

Auditors' Report to the Members

We have audited the annexed balance sheet of The Bank of Punjab as at December 31, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for 20 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 management 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.

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 misstatement. An audit includes examining, on 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 forming part thereof 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;
 - (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 and 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, 2005, 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 the Ordinance.

A. F. Ferguson & Co.
Chartered Accountants

Lahore- March 08, 2006

Balance Sheet

as at December 31, 2005

	Note	2005 (Rupees in thousand)	2004
Assets			
Cash and balances with treasury banks	6	8,787,387	5,579,566
Balances with other banks	7	9,367,595	2,118,242
Lendings to financial institutions	8	7,593,681	1,019,488
Investments	9	18,026,181	16,197,505
Advances	10	63,623,705	39,438,923
Other assets	11	2,040,568	1,277,201
Operating fixed assets	12	1,715,061	689,486
Deferred tax assets		-	-
		111,154,178	66,320,411
Liabilities			
Bills payable	13	478,001	267,113
Borrowings from financial institutions	14	6,791,007	2,831,605
Deposits and other accounts	15	88,465,051	54,724,311
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	16	55,403	81,795
Other liabilities	17	1,474,425	567,540
Deferred tax liability	18	220,177	8,964
		97,484,064	58,481,328
Net assets		13,670,114	7,839,083
Represented by			
Share capital	19	2,349,719	1,506,230
Reserves		4,257,337	2,770,645
Unappropriated profit		169,817	143,590
		6,776,873	4,420,465
Surplus on revaluation of assets	20	6,893,241	3,418,618
Contingencies and commitments	21	13,670,114	7,839,083

The annexed notes 1 to 41 form an integral part of these accounts.

Chairman

President

Director

Director

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Director

Profit and Loss Account for the year ended December 31, 2005

	Note	2005 (Rupees in thousand)	2004
Mark-up/return/interest earned	22	6,125,093	2,555,039
Mark-up/return/interest expensed	23	2,668,739	719,074
Net mark-up/return/interest income		<u>3,456,354</u>	<u>1,835,965</u>
Provision against non-performing advances	10.4	327,373	46,940
Provision for diminution in the value of investments	9.3	-	-
Bad debts written off directly	10.5	3,623	121
		<u>330,996</u>	<u>47,061</u>
Net mark-up/return/interest income after provisions		<u>3,125,358</u>	<u>1,788,904</u>
Non mark-up/interest income			
Fee, commission and brokerage income		255,149	172,873
Dividend income		753,669	554,218
Income from dealing in foreign currencies		93,208	41,311
Other income	24	228,749	328,361
Total non mark-up/interest income		<u>1,330,775</u>	<u>1,096,763</u>
		<u>4,456,133</u>	<u>2,885,667</u>
Non mark-up/interest expenses			
Administrative expenses	25	1,274,971	1,116,097
Provision against off balance sheet items		-	364
Provision against receivable from NIT		4,744	32,046
Other charges	26	11,461	1,217
Total non mark-up/interest expenses		<u>1,291,176</u>	<u>1,149,724</u>
Profit before taxation		<u>3,164,957</u>	<u>1,735,943</u>
Taxation			
- Current	27	668,700	225,916
- Deferred	27	143,015	141,853
		<u>811,715</u>	<u>367,769</u>
Profit after taxation		<u>2,353,242</u>	<u>1,368,174</u>
Unappropriated profit brought forward		143,590	101,699
Transfer from surplus on revaluation of fixed assets - net of tax		3,166	-
		<u>146,756</u>	<u>101,699</u>
Profit available for appropriation		<u>2,499,998</u>	<u>1,469,873</u>
Appropriations:			
- Transfer to:			
- Statutory reserve		471,000	274,000
- Capital reserve		-	-
- General reserve		800,000	500,000
- Reserve for issue of bonus shares		1,059,181	552,283
		<u>2,330,181</u>	<u>1,326,283</u>
Unappropriated profit carried forward		<u>169,817</u>	<u>143,590</u>
Basic/ Diluted earnings per share - after tax (Rupees)	28	<u>10.01</u>	<u>5.82</u>

The annexed notes 1 to 41 form an integral part of these accounts.

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Cash Flow Statement

for the year ended December 31, 2005

	Note	2005 (Rupees in thousand)	2004
Cash Flow from operating activities			
Profit before taxation		3,164,957	1,735,943
Less: Dividend income		(753,699)	(554,218)
(Gain)/loss on sale of fixed assets		(540)	(954)
Compensation for delayed assessed Income Tax refunds		-	(29,228)
(Gain) on sale of investments		(3,163)	(102,179)
		2,407,555	1,049,364
Adjustments for non-cash charges			
- Depreciation and amortization		77,799	71,275
- Provision against non-performing advances		327,373	46,940
- Advances written-off		3,623	121
- Provision against off balance sheet items		-	364
- Provision for employee benefits		12,766	8,968
- Provision against receivable from NIT		4,744	32,046
- Provision for claim for recovery of shares		(12,434)	(7,726)
		413,871	151,988
		2,821,426	1,201,352
(Increase)/decrease in operating assets			
- Lendings to financial institutions		(6,174,193)	3,592,968
- Advances		(24,515,778)	(21,141,962)
- Others assets (excluding advance taxation)		(1,053,474)	(375,189)
		(31,743,445)	(17,924,183)
Increase/(decrease) in operating liabilities			
- Bills payable		210,888	(77,536)
- Borrowings from financial institutions		3,959,402	147,368
- Deposits		33,740,740	19,786,252
- Liabilities against assets subject to finance lease		(26,392)	(25,848)
- Other liabilities (excluding current taxation)		620,039	165,503
		38,504,677	19,995,739
		9,582,658	3,272,908
Income tax paid		(68,222)	(253,945)
Net cash flow from operating activities		9,514,436	3,018,963
Cash flow from investing activities			
Net investments in held-to-maturity securities		1,099,359	(2,035,342)
Net investments in available for sale securities		(328,876)	(1,373,670)
Net investments in held for trading securities		(43,972)	-
Net investments in Subsidiaries / Associates		(2,757)	(29,513)
Dividend income		725,098	549,218
Investments in operating fixed assets		(107,709)	(338,640)
Sale proceeds of property and equipment disposed-off		1,595	40,481
Net cash flow from investing activities		1,342,738	(3,187,466)
Increase in cash and cash equivalents		10,857,174	(168,503)
Cash and cash equivalents at beginning of the year	29	7,797,808	7,966,311
Cash and cash equivalents at end of the year	29	18,654,982	7,797,808

The annexed notes 1 to 41 form an integral part of these accounts.

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Statement of Changes in Equity for the year ended December 31, 2005

	Share capital	Capital reserve	Statutory reserve	Special reserve	General reserve	Reserve for issue of bonus shares thousand	Unappropriated profit	Total
	(Rupees			in)		
Opening balance as at January 1, 2004	1,004,154	2,049	498,000	-	1,195,350	251,039	101,699	3,052,291
Profit for the year ended December 31, 2004	-	-	-	-	-	-	1,368,174	1,368,174
Transfer to statutory reserve	-	-	274,000	-	-	-	(274,000)	-
Transfer to general reserve	-	-	-	-	500,000	-	(500,000)	-
Transfer to reserve for issue of bonus shares	-	-	-	-	-	552,283	(552,283)	-
Issue of bonus shares	502,076	-	-	-	-	(502,076)	-	-
Closing balance as at December 31, 2004	1,506,230	2,049	772,000	-	1,695,350	301,246	143,590	4,420,465
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)	-	-
Proposed cash dividend Rs ___ per share	-	-	-	-	-	-	-	-
Closing balance as at December 31, 2005	2,349,719	2,049	1,243,000	-	2,495,350	516,938	169,817	6,776,873

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Notes to the Accounts for the year ended December 31, 2005

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 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 (2004: 253 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 presentation

In accordance with the directives of the Federal Government 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, requirements of The Bank of Punjab Act, 1989, the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984 and the accounting standards issued by the International Accounting Standards Committee (IASC) and interpretations issued by Standing Interpretations Committee of the IASC, as adopted in Pakistan.

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

The following IAS, which have been published, have been revised and the amendments are applicable to the financial statements of the bank covering accounting periods beginning on or after January 1, 2006 or later periods:

- a. IAS 1 Presentation of financial statements - Capital disclosures effective from January 1, 2007
- b. IAS 19 (Amendments) - Employee benefits effective from January 1, 2006

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

The State Bank of Pakistan as per BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard, Investment Property (IAS 40) for Banking Companies till further instructions. Accordingly, the requirements of these Standards have not been considered in the preparation of these financial statements. However, Investments have been classified in accordance with the categories prescribed by the 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 fixed assets are stated at revalued amounts, certain investments and commitments in respect of certain forward exchange contracts have been marked to market and are carried at fair value and certain staff retirement benefits are carried at present value.



