109,289,474 thousand), the financial assets which were subject to credit risk amount to Rs. 137,980,014 thousand (2005: Rs. 96,933,159 thousand). The Bank's major credit risk in the case of loans and advances is concentrated in the textile, construction/real estate and trading and commerce sectors. Investments in Market Treasury Bills, Pakistan Investment Bonds (PIBs), Federal Investment Bonds (FIBs) are guaranteed by the Government of Pakistan.

#### 42.1.1 Segments by class of business

	2006					
	Advances (Gross)		Deposit		Contingencies and commitments	
	Rupees in '000'	Percent	Rupees in '000'	Percent	Rupees in '000'	Percent
Agribusiness	5,887,722	5.75	1,107,242	0.80	11,500	0.03
Textile and ginning	25,066,043	24.46	684,648	0.50	6,291,985	16.04
Cement	3,499,441	3.42	193,083	0.14	1,249,216	3.19
Sugar	4,641,795	4.53	110,940	0.08	719,433	1.83
Financial	2,117,137	2.07	12,120,909	8.80	11,145	0.03
Construction and real estate	11,422,572	11.15	7,680,298	5.58	3,014,912	7.69
Oil and gas	33,334	0.03	-	-	2,993,066	7.63
Auto & allied	805,149	0.79	22,587	0.02	319,232	0.81
Food and allied	6,009,413	5.86	2,135,418	1.55	425,600	1.09
Chemical and pharmaceuticals	1,577,974	1.54	503,286	0.37	577,301	1.47
Fertilizers	-	-	540,809	0.39	133,200	0.34
Cable, electrical and engineering	8,793,895	8.58	138,078	0.10	4,783,252	12.20
Production and transmission of energy	399,681	0.39	538,448	0.39	26,507	0.07
Transport, Storage and Communication	1,151,109	1.12	8,034,721	5.83	1,757,120	4.48
Government						
- Public Sector Enterprises	-	-	24,845,888	18.04	5,620,325	14.33
- Federal and Provincial Governments	981,783	0.96	42,415,172	30.80	-	-
Individuals	3,328,202	3.25	15,716,741	11.41	-	-
Trading and commerce	16,111,352	15.72	4,576,020	3.32	7,388,114	18.84
Services	2,941,357	2.87	8,176,816	5.94	2,548,059	6.50
Others	7,702,761	7.52	8,186,502	5.94	1,351,484	3.45
	102,470,720	100.00	137,727,606	100.00	39,221,451	100.00

#### 42.1.2 Segments by sector

Public/ Government	981,783	0.96	67,261,060	48.84	5,620,325	14.33
Private	101,488,937	99.04	70,466,546	51.16	33,601,126	85.67
	102,470,720	100.00	137,727,606	100.00	39,221,451	100.00

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

	2006		2005	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	Rupees in '000'			
Agribusiness	306,295	75,681	126,280	44,886
Textile and ginning	693,597	273,885	470,963	187,049
Chemical and pharmaceuticals	6,839	6,839	4,998	4,998
Footwear and leather garments	3,027	4,609	1,785	1,785
Cables and electrics	22,272	22,272	22,228	17,048
Construction	26,791	3,555	45,247	2,059
Power and transmission of energy	89,195	89,195	89,000	89,000
Retail and wholesale trade	320,306	194,757	224,481	125,155
Financial	248,948	62,387	-	-
Rice and paddy	42,353	28,372	50,934	20,488
Wheat	19,821	18,321	23,658	15,331
Sugar	211,068	-	-	-
Food and allied	20,038	20,038	19,458	9,623
Services	9,545	8,808	10,964	10,694
Individuals	136,739	96,392	88,713	70,492
Others	188,920	153,606	180,859	134,065
	<b>2,345,754</b>	<b>1,058,717</b>	1,359,568	732,673

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

Public/ Government	-	-	-	-
Private	2,345,754	1,058,717	1,359,568	732,673
	<b>2,345,754</b>	<b>1,058,717</b>	1,359,568	732,673

**42.1.5 Geographical segment analysis**

A geographical segment analysis has not been presented since the Bank's operations are restricted to Pakistan only.

