

## CORPORATE INFORMATION

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### Board of Directors

Mr. Shahzad Hassan Pervez	Chairman
Mr. Hamesh Khan	President
Mr. Salman Siddique	Director
Mr. Qaisar Zulfaqar Khan	Director
Mr. Sikandar Mustafa Khan	Director
Mian Muhammad Latif	Director
Mr. Shahzad Ali Malik	Director
Mr. Gohar Ejaz	Director

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Mr. Azizul Hameed	Secretary to the Board
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### Audit Committee

Mr. Qaisar Zulfaqar Khan	Chairman
Mr. Salman Siddique	Member
Mr. Shahzad Ali Malik	Member

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Ford Rhodes Siddat Hyder & Co. Chartered Accountants	Auditors
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### Credit Ratings by PACRA

Long term	AA
Short term	A1+

### Registered Office

7- Egerton Road, Lahore - Pakistan  
PBX - 9200421 - 433

## DIRECTORS' REPORT

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On behalf of the Board of Directors, I am pleased to present Un-Audited Financial Statements of the Bank of Punjab for the half year ended June 30, 2006.

Pakistan's economy gained further traction in 2005-06 with GDP growth at 6.61% despite the extraordinary surge in oil prices and the devastating earthquake. The service sector showed a strong performance of 8.8%, while growth of large scale manufacturing was weaker at 9.0%, as against 15.6% a year earlier. Investment in the economy picked up and as a percent of GDP it rose to 20%. Current year's growth was largely a public-private partnership based growth where both sectors are working in tandem to augment growth in the economy. Construction activity was brisk, foreign trade surged, banking sector grew and foreign direct investments picked up substantially, partly arising from privatization of some major public sector entities. The external debt and foreign exchange liabilities and domestic debt rose in absolute terms during FY 06, the former on account of issuance of sovereign bonds worth \$800 million, and the later due to large expenditure incurred to rehabilitate the earthquake affectees. There was an improvement in the debt carrying capacity of the economy, in the composition of debt profile and in the domestic debt to GDP ratio.

I am pleased to inform you that during the period your bank has earned a pre-tax profit of Rs.3,042 million as compared to Rs. 1,908 million for the similar period last year indicating 59.4% growth. Profit after tax of Rs.2,431 million is 58.8% higher than the figure of last year's corresponding period. Earning per share for the 1st half of the year comes to Rs.8.48 exceeding by 58.8% over last year's corresponding figure of Rs. 5.34. Bank's deposits rose to a level of Rs. 114,472 million at the end of the half-year and advances portfolio increased to Rs. 83,747 million showing 29.4% and 31.6% increase respectively over December 31, 2005. The capital and reserves of your bank have now grown up to Rs. 9,211 million with a rise of 35.9% over the level as of December 31, 2005.

As per bank's consistent policy dividend income on mutual funds for the year 2005-06 has been accounted for in the interim financial statements. However, the auditors do not concur with the same and accordingly the Institute of Chartered Accountants of Pakistan is now reviewing the matter for clarification.

In recognition of substantial improvement in almost all areas, M/s PACRA has upgraded long term credit rating of your bank from AA- (Double A minus) to AA (Double A) and maintained short term rating of A1+ which is the highest scale in short term rating scales.

The Board of Directors is grateful to the Government of Punjab for its enduring support, to the State Bank of Pakistan for valuable guidance, to the customers for their trust and to the shareholders for their confidence reposed in the Management of the Bank. The staff of the Bank also deserves for an appreciation for their untiring efforts to achieve the targeted results.

For and on behalf of the Board

**Shahzad Hassan Pervez**  
Chairman





## REVIEW REPORT TO THE MEMBERS

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We have reviewed the annexed interim condensed balance sheet of the Bank of Punjab as at June 30, 2006, and the related interim condensed profit and loss account, interim condensed cash flow statement and interim condensed statement of changes in equity together with the notes forming part thereof (here-in referred to as the "interim condensed financial statements"), for the half year then ended. These interim condensed financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these condensed financial statements based on our review. The financial statements of the Bank for the half year ended June 30, 2005 and for the year ended December 31, 2005, which were reviewed/audited by another auditors whose report dated August 30, 2005 and March 08, 2006 expressed an unqualified opinion on those statements.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed financial statements are free from material misstatements. Our review is limited primarily to inquiries of the Bank's personnel and analytical procedure applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

The Bank's policy to recognize dividend income from mutual funds as fully explained in note 4 together with the impact thereof, although consistent with their past practice, is not, in our view, in accordance with International Accounting Standard 18 Revenue. However this matter is being reviewed by the Institute of Chartered Accountants of Pakistan for clarification.

Based on our review, except for the effect of the matter described in the previous paragraph, nothing has come to our attention that caused us to believe that the annexed interim condensed financial statements are not presented fairly, in all material respects, in accordance with the approved accounting standards as applicable in Pakistan.