Notes to the Accounts

The preparation of financial statements in conformity with the International Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the bank's accounting policies. 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 35.

5. Summary of significant accounting policies

5.1 Cash and cash equivalents

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

5.2 Revenue recognition

Mark-up on advances, fees and commission and return on investments are recognised in income when due, except mark-up on classified loans and advances which is recognized when received.

Dividend income is recognised when the bank's right to receive the dividend is established.

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. Unrealised 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 are realised.

5.3 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.

5.4 Investments

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

- 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.

- 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.



Notes to the Accounts

- 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, 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.

Securities sold with repurchase obligation (Repo) remain on the balance sheet and a liability is recognized for the consideration received as "Borrowings from banks" or "Deposits". Securities purchased with an obligation to resell are not recognized on the balance sheet while the consideration paid is recorded as "Lendings to financial institutions" or "Loans and advances".

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.

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

5.5 Operating fixed assets and depreciation

Owned

Property and equipment, 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. Capital work-in-progress is stated at cost.

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 computer equipment on which depreciation is charged using the straight line basis. The rates at which the depreciation is charged are given in note-12.1. 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 off.

Surplus on revaluation of property and equipment 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 property and equipment (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



Notes to the Accounts

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 are depreciated over the useful life of the assets as per rates given in note 12.1.

5.6 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 recognises 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'.

5.7 Employee retirement and other benefits

5.7.1 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.

5.7.2 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 December 31, 2005 using the "Projected unit credit method". The principal assumption used in the valuation at December 31, 2005 were as follows:

- Discount rate	9%
- Expected rate of eligible salary increase in future years	8%
- 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. 12.766 million (2004: Rs. 8.968 million).



Notes to the Accounts

5.8 Foreign currencies

Transactions in foreign currency are translated to Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities and commitments for letters of credit and acceptances in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date except assets and liabilities for which there are forward contracts which are translated at the contracted rates. Forward exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

All exchange differences are charged to income.

5.9 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.

5.10 Dividend distribution

Dividend distribution (including stock dividend) is accounted for in the year to which they relate.

5.11 Impairment

The carrying amount 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.

5.12 Financial instruments

5.12.1 Financial assets and financial liabilities

Financial instruments carried on the balance sheet include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments, advances, other assets, bills payable, borrowings 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 these assets and liabilities.

5.12.2 Off setting

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



Notes to the Accounts

	2005	2004
	(Rupees in thousand)	
6. Cash and balances with treasury banks		
In hand		
- Local currency	1,611,102	1,141,253
- Foreign currency	31,864	20,770
	1,642,966	1,162,023
With State Bank of Pakistan in		
- Local currency current account	5,051,289	2,764,573
- Foreign currency deposit account - note 6.1	174,365	54,504
	5,225,654	2,819,077
With National Bank of Pakistan in		
- Local currency current account	1,769,767	1,295,111
- Local currency deposit account - note 6.2	149,000	303,355
	1,918,767	1,598,466
	8,787,387	5,579,566

6.1 The account is maintained with SBP under the 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 1.59% to 3.29% per annum.

6.2 This represents short term deposits bearing profit at a rate of 1.20% per annum.

7. Balances with other banks

In Pakistan		
- On current account	417,933	255,548
- On deposit account - note 7.1	8,375,492	1,625,499
- On Saving account - note 7.2	190,743	203,033
	8,984,168	2,084,080
Outside Pakistan		
- On current account	67,417	34,162
- On deposit account - note 7.3	316,010	-
	383,427	34,162
	9,367,595	2,118,242

7.1 These represent short term deposits maintained with various banks inside Pakistan at mark up rates ranging from 10.25 % to 13 % per annum.

7.2 These represent saving deposits maintained with various banks inside Pakistan at mark up rates ranging from 0.75 % to 5 % per annum.

7.3 These represent short term deposits maintained with various banks outside Pakistan at mark up rates ranging from 4.32% to 4.52% per annum.

Notes to the Accounts

		2005	2004	
		(Rupees in thousand)		
8.	Lendings to financial institutions			
	Call money lendings	- note 8.1	500,000	100,000
	Repurchase agreement lendings (Reverse Repo)	- note 8.2	5,383,681	644,488
	Certificates of Investment	- note 8.3	685,000	100,000
	Placements	- note 8.4	1,025,000	175,000
			<u>7,593,681</u>	<u>1,019,488</u>

8.1 These represent funds placed with banks in the inter bank money market and carry mark up at the rate of 11.75% per annum with maturity in January 2006.

8.2 Securities held as collateral against lending to financial institutions

	2005			2004		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	(Rupees in			thousand)		
Pakistan Market Treasury Bills	4,985,891	-	4,985,891	644,488	-	644,488
Term Finance Certificates	397,790	-	397,790	-	-	-
	<u>5,383,681</u>	<u>-</u>	<u>5,383,681</u>	<u>644,488</u>	<u>-</u>	<u>644,488</u>

Pakistan Market Treasury Bills and Term Finance Certificates have been purchased under resale agreements at the rates ranging from 7% to 13% per annum with maturities upto February 2006.

8.3 These represent certificates of investment at profit rate ranging from 10.75% to 25% per annum with maturities upto March 2006.

8.4 These represent placements carrying profit at rates ranging from 10.50% to 13.50% per annum with maturities upto March 2006.

Notes to the Accounts

9. Investments

9.1 Investments by types:

		2005			2004		
		Held by bank	Further Given as collateral	Total	Held by bank	Further Given as collateral	Total
		(Rupees in			thousand)		
Held-for-trading							
Ordinary shares of listed companies and modarabas	- note 9.4	43,972	-	43,972	-	-	-
Available-for-sale securities							
Ordinary shares of listed companies and modarabas	- note 9.4	48,020	-	48,020	9,793	-	9,793
Preference shares of listed companies	- note 9.5	205,908	-	205,908	185,908	-	185,908
Shares of unlisted company		-	-	-	-	-	-
NIT units	- note 9.6	2,184,359	-	2,184,359	2,184,359	-	2,184,359
Investment in funds	- note 9.7	1,973,797	-	1,973,797	1,524,400	-	1,524,400
Term Finance Certificate (TFCs)	- note 9.9/9.10	2,187,488	-	2,187,488	2,363,073	-	2,363,073
Held-to-maturity securities							
Pakistan Investment Bonds		3,718,245	350,000	4,068,245	2,586,007	1,600,000	4,186,007
Federal Investment Bonds		-	-	-	50,000	-	50,000
Market Treasury Bills		919,450	-	919,450	1,745,941	-	1,745,941
WAPDA Bonds		262,514	-	262,514	343,340	-	343,340
Commercial Papers		-	-	-	24,280	-	24,280
Subsidiary							
Shares of un-listed company	- note 9.8	160,000	-	160,000	160,000	-	160,000
Share deposit money	- note 9.8	4,943	-	4,943	2,186	-	2,186
		11,708,696	350,000	12,058,696	11,179,287	1,600,000	12,779,287
Less: Provision for diminution in value of investments		(400)	-	(400)	(400)	-	(400)
Add: Surplus on revaluation of investment	- note 20	5,967,885	-	5,967,885	3,418,618	-	3,418,618
Investments (net of provisions)		17,676,181	350,000	18,026,181	14,597,505	1,600,000	16,197,505
9.2 Investments by segments							
Federal government securities							
Market Treasury Bills		919,450	-	919,450	1,745,941	-	1,745,941
Pakistan Investment Bonds		3,718,245	350,000	4,068,245	2,586,007	1,600,000	4,186,007
Federal Investment Bonds		-	-	-	50,000	-	50,000
Fully paid-up ordinary shares/units							
Ordinary shares of listed companies and modarabas	- note 9.4	91,992	-	91,992	9,793	-	9,793
Preference shares of listed companies	- note 9.5	205,908	-	205,908	185,908	-	185,908
Unlisted companies	- note 9.8	160,000	-	160,000	160,000	-	160,000
NIT units	- note 9.6	2,184,359	-	2,184,359	2,184,359	-	2,184,359
Investment in funds	- note 9.7	1,973,797	-	1,973,797	1,524,400	-	1,524,400
Share deposit money - unlisted subsidiary	- note 9.8	4,943	-	4,943	2,186	-	2,186
Term finance certificates, debentures, bonds and participation term certificates							
Listed TFCs	- note 9.9	549,102	-	549,102	703,701	-	703,701
Unlisted TFCs	- note 9.10	1,638,386	-	1,638,386	1,659,372	-	1,659,372
Commercial Papers		-	-	-	24,280	-	24,280
WAPDA Bonds		262,514	-	262,514	343,340	-	343,340
		11,708,696	350,000	12,058,696	11,179,287	1,600,000	12,779,287
Less: Provision for diminution in value of investments		(400)	-	(400)	(400)	-	(400)
Add: Surplus on revaluation of investments	- note 20	5,967,885	-	5,967,885	3,418,618	-	3,418,618
Investments (net of provisions)		17,676,181	350,000	18,026,181	14,597,505	1,600,000	16,197,505
9.3 Particulars of provision for diminution in value of investments							
Opening balance		400	-	400	400	-	400
Charge for the year		-	-	-	-	-	-
Reversals		-	-	-	-	-	-
Closing balance		400	-	400	400	-	400