**42.2 Market Risk**

Market Risk is the risk of loss in earnings and capital due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions. The Bank's market risk can be further classified into interest rate risk, foreign exchange risk and equity position risk.

**42.2.1 Interest rate risk management**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Bank is exposed to yield/interest rate risk for its investing and/or financing activities where any major fluctuation in the market interest rate/yield can affect both the value of the financial instrument as well as the profitability of the Bank. To minimize this risk the Bank's Assets and Liabilities Committee (ALCO) keeps a constant watch on the interest rate scenario in the country and on regular intervals reviews pricing mechanism for assets and liabilities of the Bank.



### 42.2.2 Foreign exchange risk management

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank, as part of its foreign exchange risk management activities, enters into ready spot and forward transactions in the interbank market and with the State Bank of Pakistan (SBP) and also monitors its net open position on a daily basis. The Bank is not significantly exposed to foreign exchange risk as its net open position, exchange maturity profile, forward and counterparty exposure and stop loss limits are effectively monitored by its Foreign Exchange Committee.

	2006		Off-balance sheet items in '000'	Net foreign currency exposure
	Assets	Liabilities Rupees		
Pakistan rupee	162,761,509	162,382,654	(577,344)	(198,489)
United States dollar	1,948,148	2,376,818	550,762	122,092
Great Britain pound	14,843	55,659	42,071	1,255
Japanese yen	8,101	-	-	8,101
Euro	88,095	40,006	(15,489)	32,600
Others	34,441	-	-	34,441
	164,855,137	164,855,137	-	-

### 42.2.3 Equity position risk

Equity position risk arises from exposure to securities that represent an ownership interest in a company in the form of ordinary shares or other equity-linked instruments. The instruments held by the Bank that would lead to this exposure include, but are not limited to, the following:

- Shares of listed and unlisted companies
- Preference shares falling on equity criteria
- Equity-based mutual funds

These investments are carried at fair market value with regular revaluations. The Bank prefers to hold long-term exposures for securities held in 'available for sale' category to avoid seasonal or cyclical downturns in the prices of such securities. Equity position risk in 'held-to-trading' category is managed by simultaneous execution of future sale contracts.

#### 42.2.4 Mismatch of Interest Rate Sensitive Assets and Liabilities

Effective yield / Interest rate	Total	Exposed to Yield/ Interest risk									Non-Interest bearing financial instrument	
		Up to 1 month	Over 1 and up to 3 months	Over 3 and up to 6 months	Over 6 months and up to 1 year	Over 1 and up to 2 years	Over 2 and up to 3 years	Over 3 and up to 5 years	Over 5 and up to 10 years	Above 10 years		
												Rupees in '000'
<b>On-balance sheet financial instruments</b>												
<b>Assets</b>												
Cash and balances with treasury banks	4.15%	14,054,859	508,011	-	-	-	-	-	-	-	-	13,546,848
Balances with other banks	1.78%	3,722,089	2,713,168	-	-	-	-	-	-	-	-	1,008,921
Lending to financial institutions	8.53%	11,846,823	9,235,480	2,111,343	-	-	500,000	-	-	-	-	-
Investments	14.88%	28,233,211	1,206,972	4,188,628	9,573,560	15,454	170,454	1,139,188	1,928,503	635,134	-	9,375,318
Advances	11.82%	101,319,954	-	85,315,833	15,918,422	-	-	-	-	-	-	85,699
Operating fixed assets	-	2,068,744	-	-	-	-	-	-	-	-	-	2,068,744
Other assets	-	3,609,457	-	-	-	-	-	-	-	-	-	3,609,457
		164,855,137	13,663,631	91,615,804	25,491,982	-	515,454	170,454	1,139,188	1,928,503	635,134	29,694,987
<b>Liabilities</b>												
Bills payable	-	856,448	-	-	-	-	-	-	-	-	-	856,448
Borrowings	9.47%	6,989,424	488,924	500,000	6,000,500	-	-	-	-	-	-	-
Deposits and other accounts	6.94%	137,727,606	25,836,890	62,809,501	16,284,319	12,486,710	151,154	55,780	137,356	-	-	19,965,896
Liabilities against assets subject to finance lease	12.43%	40,988	36,344	2,308	2,336	-	-	-	-	-	-	-
Deferred tax liability	-	298,616	-	-	-	-	-	-	-	-	-	298,616
Other liabilities	-	2,816,341	-	-	-	-	-	-	-	-	-	2,816,341
		148,729,423	26,362,158	63,311,809	22,287,155	12,486,710	151,154	55,780	137,356	-	-	23,937,301
<b>On-balance sheet gap</b>		16,125,714	(12,698,527)	28,303,995	3,204,827	(12,486,710)	364,300	114,674	1,001,832	1,928,503	635,134	5,757,686
<b>Off-balance sheet financial instruments</b>												
Commitments to extend credit		16,867,197	16,867,197	-	-	-	-	-	-	-	-	-
Forward foreign exchange contracts		-	-	-	-	-	-	-	-	-	-	-
- purchase		783,998	454,852	320,048	9,098	-	-	-	-	-	-	-
- sale		2,101,934	708,334	1,037,254	356,346	-	-	-	-	-	-	-
<b>Off-balance sheet gap</b>		19,753,129	18,030,383	1,357,302	365,444	-	-	-	-	-	-	-
<b>Total Yield/Interest Risk Sensitivity Gap</b>			5,331,856	29,661,297	3,570,271	(12,486,710)	364,300	114,674	1,001,832	1,928,503	635,134	5,757,686
<b>Cumulative Yield/Interest Risk Sensitivity Gap</b>			5,331,856	34,993,153	38,563,424	26,076,714	26,441,014	26,555,688	27,557,520	29,486,023	30,121,157	35,878,843

#### 42.3 Liquidity Risk

**42.3.1** Liquidity Risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increase in assets as they fall due without incurring unacceptable cost or losses. The Bank's ALCO is primarily responsible to ensure adequate maintenance and monitoring of liquidity and minimization of liquidity risk. The Bank manages its liquidity risk by continuous monitoring of the maturity profiles of its assets and liabilities, strengthening of its credit recovery procedures by focusing on retail and medium-sized customers and managing open positions through effective treasury operations. Allocation of funds towards various business propositions and pricing of assets and liabilities of the Bank are given significant importance.

### 42.3.2 Maturities of Assets and Liabilities

	2006									
	Total	Exposed to Yield/ Interest risk								
Up to 1 month		Over 1 and up to 3 months	Over 3 and up to 6 months	Over 6 months and up to 1 year	Over 1 and up to 2 years	Over 2 and up to 3 years	Over 3 and up to 5 years	Over 5 and up to 10 years	Over 10 years	
	Rupees in '000'									
<b>Assets</b>										
Cash and balances with treasury banks	14,054,859	14,054,859	-	-	-	-	-	-	-	
Balances with other banks	3,722,089	3,522,089	200,000	-	-	-	-	-	-	
Lending to financial institutions	11,846,823	9,235,480	2,111,343	-	-	-	-	-	-	
Investments	28,233,211	1,206,972	3,566,048	4,567,842	414,001	962,827	768,257	13,598,807	2,348,379	
Advances	101,319,954	1,469,812	954,791	11,828,778	53,290,722	8,678,050	3,795,332	7,075,787	13,506,919	
Operating fixed assets	2,068,744	7,017	14,034	21,051	42,102	84,203	84,203	168,406	421,015	
Other assets	3,609,457	2,307,017	1,140,315	33,572	52,331	76,222	-	-	-	
	164,855,137	31,803,246	7,986,531	16,451,243	53,799,156	10,301,302	4,647,792	20,843,000	16,276,313	2,746,554
<b>Liabilities</b>										
Bills payable	856,448	856,448	-	-	-	-	-	-	-	
Borrowings	6,989,424	488,924	500,000	6,000,500	-	-	-	-	-	
Deposits and other accounts	137,727,606	36,862,938	21,997,146	23,391,512	19,595,442	7,258,653	7,162,974	7,244,553	7,107,194	
Liabilities against assets subject to finance lease	40,988	3,403	4,269	6,979	3,169	7,373	8,525	7,270	-	
Deferred tax liabilities	298,616	-	-	-	-	-	-	298,616	-	
Other liabilities	2,816,341	2,062,189	157,638	-	502,710	-	93,804	-	-	
	148,729,423	40,273,902	22,659,053	29,398,991	20,101,321	7,266,026	7,265,303	7,550,439	7,107,194	7,107,194
<b>Net assets</b>	16,125,714	(8,470,656)	(14,672,522)	(12,947,748)	33,697,835	3,035,276	(2,617,511)	13,292,561	9,169,119	(4,360,640)
Share capital	2,902,490									
Reserves	7,756,478									
Surplus on revaluation of assets	5,466,746									
	16,125,714									