Notes to the Accounts

9.4 Shares of listed companies and modarabas

Number of shares/ Certificates		Name of company/modaraba	(Rupees in thousand)	
2005	2004		2005	2004
Held-for-trading				
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 Limited	7,447	-
5,000	-	Sui Southern Gas Company Limited	135	-
			43,972	-
Available-for-sale				
500	500	Trust Modaraba	6	6
1,208	1,007	Trust Leasing and Investment Bank Limited (Formerly Trust Leasing Corporation)	7	7
978,000	978,000	National Bank Modaraba	9,780	9,780
3,822,698	-	Zephyr Textile Limited	38,227	-
			48,020	9,793
			91,992	9,793

9.5 Preference shares of listed companies

Number of shares		Name of company	(Rupees in thousand)	
2005	2004		2005	2004
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	-
			205,908	185,908

Other particulars of preference shares are as follows:

Particulars	Nominal value per share	Profit rate per annum	Profit payment	Redemption terms
Listed				
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.

Notes to the Accounts

Particulars	Nominal value per share	Profit rate per annum	Profit payment	Redemption terms
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-9 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.
Trust Leasing and Investment Bank Limited (Formerly Trust Leasing Corporation)	10	Preferred right of dividend at Annually 9.5% per annum on cumulative basis.	Annually	Principal will be redeemed in 3rd, 4th and 5th years in proportion to 33%, 33% and 34% of the issue amount respectively. If not redeemed as per term then can be converted into ordinary shares at the option of the holder.

- 9.6 These represent 150,875,685 (2004: 150,875,685) NIT units valued at market closing rate (repurchase price as referred to in note 5.4). 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 these units at Rs13.7 per unit if the bank continues to hold the units for five years maturing on August 6, 2006.

Consequent to the decision regarding privatization of the 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 Bank and other LOC Holders have been allowed to exercise the given options under the Scheme upto the expiry date of LOC i.e. 8th August 2006.

Notes to the Accounts

9.7 Investment in funds

Number of Units		Name of company/fund	2005	2004
2005	2004		(Rupees in thousand)	
500,000	510,122	Crosby Dragon Fund	44,371	50,000
2,957,093	2,957,093	Pakistan Income Fund	161,191	161,191
1,504,876	1,504,876	Pakistan Stock Market Fund	170,804	170,804
4,485,000	4,000,000	Pakistan Capital Market Fund	44,292	38,765
17,500,000	15,000,000	Pakistan Strategic Allocation Fund	175,250	150,000
41,830	41,830	Unit Trust of Pakistan	369,246	369,246
1,032,563	381,000	Unit Trust of Pakistan - Income Fund	565,037	208,026
159,061	159,061	Unit Trust of Pakistan - Islamic Fund	111,368	111,368
20,000,000	20,000,000	ABAMCO Composite Fund	200,000	200,000
250,000	-	UTP Fund of Funds	12,500	-
1,000,000	-	UTP Aggressive Asset Allocation Fund	50,000	-
500,000	500,000	Faysal Balanced Growth Fund	44,464	50,000
29,770	29,770	Atlas Stock Market Fund	13,334	15,000
1,253,700	-	Atlas Fund of Funds	11,940	-
			<u>1,973,797</u>	<u>1,524,400</u>

9.8 Subsidiary

Punjab Modaraba Services (Pvt.) Ltd.

16,000,000 (2004: 16,000,000) ordinary shares of Rs. 10 each
Share deposit money Rs. 4,943 thousand (2004 Rs. 2,186 thousand)

Holding: 100% (2004: 100%)

Period of Accounts - December 31, 2005

Break up value of investments based on last audited accounts Rs. 173,241 thousand (2004: Rs. 168,301 thousand).

9.9 Term Finance Certificates-Listed

Number of certificates		Nominal Value per certificate	Name of company/modaraba	2005	2004
2005	2004			(Rupees in thousand)	
1,032	1,032	5	Al-Zamin Leasing Modaraba	5,160	5,160
5,000	5,000	5	Atlas Investment Bank Limited	8,327	16,653
-	750	100	Engro Chemicals Pakistan Limited	-	74,925
5,000	5,000	5	Ittehad Chemicals Limited	20,817	24,985
5,000	5,000	5	Jahangir Siddiqui Investment Company Limited	24,975	24,985
35,000	35,000	5	MCB Limited	174,790	174,860
-	500	100	Nishat Mills Limited	-	24,980
13,000	13,000	5	Pharmagen Limited	55,714	65,000
-	300	100	Saudi Pak Leasing Company Limited	-	18,742
10,000	10,000	5	United Bank Limited	49,981	50,000
4,000	4,000	5	Shakarganj Mills Limited	7,995	15,990
500	500	100	Sui Southern Gas Company Limited	8,327	24,981
750	750	100	Sui Southern Gas Company Limited	37,470	62,450
10,000	10,000	5	Union Bank Limited	49,970	49,990
2,000	2,000	5	Bank Al-Habib Limited	9,996	10,000
12,000	12,000	5	Trust Leasing and Investment Bank Limited (Formerly Trust Leasing Corporation)	48,000	60,000
4,516	-	5	Trust Leasing and Investment Bank Limited (Formerly Trust Leasing Corporation)	22,580	-
5,000	-	5	Azgard-9 Limited	25,000	-
			<u>549,102</u>	<u>703,701</u>	

Notes to the Accounts

Other particulars of listed TFCs are as follows:

Particulars	Profit rate per annum	Profit payment	Redemption terms
Al-Zamin Leasing Modaraba	Minimum 8% p.a. 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.
Atlas Investment Bank Limited	15% p.a.	Semi-annually	Principal to be repaid starting from 30th month of issue in semi-annual instalments.
Ittehad Chemicals Limited	Floating, SBP discount rate + 250 bps. Floor: 12.00% p.a. & Cap: 16.00% p.a.		Principal to be repaid in equal semi annual instalments 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% p.a. & Cap: 13% p.a.	Semi-annually	Principal to be repaid in four equal semi annual instalments commencing from 42nd month from the issue date.
Muslim Commercial 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.
Saudi Pak Leasing Company Limited	Floating, WA of last 3 cut-off rates of 5-year PIBs + 175 bps. Floor 13.00% p.a.& Cap: 17.00% p.a.	Semi-annually	Principal to be repaid in 8 equal semi annual instalments after a grace period of 12 months from issue date, subject to call option exercisable in part or whole anytime after the 3rd year from the date of issue with 3 months advance notice and a call premium of 0.50% on the outstanding amount in addition to the profit accrued to date.
United Bank Ltd.	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 instalments of 0.20% each of the issue amount respectively, starting from 84th month.
Shakarganj Mills Limited	Floating SBP discount rate + 200 bps. Floor:12.25% p.a.& Cap: 15.75% p.a.	Semi-annually	Principal to be repaid semi annually in last five instalments commencing 24 months from the issue date.
Sui Southern Gas Company Limited	Fixed for first 2 years: 14.15% p.a. and floating for 3-5 years: SBP discount rate + 110 bps. Floor: 13.00% p.a.& Cap: 18.00% p.a.	Semi-annually	0.4% of issue amount redeemable in four equal semi-annual instalments and five equal semi-annual instalments at 16.653% of issue amount starting from 30th month and 16.655% of issue amount repayable at end of 60th month.
Sui Southern Gas Company Limited	Floating SBP discount rate + 110 bps. Floor: 11.50% & Cap: 16.00% p.a.	Semi-annually	Principal to be repaid in 8 equal semi annual instalments starting from 30th month from issue date.
Union Bank Limited	Floating Last cut-off yield of 5-year PIBs auction + 75 bps. Floor: 5.0% 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 instalments starting from 6th month of issue and 3 equal semi annual instalments of 33.25% of principal amount after 84th month.
Trust Leasing and Investment Bank Limited (Formerly Trust Leasing Corporation)	Floating 6-month KIBOR + 300. bps. Floor: 6.0% p.a. & Cap: 10.0% p.a.	Semi-annually	Principal to be repaid in 10 equal semi annual instalments commencing 6 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)	Floating 6-month KIBOR + 200. bps with no floor or cap.	Semi-annually	Principal to be repaid in 10 equal semi annual instalments commencing 6 month from the issue date.
Azgard-9 Limited	Floating 6-month KIBOR + 2.40% p.a. with no floor or cap.	Semi-annually	Principal to be repaid in 10 equal semi annual instalments 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).

Notes to the Accounts

9.10 Term Finance Certificates-Unlisted

Number of certificates		Nominal Value per certificate	Name of company/modaraba	2005	2004
2005	2004			(Rupees in thousand)	(Rupees in thousand)
		(Rupees in thousand)			
15,000	15,000	5	Al-Abbas Sugar Mills Limited	43,421	59,211
20,000	20,000	5	Dewan Mushtaq Textile Mills Limited	28,125	46,875
20,000	20,000	5	Dewan Textile Mills Limited	37,500	62,500
4,000	4,000	5	Crescent Commercial Bank Limited	9,996	19,992
5,000	5,000	5	Orient Petroleum Limited	8,333	20,833
21,000	21,000	5	Pakistan International Airlines Corporation	102,371	104,997
60,000	60,000	5	Pakistan Mobile Communication (Private) Limited	300,000	300,000
5,000	5,000	5	Crescent Leasing Corporation Limited	25,000	25,000
10,000	10,000	5	Crescent Leasing Corporation Limited	40,000	50,000
15,000	15,000	5	Crescent Steel & Allied Products Limited	65,625	75,000
-	2,156	5	Jamshoro Joint Venture Limited	-	10,780
13,686	13,686	5	Jamshoro Joint Venture Limited	68,430	68,430
4,158	4,158	5	Jamshoro Joint Venture Limited	19,070	20,790
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	25,000	25,000
10,000	10,000	5	Azgard-9 Limited	50,000	50,000
66,000	66,000	5	Crescent Standard Investment Bank	198,000	330,000
18,000	18,000	5	Nishat Mills Limited	89,928	89,964
5,000	5,000	30	Escorts Investment Bank	149,940	150,000
18	-	10,000	Reliance Export Limited	180,000	-
			Dewan Cement Limited		
2	- 60,036/ 4,000		(Formerly Pakland Cement Limited)	47,177	-
			Dewan Cement Limited		
1	-	1,078	(Formerly Pakland Cement Limited)	470	-
				1,638,386	1,659,372

Other particulars of Unlisted TFCs are as follows:

Particulars	Profit rate per annum	Profit payment	Redemption terms
Al-Abbas Sugar Mills Limited	Floating cut-off yield of last successful SBP auction of 3-months TBs + 325 bps. Floor: 6.00% p.a. & Cap: 13.00% p.a.	Quarterly	Principal to be repaid in 19 equal quarterly instalments starting from 6th month.
Dewan Mushtaq Textile Mills Limited	Floating SBP discount rate + 150 bps. Floor: 7.50% p.a. & Cap: 12.50% p.a.	Quarterly	Redemption will be made through equal quarterly instalments, 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	Floating SBP discount rate + 150 bps. Floor: 7.50% p.a. & Cap: 12.50% p.a.	Quarterly	Redemption will be made through equal quarterly instalments, 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	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 instalments with 1 year grace period. Callable in full after 1st year of the issue date.
Orient Petroleum Limited	Floating SBP discount rate + 100 bps. Floor: 8.00% p.a. & Cap: 13.00% p.a.	Semi-annually	Equal semi annual instalments.
Pakistan International Airlines Corporation	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	2.50% of principal to be redeemed in 6 equal semi annual instalments starting from 24th month of issue date and 6 equal semi annual instalments of 14.17% of issue amount.
Pakistan Mobile Communication (Private) Limited (Chief Executive Officer: Zouhair Abdul Khaliq)*		Semi-annually	Principal to be repaid in 5 equal semi annual instalments 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.

Particulars	Profit rate per annum	Profit payment	Redemption terms
Crescent Leasing Corporation Limited	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 instalments 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.
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 instalments commencing from the 6th month of issue date. Callable anytime in full after 18th month of issue.
Crescent Steel & Allied Products Limited	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 instalments 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	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 instalments commencing from 18th month from the first draw down of funds or 12 months from the last draw down of funds, whichever is earlier.
Jamshoro Joint Venture Limited	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 instalments 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: 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 instalments 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: 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 instalments, the first such instalment falling due 36th month after disbursement.
Security Leasing Corporation	Floating, Average 6-months KIBOR Ask Rate + 190 bps.	Semi-annually	Principal will be redeemed in 4 equal semi annual instalments 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-9 Limited	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 instalments starting from 18th month of the issue date.
Crescent Standard Investment Bank Limited	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 instalments each of Rs 66 million, first repayment will be due on February 7, 2005.
Escorts Investment Bank	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 instalments 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.
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 instalments after grace period of 30 months from issue date.
Reliance Export Limited (Chief Executive Officer: Arif Habib)	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 instalments starting from 18th month of the issue date.
Dewan Cement Limited (Formerly Pakland Cement Limited)	Floating, 6-month KIBOR Ask side + 2.50% p.a	Semi-annually	Principal to be repaid in 12 equal semi annual instalments starting from June 2006.
Dewan Cement Limited (Formerly Pakland Cement Limited)	NIL	-	Principal to be repaid in 4 equal semi annual instalments commencing from June 2012.

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



		2005	2004
		(Rupees in thousand)	
10. Advances			
Loans, cash credits, running finances, etc. in Pakistan		58,771,710	36,794,397
Net investment in finance lease in Pakistan	note 10.2	3,026,657	2,062,348
Financing in respect of Continuous Funding System		371,874	182,145
Bills discounted and purchased (excluding treasury bills):			
Payable in Pakistan		809,892	556,157
Payable outside Pakistan		1,473,375	360,061
		2,283,267	916,218
		64,453,508	39,955,108
Provision for non-performing advances:			
-Specific	note 10.4	(732,673)	(462,845)
-General	note 10.4	(97,130)	(53,340)
		63,623,705	39,438,923
10.1 Particulars of advances			
10.1.1 In local currency		63,623,705	39,438,923
10.1.2 Short term		45,530,539	25,663,287
Long term		18,093,166	13,775,636
		63,623,705	39,438,923

10.2 Net investment in finance lease

	2005				2004			
	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 in				thousand)			
Minimum lease payments	952,701	2,962,058	27,572	3,942,331	640,189	2,015,814	10,410	2,666,413
Financial charges for future periods	(307,701)	(599,006)	(8,967)	(915,674)	(265,094)	(338,654)	(317)	(604,065)
Present value of minimum lease payments	645,000	2,363,052	18,605	3,026,657	375,095	1,677,160	10,093	2,062,348

10.3 Advances include Rs. 1,359,567 thousand (2004: Rs. 1,166,012 thousand) which have been placed under non-performing status as detailed below:

Category of Classification	Domestic	Provision required	Provision held
	(Rupees in thousand)		
Other assets especially mentioned	59,348	-	-
Substandard	218,032	18,280	18,280
Doubtful	120,423	36,953	36,953
Loss	961,764	677,440	677,440
	1,359,567	732,673	732,673



10.4 Particulars of provision against non-performing advances

	2005			2004		
	Specific	General	Total	Specific	General	Total
	(Rupees in			thousand)		
Opening balance	462,845	53,340	516,185	484,572	-	484,572
Charge for the year	369,871	43,790	413,661	74,412	53,340	127,752
Amounts written off - note 10.5	(13,755)	-	(13,755)	(15,327)	-	(15,327)
Reversals	(86,288)	-	(86,288)	(80,812)	-	(80,812)
Closing balance	732,673	97,130	829,803	462,845	53,340	516,185

10.4.1 During the year, the State Bank of Pakistan has revised the basis of classification of non-performing corporate and SME loans and advances vide BSD Circular 2 dated January 14, 2006. Under the revised guidelines the category of Other Assets Especially Mentioned (OAEM) has been dispensed with while the categories of substandard, doubtful and loss have been retained. In addition, the basis of classification of loans and advances under these three categories has been redefined whereby all advances overdue by 90, 180 and 365 days are now required to be classified as substandard, doubtful and loss respectively. Previously, short-term and long-term advances were required to be separately assessed and were classified as OAEM, substandard, doubtful or loss based on different prescribed ageing criteria.