**42.3.3** Deposit accounts without contractual maturities have been classified by taking into account historical trend of their withdrawal pattern, which shows that 15% of such deposits mature in each of the first two categories mentioned above and 10% mature in each of the remaining seven categories.

### 42.4 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage operational risk. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and appraisal procedures, including the use of internal audit. The Bank has established a comprehensive business continuity plan to deal with the risk of financial loss and damage to reputation arising from operational risk factors.

In terms of guidance laid down by the State Bank of Pakistan (SBP), all commercial banks in Pakistan are mandated to implement Basel 2 - Basic Indicator Approach for operational risk for calculation of minimum capital requirement with effect from January 01, 2008. The Bank is in the process of establishing an operational risk management framework that is expected to develop and analyze Key Risk Indicators (KRIs) to manage the operational risk faced by the Bank.

### 43. Date of authorization for issue

These financial statements were authorized for issue on February 28, 2007 by the Board of Directors of the Bank.

**44. Events after the balance sheet date**

The Board of Directors of the Bank have proposed a bonus issue of 32.5 shares for every 100 shares held, amounting to Rs. 943,309 thousand alongwith transfer to general reserve amounting to Rs.2,000,000 thousand at their meeting held on February 28, 2007, for approval of the members at the Annual General Meeting to be held on March 31, 2007.

**45. General**

**45.1** These financial statements have been prepared in accordance with the revised forms of annual financial statements of commercial banks issued by the State Bank of Pakistan (SBP) vide BSD Circular No. 04 dated February 17, 2006.

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

**45.3** Corresponding figures have been reclassified, wherever necessary. However, no significant reclassification has been made during the year except for the following:

<b>Head of account</b>	<b>Note</b>	<b>From</b>	<b>To</b>
Administrative expenses	28	Salaries, wages and benefits	Employees' compensated absences

Chairman

President

Director

Director

## Statement showing written-off loans or any other financial relief or above provided during the year ended December 31, 2006