The revised guidelines specify that provision should be made in the financial statements equal to 10 percent (25 percent from December 31, 2006) percent, 50 percent and 100 percent, in respect of overdue advances classified as substandard, doubtful and loss respectively, of the outstanding balance of principal less the amount of liquid assets realisable and adjusted forced sale value of mortgaged / pledged assets. In addition, the revised guidelines have withdrawn the benefit relating to FSVs conducted in respect of non-performing loans and advances where the outstanding principal amount is Rs.5,000 thousand or less. Had the provision against non-performing loans and advances been determined in accordance with the previous requirement of the State Bank of Pakistan, the specific provision against non-performing loans and advances would have been lower and consequently profit before taxation and advances (net of provision) as at December 31, 2005 would have been higher by Rs 204,917 thousand.

10.4.2 The State Bank of Pakistan has issued Prudential Regulations for Agriculture Finance during the current year vide BPD Circular No. 27 dated October 22, 2005. These regulations require agricultural advances overdue by 90 days, one year, one and a half years and two years to be classified as OAEM, substandard, doubtful and loss respectively. In addition, these regulations specify that provision should be made in the financial statements equal to 20 percent, 50 percent and 100 percent, in respect of overdue agricultural advances classified as substandard, doubtful and loss respectively, of the outstanding balance of principal less the amount of liquid assets realisable and adjusted forced sale value of mortgaged / pledged assets. No provision is required to be made against the outstanding balance of principal relating to overdue agriculture advances classified as OAEM. Previously, provision was determined in respect of non-performing agriculture advances in accordance with the guidelines given in the Prudential Regulations for Corporate / Commercial banking.

Had the provision against agriculture advances been determined in accordance with the Prudential Regulations for Corporate / Commercial banking, the specific provision against non performing agriculture advances would have been lower, and consequently the profit before taxation and advances (net of provision) would have been higher by Rs 6,683 thousand.

10.4.3 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 the Prudential Regulations issued by the SBP.



			2005	2004
			(Rupees in thousand)	
10.5	Particulars of write offs:			
10.5.1	Against Provisions	note 10.4	13,755	15,327
	Directly charged to Profit & Loss account		3,623	121
			17,378	15,448
10.5.2	Write Offs of Rs. 500,000 and above	note 10.6	15,721	14,722
	Write Offs of Below Rs. 500,000		1,657	726
			17,378	15,448

10.6 Details of loan written off of Rs. 500,000 and above

In terms of sub-section (3) of Section 33-A 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, 2005 is given at Annexure-I.

			Balance as at December 31, 2005	Max. total amount of advances including temporary advances granted during the year
			(Rupees in thousand)	
10.7	Particulars of loans and advances to directors, associated companies, etc.			
	Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons	note 10.7.1	1,130,400	1,142,275
	Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members		-	-
	Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties.		703,360	703,360
			1,833,760	1,845,635
10.7.1	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.			



	2005	2004
	(Rupees in thousand)	
11. Other assets		
Income/mark-up accrued in local currency	1,890,922	796,915
Advances, deposits, advance rent and other prepayments	117,456	54,848
Advance taxation (payments less provisions)	-	326,398
Suspense account	-	82
Excise duty recoverable	16,365	16,365
Receivable from National Investment Trust	36,790	36,790
Claim for recovery of shares	18,570	31,004
Others	32,190	94,214
	<u>2,112,293</u>	<u>1,356,616</u>
Less provision:		
Against excise duty recoverable	(16,365)	(16,365)
Against claim for recovery of shares	(18,570)	(31,004)
Against receivable from NIT	(36,790)	(32,046)
	<u>(71,725)</u>	<u>(79,415)</u>
	<u>2,040,568</u>	<u>1,277,201</u>

11.1 This represents 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 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 etc.

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, the director of SHB entered into plea bargain arrangements according to which the NAB authorities are in the process of recovery. Meanwhile the Defaulters Committee of the Lahore Stock exchange (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.



	2005	2004
	(Rupees in thousand)	
11.2 Provision against other assets		
Opening balance	79,415	55,095
Charge for the year	4,744	32,046
Amounts written off	-	-
Reversals	(12,434)	(7,726)
Closing balance	71,725	79,415

12. Operating fixed assets-tangible

Capital work-in-progress		19,725	13,652
Property and equipment	- note 12.1	1,695,336	675,834
		1,715,061	689,486

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 thousand)

	2005
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, 2005, would have been as follows:

(Rupees in thousand)

	2005
Land	294,466
Buildings	145,545

International Accounting Standard (IAS) 16, "Property, Plant and Equipment (revised 2003)" is applicable to financial statements covering annual periods beginning on or after January 1, 2005 and requires a review of residual value of assets, useful lives and depreciation method at each financial year end. Accordingly, based on a review of the above, the management has revised the following:

- Depreciation on additions is now charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off. Previously, full years depreciation was charged in the year of acquisition if the asset remained under use for more than six months in the accounting year while no depreciation was charged on additions made in the second half of the accounting year. No depreciation was charged in the year of disposal. Normal repairs maintenance are charged to income while major renewals and improvements are capitalized. Gains and losses on sale of fixed assets are included in income.

The above revisions have been accounted for as changes in accounting estimates in accordance with the requirements of International Accounting Standard (IAS) 8, "Accounting Policies, Changes in Accounting Estimates and Errors". Accordingly, the effect of these changes in accounting estimates has been recognised prospectively in the profit and loss account of the current year. Had there been no change in these accounting estimates, the profit before taxation for the year would have been lower by Rs. 22,281 thousand.

12.1



12.1 Property and equipment

	Cost/ revalued amount			Accumulated Depreciation				Net Book value as at December 31, 2005	Rate of Depreciation %	
	as at January 1, 2005	Additions/ (deletions)* / (adjustments)**	Revaluation	as at December 31, 2005	as at January 1, 2005	Charge for the year	(Deletions)* / (adjustments)**			as at December 31, 2005
Owned										
Freehold land	294,466	-	801,869	1,096,335	-	-	-	-	1,096,335	-
Buildings on freehold land	196,677	13,333 (56,805)*	194,851	348,056	56,805	12,074	(56,805)*	12,074	335,982	5
Furniture, fixtures and office equipment	321,757	83,157 (4,243)* 30,439**	-	431,110	167,425	41,671	(3,415)* 15,219**	220,900	210,210	10 to 33.33
Vehicles	23,864	(511)*	-	23,353	20,695	1,498	(497)*	21,696	1,657	20
	836,764	96,490 (61,559)* 30,439**	996,720	1,898,854	244,925	55,243	(60,717)* 15,219**	254,670	1,644,184	
Assets held under finance lease										
Vehicles	26,233	5,146 (555)*	-	30,824	11,156	6,326	(342)*	17,140	13,684	20
Furniture, fixtures and computer equipment	102,229	(30,439)**	-	71,790	33,311	16,230	(15,219)**	34,322	37,468	20
2005	965,226	101,636 (62,114)*	996,720	2,001,468	289,392	77,799	(61,059)*	306,132	1,695,336	
2004	639,780	386,211 (50,776)* (9,989)	-	965,226	236,889	71,275	(10,074)* (8,698)	289,392	675,834	

12.2 Detail of certain operating fixed assets sold during the year

Particulars of assets	Cost Rupees	Book value Rupees	Sale price Rupees	Mode of disposal	Particulars of purchasers
Vehicles	555,000	222,000	350,000	Negotiation	Maqsood Ahmad (Ex-Vice President of the bank)



	2005 (Rupees in thousand)	2004
13. Bills payable		
In Pakistan	<u>478,001</u>	<u>267,113</u>
14. Borrowings from financial institutions		
In Pakistan- in local currency	<u>6,791,007</u>	<u>2,831,605</u>

14.1 Details of borrowings from financial institutions

Secured

- Borrowings from State Bank of Pakistan under export refinance scheme	- note 14.1.1	2,336,007	731,605
- Repurchase agreement borrowings	- note 14.1.2	350,000	1,600,000
		<u>2,686,007</u>	<u>2,331,605</u>

Unsecured

- Call borrowings	-note 14.1.3	4,105,000	500,000
		<u>6,791,007</u>	<u>2,831,605</u>

14.1.1 These are secured against bank's cash and security balances held by SBP. Mark-up on these borrowings is payable quarterly at 7.5 % per annum. Maturity of the borrowings is upto June 2006.

14.1.2 Mark-up is payable on borrowings under repurchase agreements with banks at rates ranging from 8.25% to 8.30% per annum. Maturity of the borrowings is upto February 2006.

14.1.3 This represents funds borrowed from scheduled banks in the inter bank money market, which carry mark up rate ranging from 8% to 10% per annum having maturity upto January 2006.