**Annexure-I**  
( Rupees in thousand )

S. No.	Name and address of the borrower	Name of Individuals/ partners/directors with NIC No.	Father's/Husband's name	Branch Name	Region	Outstanding liabilities at beginning of year			Principal written-off	Interest /Mark up /Other Charges capitalized written-off	Interest/Mark up written-off	Other financial relief provided	Total
						Principal	Interest/Mark up /Other charges capitalized	Others					
1	Ahmad Dawood Al Hassainy 26, Vegetables Market, Allama Iqbal Town, Lahore.	Ahmad Dawood Al Hassainy 272-89-331133	S/O Samad Masood Al Hussainy	Main Branch Lahore.	Main Branch Lahore.	10,004	-	1,619	10,004	-	1,619	-	11,623
2	Al - Oqim Seeds And Agri Services H # 11, St # 1, Block X, New Multan.	1- Ch. Muhammad Anwar 329-57-473736 2- Ch. Muhammad Akhtar 328-90-473741*	1- S/O Ch. Gulam Rasool 2- S/O Ch. Gulam Rasool	Khaneval Road Multan	Multan	738	-	-	738	-	-	-	738
3	AlMiraj Ginning Industries Pattan Minara Road, Chak# 106/P Rahim Yar Khan*	1- Abdul Malik 356-56-028495 2- Shaikat Ali 356-62-028497 3- Qaiser Masood 356-77-761001	1- S/O Muhammad Saadiq 2- S/O Muhammad Saadiq 3- S/O Muhammad Saadiq	R. Y. Khan, Shahi Road	Multan	2,808	-	725	-	-	533	-	533
4	Amira Textile (Pvt) Ltd. (Inland L/C) Manga Road, Raiwind	1- M. Akram Khan 35201-28152419 2- Mrs Amira Akram Khan 35201-32360874 3- Shairi Akram Khan 35201-306891745 4- Farid Akram Khan 27171-541463	1- S/O Abdul Raheem 2- W/O Muhammad Akram Khan 3- S/O Muhammad Akram Khan 4- S/O Muhammad Akram Khan*	Empire Centre, Lahore	Lahore	45,151	-	6,387	-	-	6,298	-	6,298
5	Ashfaq Cotton Ginning, & Oil Mills Chak No. 149/EE, Sahival Road, Arifwala	1- M. Akram (Deceased) 338-45-015404 2- M. Asifran 338-61-308328 3- M. Eliaz 338-87-298508	1- S/O Jan Muhammad 2- S/O Muhammad Akram 3- S/O Muhammad Akram	Arifwala	Multan	2,220	-	504	-	-	504	-	504
6	Alta ur Rehman Cotton Industries Malisi Road, Karampur, Vehari	1- Muhammad Riaz Ahmad 33100-8111770-7 2- Mst. Waheeda Begum 246-51-079017 3- Zulfikar Ahmad 33100-4282932-1 4- Waqar Ahmad 33100-8612235-9	1- S/O Abdul Rahman 2- W/O Riaz Ahmad 3- S/O Riaz Ahmad 4- S/O Riaz Ahmad	Vehari	Multan	3,394	-	27	1,094	-	27	-	1,121
7	Kh. Masud Aziz / Mrs. Farrukh Aziz 71-L Block, Gulberg-III, Lahore.	1- Kh. Masud Ahmed Aziz (Late) 270-25-253430 2- Mrs. Farrukh Aziz (Late)	1- S/O Khawaja Aziz-ud-Din Ahmed 2- W/O Kh. Masud Ahmed Aziz	Main Branch Lahore.	Main Branch Lahore.	3,361	-	2,024	3,361	-	2,024	-	5,385
8	Naaj Bahar Cotton Factory Deopalpur Road Pakpattan	1- Sh. Abdul Moised 337-32-103529 2- Sh. Muhammad Ashraf 337-52-103530 3- Sh. Muhammad Anwar 337-94-103551 4- Arshad Ali 337-90-103537	1- S/O Haji Gulam Muhammad 2- S/O Sh. Abdul Majeed 3- S/O Sh. Abdul Majeed 4- S/O Sh. Abdul Majeed	Pakpattan	Multan	4,029	-	1,428	-	-	1,357	-	1,357
9	Rana Ikram H# 55-C-11, Gulberg III, Lahore.	Rana Ikram 270-31-105049	S/O Rana Allah Bakash.	Main Branch Lahore.	Main Branch Lahore.	627	-	325	627	-	325	33	985
10	Roomi Spinning Mills (Pvt) Ltd. G. T. Road, Mian Channu	1- Mian Fazal Haq 2- Mian Sami ul Haq (Deceased) 3- Mrs. Surriya Jabeen 4- Irfan ul Haq 5- Saadia Sami	1- S/O Mian Rehmat Ullah 2- S/O Fazal Haq 3- W/O Mian Fazal Haq 4- S/O Mian Fazal Haq 5- W/O Sami ul Haq	Mian Channu	Multan	1,541	-	-	1,391	-	-	-	1,391
Total						73,873	-	13,039	86,945	17,214	12,667	33	29,934