	2005 (Rupees in thousand)	2004
15. Deposits and other accounts		
Customers		
- Fixed deposits	35,786,752	9,474,944
- Savings deposits	32,137,063	31,720,639
- Current accounts - non-remunerative	15,499,755	12,964,045
- Sundry deposits, margin accounts, etc.	1,009,841	447,176
	<u>84,433,411</u>	<u>54,606,804</u>
Financial Institutions		
- Remunerative deposits	3,659,223	1,812
- Non-remunerative deposits	372,417	115,695
	<u>4,031,640</u>	<u>117,507</u>
	<u>88,465,051</u>	<u>54,724,311</u>





	2005	2004
	(Rupees in thousand)	
15.1 Particulars of deposits		
In local currency	87,590,916	54,486,261
In foreign currencies	874,135	238,050
	<u>88,465,051</u>	<u>54,724,311</u>

16. Liabilities against assets subject to finance lease

	2005			2004		
	Minimum lease payments	Financial charges for future periods (Rupees	Principal outstanding	Minimum lease payments in thousand	Financial charges for future periods)	Principal outstanding
Not later than one year	29,482	(3,664)	25,818	36,144	(4,525)	31,619
Later than one year but not later than five years	32,726	(3,141)	29,585	54,304	(4,128)	50,176
	<u>62,208</u>	<u>(6,805)</u>	<u>55,403</u>	<u>90,448</u>	<u>(8,653)</u>	<u>81,795</u>

Financial charges, included in the lease rentals, are determined on the basis of discount factors applied at the rates ranging from 6.75% to 11.44% per annum (2004: 6.75% to 8.50%). 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 thousand)
2006	31,059
2007	16,443
2008	6,344
2009	6,624
2010	1,738
	<u>62,208</u>
Less: Finance charge for future periods	<u>(6,805)</u>
	<u>55,403</u>





	2005	2004			
	(Rupees in thousand)				
17. Other liabilities					
Mark-up/return/interest payable in local currency	936,413	304,605			
Mark-up/return/interest payable in foreign currency	2,249	20			
Accrued expenses	29,582	72,582			
Unclaimed dividend	2,936	3,084			
Branch adjustment account	38,602	43,187			
Provision for taxation	274,080	-			
Provision for employee compensated absences	74,149	61,383			
Provision against off balance sheet obligations	1,021	1,021			
Others	115,393	81,658			
	<u>1,474,425</u>	<u>567,540</u>			
17.1 Provision against off balance sheet obligation					
Opening balance	1,021	657			
Charge for the year	-	364			
	<u>1,021</u>	<u>1,021</u>			
18. Deferred tax (asset)/liability					
Deferred tax arising in respect of:					
Accelerated tax depreciation	184,647	29,108			
Revaluation surplus on buildings	68,198	-			
Others	(32,668)	(20,144)			
	<u>220,177</u>	<u>8,964</u>			
19. Share capital					
19.1 Authorized capital					
	2005	2004	Authorised		
	<u>1,000,000,000</u>	<u>200,000,000</u>	Ordinary shares of Rs. 10 each	<u>10,000,000</u>	<u>2,000,000</u>
19.2 Issued, subscribed and paid-up					
	2005	2004	Ordinary shares of Rs. 10 each		
	15,750,000	15,750,000	Fully paid in cash	157,500	157,500
	219,221,860	134,872,988	Issued as bonus shares	2,192,219	1,348,730
	<u>234,971,860</u>	<u>150,622,988</u>		<u>2,349,719</u>	<u>1,506,230</u>





		2005	2004
		(Rupees in thousand)	
20.	Surplus/(deficit) on revaluation of assets - net of tax		
20.1	Surplus on revaluation of Fixed Assets -note 12.1	996,720	-
	Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax	(3,166)	-
	Less: Related deferred tax liability	993,554 (68,198)	- -
		<u>925,356</u>	-
20.2	Surplus/(deficit) on revaluation of securities		
	(i) Federal and Provincial Government securities	-	-
	(ii) Quoted shares	20,535	3,520
	(iii) Other securities	5,947,350	3,415,098
	-note 9.1	<u>5,967,885</u>	<u>3,418,618</u>
		<u>6,893,241</u>	<u>3,418,618</u>
21.	Contingencies and commitments		
21.1	Transaction-related contingent liabilities		
	Guarantees, favouring:		
	- Government	4,252,433	568,728
	- Banks and other financial institutions	73,495	16,583
	- Others	1,102,738	413,274
		<u>5,428,666</u>	<u>998,585</u>
21.2	Trade-related contingent liabilities		
	Letters of credit	10,740,452	4,146,337
	Acceptances	2,576,582	923,909
		<u>13,317,034</u>	<u>5,070,246</u>
21.3	Other Contingencies		
	Claims against the bank not acknowledged as debt	<u>403,484</u>	<u>369,514</u>
21.4	Commitments in respect of forward lending		

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





	2005	2004
	(Rupees in thousand)	
21.5 Commitments in respect of forward exchange contracts		
Purchase	268,336	545,200
Sale	1,569,803	699,277
21.6 Commitments for acquisition of operating fixed assets	<u>8,839</u>	<u>32,774</u>
21.7 Commitments for sale of securities	<u>43,558</u>	-
22. Mark-up/return/interest earned		
On loans and advances to :		
- Customers	4,707,525	1,690,812
- Financial-institutions	166,933	54,173
On Investments in :		
- Available for sale securities	215,414	167,893
- Held to maturity securities	463,925	509,053
On deposits and placements with financial institutions	318,208	111,260
On securities purchased under resale agreements	253,088	21,848
	<u>6,125,093</u>	<u>2,555,039</u>
23. Mark-up/return/interest expensed		
Deposits	2,465,625	577,864
Securities sold under repurchase agreements	54,177	39,290
Short term borrowings	87,049	49,788
Others	61,888	52,132
	<u>2,668,739</u>	<u>719,074</u>
24. Other income		
Rent on lockers	3,972	3,130
Net profit on sale of property and equipment	540	954
Net profit on sale of investments	3,163	102,179
Provision no longer required due to recovery on account of claim for shares	12,434	7,726
Service charges	136,140	135,223
Miscellaneous earnings	72,500	79,149
	<u>228,749</u>	<u>328,361</u>





	2005	2004
	(Rupees in thousand)	
25. Administrative expenses		
Salaries, allowances etc.	729,137	687,988
Contribution to defined contribution plan	25,894	24,543
Non-executive directors' fees, allowances and other expenses	16	13
Rent, taxes, insurance, electricity, etc.	137,621	120,813
Legal and professional charges	7,735	3,913
Communications	29,380	28,978
Repairs and maintenance	29,645	14,532
Finance charges on leased assets	5,205	4,498
Stationery and printing	36,911	30,465
Advertisement and publicity	10,126	5,540
Donations	10,045	-
Auditors' remuneration	2,292	2,155
Depreciation	77,799	71,275
Travelling expenses	18,753	19,412
Vehicle expenses	51,562	28,188
Cash remittance charges	12,216	7,798
Bank charges	41,528	26,625
Others	49,106	39,361
	1,274,971	1,116,097
25.1	Donations have been made for the earth quake victims under 'Support a family Programme' of the Government of Punjab.	
25.2 Auditors' remuneration		
Annual audit	1,175	1,065
Special certifications, sundry advisory services and half yearly review	675	668
Out-of-pocket expenses	442	422
	2,292	2,155
26. Other charges		
Penalties imposed by State Bank of Pakistan	11,461	1,217
27. Taxation		
For the year		
- Current	816,000	477,000
- Deferred	110,935	(11,176)
	926,935	465,824
For prior years		
- Current	(147,300)	(251,084)
- Deferred	32,080	153,029
	(115,220)	(98,055)
	811,715	367,769





	2005 (Rupees in thousand)	2004
27.1 Relationship between tax expense and accounting profit		
Profit before tax	<u>3,164,957</u>	<u>1,735,943</u>
	%	%
Applicable tax rate	38	41
Tax effect of		
- Inadmissible expenses	0.13	0.79
- Separate block income	(7.86)	(11.49)
- Income exempt from tax & others	(0.04)	(3.72)
- Computation adjustments	0.06	0.26
- Prior year provision effect	(4.65)	(5.65)
Effective tax rate	<u>25.64</u>	<u>21.19</u>
28. Basic earnings per share		
28.1 Basic earnings per share - pre tax		
Profit before taxation	<u>3,164,957</u>	<u>1,735,943</u>
Weighted average number of ordinary shares	<u>234,971,860</u>	<u>234,971,860</u>
Basic earnings per share - pre tax (Rupees)	<u>13.47</u>	<u>7.39</u>
28.2 Basic earnings per share - after tax		
Profit after taxation	<u>2,353,242</u>	<u>1,368,174</u>
Weighted average number of ordinary shares	<u>234,971,860</u>	<u>234,971,860</u>
Basic earnings per share - after tax (Rupees)	<u>10.01</u>	<u>5.82</u>
29. Cash and cash equivalents		
Cash and balances with treasury banks	8,787,387	5,579,566
Balance with other banks	9,367,595	2,118,242
Call money lendings	500,000	100,000
	<u>18,654,982</u>	<u>7,797,808</u>
30. Staff strength		
Total number of employees at the end of the year	<u>3,430</u>	<u>3,144</u>



31. Remuneration of directors and executives

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

	Chairman		President/ Managing Director		Directors		(Rupees in thousand) Executives		
	2005	2004	2005	2004	2005	2004	2005	2004	
	Chairman May 28, 2004 to December 31, 2004	Ex-Chairman January 3, 2004 to April 13, 2004							
Fees	-	-	-	-	16	13	-	-	
Managerial remuneration	509	228	539	6,161	3,384 308* 3,692	-	-	7,372	5,530
Bonus	196	14	-	8,236	2,815	-	-	2,342	2,173
Contribution to defined contribution plan	-	-	-	-	-	-	-	245	214
Rent and house maintenance	-	-	168	270	446	-	-	2,949	2,211
Utilities	80	9	27	414	321	-	-	738	701
Medical	-	-	-	-	12	-	-	737	554
Others	468	385	-	-	59	-	-	48	64
	<u>1,253</u>	<u>636</u>	<u>734</u>	<u>15,081</u>	<u>7,345</u>	<u>16</u>	<u>13</u>	<u>14,431</u>	<u>11,447</u>
Number of persons	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>8</u>	<u>6</u>	<u>13</u>	<u>9</u>

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

* Included in the figure is the amount of salary and allowances paid to Managing Director for the period from January 29, 2004 to July 13, 2004 when he was working as Chief Operating Officer.

32. Maturities of assets and liabilities

(Rupees in thousand)

	2005				
	Total	Upto three months	Over 3 months to one year	Over one year to five years	Over five years
Assets					
Cash and balances with treasury banks	8,787,387	8,787,387	-	-	-
Balances with other banks	9,367,595	9,367,595	-	-	-
Lendings to financial institutions	7,593,681	7,593,681	-	-	-
Investments	18,026,181	248,187	1,543,636	12,832,054	3,402,304
Advances	63,623,705	13,596,730	33,688,277	13,429,027	2,909,671
Other assets	2,040,568	1,918,190	75,151	47,227	-
Operating fixed assets	1,715,061	16,123	48,369	193,476	1,457,093
Deferred tax asset	-	-	-	-	-
	111,154,178	41,527,893	35,355,433	26,501,784	7,769,068
Liabilities					
Bills payable	478,001	478,001	-	-	-
Borrowings from financial institutions	6,791,007	5,466,098	1,324,909	-	-
Deposits and other accounts	88,465,051	68,244,020	17,568,902	2,652,129	-
Liabilities against assets subject to finance lease	55,403	6,238	19,580	29,585	-
Other liabilities	1,474,425	1,406,619	-	67,806	-
Deferred tax liability	220,177	-	-	220,177	-
	97,484,064	75,600,976	18,913,391	2,969,697	-
Net assets	13,670,114	(34,073,083)	16,442,042	23,532,087	7,769,068
Share capital	2,349,719				
Reserves	4,257,337				
Unappropriated profit	169,817				
Surplus/(deficit) on revaluation of assets	6,893,241				
	13,670,114				

33. Yield/interest rate risk

Effective Yield/ Interest rate	Total	2005				Not exposed to Yield/ Interest
		Exposed to Yield/ Interest risk				
		Upto three months (Over 3 months to one year Rupees	Over one year to five years in	Over five years thousand)	
Assets						
Cash and balances with treasury banks	1.6%	8,787,387	323,365	-	-	8,464,022
Balances with other banks	10.6%	9,367,595	8,882,245	-	-	485,350
Landings to financial institutions	8.4%	7,593,681	7,593,681	-	-	-
Investments	12.2%	18,026,181	204,214	1,543,636	2,468,993	3,237,362
Advances	10.2%	63,623,705	13,596,730	33,647,726	13,429,027	2,903,127
Other assets		2,040,568	-	-	-	-
		109,439,117	30,600,235	35,191,362	15,898,020	6,140,489
Liabilities						
Bills payable		478,001	-	-	-	-
Borrowings from financial institutions	6.4%	6,791,007	5,466,098	1,324,909	-	-
Deposits and other accounts	4.0%	88,465,051	51,358,677	17,568,903	2,652,130	-
Liabilities against assets subject to finance lease	9.1%	55,403	6,238	19,580	29,585	-
Other liabilities		1,474,425	-	-	-	-
		97,263,887	56,831,013	18,913,392	2,681,715	-
On-balance sheet gap		12,175,230	(26,230,778)	16,277,970	13,216,305	6,140,489
Off-balance sheet financial instruments						
Commitments to extend credit		15,849,231	(15,849,231)	-	-	-
Total yield/interest risk sensitivity gap			(42,080,009)	16,277,970	13,216,305	6,140,489
Cumulative yield/interest risk sensitivity gap			(42,080,009)	(25,802,039)	(12,585,734)	(6,445,245)

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

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

34. Currency risk

	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees	in	thousand)
Pakistan rupee	109,132,764	110,280,750	1,301,467	153,481
United States dollar	1,770,980	709,343	(1,242,685)	(181,048)
Great Britain pound	118,346	114,600	(4,373)	(627)
Japanese yen	5,092	-	(2,106)	2,986
Euro	116,586	49,485	(52,303)	14,798
Other currencies	10,410	-	-	10,410
	111,154,178	111,154,178	-	-



35. Significant accounting estimate and judgements

The preparation of financial statements in conformity with approved accounting standards requires use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the bank's accounting policies. Estimates and judgements which are continually evaluated, based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the bank's financial statements or where judgement was exercised in application of accounting policies are as follows:

- a) classification of investments - note 9
- b) provision against investments and advances - note 9 and 10.4
- c) income taxes - note 27
- d) accumulated compensated absences - note 5.7.2

36. Fair value of financial instruments

The fair value of quoted investments is based on quoted market prices. Unquoted equity investments are stated at cost which is considered to be their fair value.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the bank accounting policy as stated in note 5.3.

The maturity and repricing profile and effective rates are stated in note 32 and 33 respectively.

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

37. Concentration of credit risk

Out of total financial assets of Rs. 109,439,117 thousand, the financial assets which were subject to credit risk amount to Rs. 94,985,767 thousand. The bank's major credit risk in the case of loans and advances is concentrated in Agriculture, Cotton, Textile and construction / real estate sectors. Investments in Market Treasury Bills, Pakistan Investment Bonds, Federal Investment Bonds are guaranteed by the Government of Pakistan.

37.1 Risk management

The bank is primarily subject to interest rate, credit, currency and maturity and liquidity risks. The policies and procedures for managing these risks are outlined in notes 37.1.1 to 37.1.4. The bank has designed and implemented a framework of controls to identify, monitor and manage these risks which are as follows:

37.1.1 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 minimise 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.



37.1.2 Credit risk management

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 advances portfolio of the bank primarily comprises of short-term, long term and commercial lending on secured and self liquidating basis. The bank will also continue to keep its focus on expansion through diversified exposure. To ensure high quality portfolio and to reduce credit risk, adequate collaterals are also obtained before effecting disbursements. 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.

Currency risk is the extent to which the value of a financial instrument is sensitive to changes in foreign exchange rates. The bank is not significantly exposed to currency risk as its net open position, exchange maturity profile, forward and counter party exposure and stop loss limits are effectively monitored by its Foreign Exchange Committee.

37.1.4 Maturity and liquidity risk management

Maturity profile of the assets and liabilities of the bank, when compared within standard maturity pockets indicates the level of liquidity risk and the capability of the bank to meet its commitments. Bank's ALCO is primarily responsible to ensure adequate maintenance and monitoring of the liquidity focusing on retail and medium sized customers. Allocation of funds towards various business prepositions and pricing of assets and liabilities of the bank etc. are given significant importance.

37.2 Segment by class of business

	2005					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in thousand)	Percent	(Rupees in thousand)	Percent	(Rupees in thousand)	Percent
Agribusiness	4,829,143	7.58	839,409	0.95	7,500	0.04
Textile & ginning	16,263,838	25.55	589,266	0.67	4,510,336	24.06
Cement	2,065,853	3.25	62,551	0.07	299,123	1.60
Sugar	1,877,702	2.95	143,107	0.16	300,678	1.60
Financial	2,016,264	3.17	4,031,640	4.56	2,300	0.01
Construction and real estate	6,523,804	10.25	4,020,046	4.54	3,481,830	18.57
Food	3,081,711	4.84	1,814,313	2.05	92,767	0.49
Chemical and pharmaceuticals	1,051,808	1.65	77,450	0.09	392,191	2.09
Electronics and electrical appliances	1,884,089	2.96	166,815	0.19	428,100	2.28
Production and transmission of energy	228,959	0.36	3,938,719	4.45	2,879,117	15.36
Transport and Communication	1,135,467	1.78	6,954,546	7.86	816,943	4.36
Government	810,879	1.27	35,733,634	40.40	659,016	3.52
Individuals	2,979,903	4.68	15,511,139	17.54	-	-
Trading and commerce	8,938,051	14.05	4,082,376	4.62	1,861,036	9.93
Services	2,652,770	4.17	3,607,452	4.09	346,564	1.85
Others	7,283,464	11.45	6,892,588	7.79	2,668,199	14.23
	63,623,705	100.00	88,465,051	100.00	18,745,700	100.00

37.3 Segment by sector

	2005					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in thousand)	Percent	(Rupees in thousand)	Percent	(Rupees in thousand)	Percent
Public/Government	810,879	1.27	45,380,604	51.30	3,102,743	16.55
Private	62,812,826	98.73	43,084,447	48.70	15,642,957	83.45
	<u>63,623,705</u>	<u>100.00</u>	<u>88,465,051</u>	<u>100.00</u>	<u>18,745,700</u>	<u>100.00</u>

38. Geographical segment analysis

	2005			
	Profit before taxation	Total assets employed (Rupees in)	Net assets employed (thousand)	Contingencies & commitments
Pakistan	3,164,957	111,154,178	13,670,114	18,745,700
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>3,164,957</u>	<u>111,154,178</u>	<u>13,670,114</u>	<u>18,745,700</u>

39. Related party transactions

Related parties comprise associated undertakings, subsidiary, key management personnel and Bankers Avenue Co-operative Housing Society Limited 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 receivable and payables. Amounts due from key management personnel are shown under receivables and remuneration of key management personnel is disclosed in note 31.

	2005 (Rupees in thousand)	
	Advances	Lending to
39.1 Transactions with associated undertakings / related parties		
Advances / Lending to financial institutions		
Outstanding at beginning of year	1,100,414	-
Made during the year	1,987,981	13,339,020
Repaid/matured during the year	(2,385,035)	(13,339,020)
Outstanding at end of year	<u>703,360</u>	<u>-</u>
Mark up/return earned	91,349	33,593
Deposits in current account at the year end	21,376	8,208
Security deposits in respect of finance lease	6,435	1,604
Lease finance arrangements	64,354	16,042
No provision has been recognized in respect of advances given to related parties.		
39.2 Dividend income from subsidiary	16,000	20,000
Share deposit money paid during the year	2,757	29,513



40. Date of authorisation for issue

These financial statements were authorised for issue on February 24, 2006 by the Board of Directors of the Bank.

41. Corresponding figures

The corresponding figures have been restated, where necessary. However, no significant reclassification has been made during the year except for the following.

	Note	From	To	2004 (Rupees in thousand)
Mark-up/return/interest earned	22	On loans and advances to financial institutions	On deposits and placements with financial institutions	104,814
Administrative expenses	25	Other	Bank charges	26,625
	25	Other	Cash remittance charges	7,798

Chairman

President

Director

Director

Director

Director





Annexure-I
Statement showing written-off loans or any other financial relief of five hundred thousand rupees or above provided during the year ended December 31, 2005

S. No.	Name and address of the borrower	Name of Individuals/partners/directors with NIC No.	Father's/Husband's name	Outstanding liabilities at beginning of year				Principal written-off	Interest /Mark up /Other Charges capitalized written-off	Interest/Markup written-off	Other financial relief provided	Total
				Principal	Interest/Mark up /Other charges capitalized	Interest/Mark-up	Others					
(Rupees in thousand)												
1	M/S Haji Rehamat Ullah & Sons Cotton Industries Chak # 75 EB, Qbala Road, Atrifwala	1-Mr. Abdul Aziz 338-59-139435 2-Mr. Inayat Ullah 338-57/152568 3-Mr. Muhammad Aslam 338-85-152571	1. Haji Rehamat Ullah 2. Haji Rehamat Ullah 3. Haji Rehamat Ullah	2,897	-	2,049	28	4,974	-	1,449	-	1,449
2	Rukhshanda Asad 24 A. Khuda Buksh Colony Defence Road, Lahore.	Rukhshanda Asad 35201-1338002-8*	W/O Mr. Asad ul Aziz	756	-	358	-	1,114	706	358	-	1,064
3	Anka Associates 498 Jinnat Colony Faisalabad.	Muhammad Saadiq Sial 285-46371439	Muhammad Balbush.	5,088	204	3,548	-	8,840	-	3,538	-	3,538
4	Kawalaty Products 16-Nishtar Road, Lahore.	1-Syed Munazir Mehdi Jaffery 270-61-328806 2-Syed Ather Hussain Jaffery	Syed Ather Hussain Jaffery Zunmaard Hussain Jaffery; Abdul Rashid	845	8	198	-	1,051	396	198	-	594
5	Shahid Textile Shorkot Road T.T. Singh Sardar Bahuch(PVT) Ltd	Shahid Nadeem 235-75076577	Abdul Rashid	2,662	-	528	30	3,220	-	528	-	528
6	Nawa-e-Waqt Building, Room # 34 1st Floor Sidiq Plaza 69- The Mall, Lahore.	1-Mian Rashid Arshad. 235-88216404 2-Ara Muhammad Khan 309-86-337634 3-Asrar Ali 101-41-12531 4-Faiz Muhammad Alyuni 309-41-141897	1-Mian Arshad Latif 2-Dosoot Muhammad Khan 3-Syed Ikhtaq Ali 4-Habib Ullah Khan.	416	-	8,272	15	8,703	-	4,680	-	4,680
7	Allah Wah Printers 81- The Mall, Lahore	1-Mr. Tariq Farooq Rana 270-91-027553 2-Mrs. Nabeed Rana 270-51-037318 3-Mrs. Surfroz Rana 270-28-325028 4-Mrs. Rubina Rana. 270-89-043525	1-S/O Rana Allah Dad. 2-W/O Tariq Farooq Rana. 3-W/O Rana Allah Dad. 4-W/O Abdul Waheed.	-	82	4,016	-	4,098	-	2,298	-	2,298
8	Syed Rashid Hussain H # 34/B/I, Gulberg III, Lahore.	Syed Rashid Hussain 271-65-501075	Syed Bunyad Hussain	4,686	-	3,226	-	7,912	3,785	3,226	-	7,011
9	Humaira Hussain H # 34/B/I, Gulberg III, Lahore.	Humaira Hussain 270-90-454536	W/O Syed Rashid Hussain	505	-	322	-	827	505	322	-	827
10	Muhammad Najam Shah H # 34/B/I, Gulberg III, Lahore	Muhammad Najam Shah 274-89-086779	Muhammad Yousaf Shah	933	-	550	-	1,483	933	550	-	1,483
11	Almad Ali 9-M, Upper Mall, Lahore.	Almad Ali 337-86-379453	Ch. Ranzan Ali	1,688	-	297	-	1,955	1,508	297	-	1,805
12	Al-Rehman Cotton Ginning & Pressing Factory Dunyapur Road, Mouza Ashraf Shah, Tehsil Mails, Distr. Vehari.	1-Mr. Jawaid Ahmad 325-90-299878 2-Mr. Khurshid Ahmad 325-92-299879 3-Mr. Mumtaz Ahmad 325-76-348991 4-Mr. Shamsah Ahmad 325-76-299880 5-Mr. Kalsoom Mai 325-56-273515 6-Mr. Nazir Mai 325-85-425581 7-Mr. Mumtaz Mai 325-86-429936 8-Mr. Kausar P	1-S/O Atia Muhammad 2-S/O Atia Muhammad 3-S/O Atia Muhammad 4-S/O Atia Muhammad 5-D/O Atia Muhammad 6-D/O Atia Muhammad 7-D/O Atia Muhammad 8-D/O Atia Muhammad	676	1,951	-	-	2,627	101	1,951	-	2,052
				21,122	2,245	23,364	73	46,804	7,934	11,608	-	27,329