Lahore - August 30, 2006

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

**INTERIM CONDENSED BALANCE SHEET AS AT JUNE 30, 2006**  
**(Un-audited)**

		<b>(Un-audited)</b> <b>June 30,</b> <b>2006</b>	<b>(Audited)</b> <b>December 31,</b> <b>2005</b>
	Note	(Rupees in thousand)	
<b>ASSETS</b>			
Cash and bank balances with treasury banks		12,163,927	8,787,387
Balances with other banks		2,246,750	9,367,595
Lendings to financial institutions		6,155,752	7,593,681
Investments	6	24,828,382	18,026,181
Advances	7	83,747,466	63,623,705
Other assets		4,075,976	2,040,568
Operating fixed assets		1,867,326	1,715,061
Deferred tax assets		-	-
		<b>135,085,579</b>	111,154,178
<b>LIABILITIES</b>			
Bills payable		805,591	478,001
Borrowings from financial institutions		2,693,343	6,791,007
Deposits and other accounts		114,471,823	88,465,051
Sub-ordinated loans		-	-
Liability against assets subject to finance lease		49,997	55,403
Other liabilities		2,447,994	1,474,425
Deferred tax liabilities		284,067	220,177
		<b>120,752,815</b>	97,484,064
<b>NET ASSETS</b>		<b>14,332,764</b>	<b>13,670,114</b>
<b>REPRESENTED BY</b>			
Share capital	8	2,866,657	2,349,719
Reserves		3,740,399	2,940,399
Unappropriated profit		2,604,259	1,486,755
		<b>9,211,315</b>	6,776,873
Surplus on revaluation of assets		5,121,449	6,893,241
<b>Contingencies and commitments</b>	9	<b>14,332,764</b>	<b>13,670,114</b>

The annexed notes from 1 to 12 form an integral part of these financial statements.

**PRESIDENT**

**DIRECTOR**

**DIRECTOR**

**DIRECTOR**

**INTERIM CONDENSED PROFIT AND LOSS ACCOUNT  
FOR THE HALF YEAR ENDED JUNE 30, 2006  
(Un-audited)**

	Quarter ended June 30, 2006	Half year ended June 30, 2006	Quarter ended June 30, 2005	Half year ended June 30, 2005
	(Rupees in thousand)			
Mark-up / return / interest earned	2,774,091	5,119,500	1,381,035	2,404,372
Mark-up / return / interest expensed	1,696,507	3,124,717	493,278	833,651
Net mark-up / return / interest income	1,077,584	1,994,783	887,757	1,570,721
Provision against non-performing loans and advances	37,751	136,698	40,617	48,521
Provision for diminution in the value of investments	-	-	-	-
Bad debts written off directly	(1,050)	1	-	458
	36,701	136,699	40,617	48,979
Net mark-up / return / interest income after provisions	1,040,883	1,858,084	847,140	1,521,742
<b>NON MARK UP / INTEREST INCOME</b>				
Fee, commission and brokerage income	160,322	252,539	47,777	98,024
Dividend income	1,273,680	1,349,270	684,835	724,875
Income from dealing in foreign currencies	42,266	73,878	21,075	25,740
Other income	109,142	291,121	38,069	98,876
Total non mark-up / interest income	1,585,410	1,966,808	791,756	947,515
	2,626,293	3,824,892	1,638,896	2,469,257
<b>NON MARK UP / INTEREST EXPENSES</b>				
Administrative expenses	406,606	782,719	300,785	565,993
Other provisions / write offs	-	-	(5,096)	(5,096)
Other charges	7	26	61	61
Total non mark-up / interest expenses	406,613	782,745	295,750	560,958
Extraordinary / unusual items	-	-	-	-
<b>PROFIT BEFORE TAXATION</b>	2,219,680	3,042,147	1,343,146	1,908,299
Taxation - Current	309,402	546,902	238,400	440,000
- Prior years	-	-	(55,527)	(55,527)
- Deferred	63,890	63,890	(7,591)	(7,591)
	373,292	610,792	175,282	376,882
<b>PROFIT AFTER TAXATION</b>	1,846,388	2,431,355	1,167,864	1,531,417
Unappropriated profit brought forward	754,784	1,486,755	507,143	944,836
Transfer from Surplus on Revaluation of Fixed Assets - Net of Tax	3,087	3,087	-	-
	757,871	1,489,842	507,143	944,836
<b>Profit available for appropriation</b>	2,604,259	3,921,197	1,675,007	2,476,253
Appropriations				
Transfer to:				
Statutory reserve	-	-	-	-
Capital reserve	-	-	-	-
Reserve for the issue of bonus shares	-	(516,938)	-	(301,246)
General reserve	-	(800,000)	-	(500,000)
	-	(1,316,938)	-	(801,246)
Unappropriated profit carried forward	2,604,259	2,604,259	1,675,007	1,675,007
Earnings per share (Rupees)	6.44	8.48	4.07	5.34

The annexed notes from 1 to 12 form an integral part of these financial statements.

**INTERIM CONDENSED CASH FLOW STATEMENT  
FOR THE HALF YEAR ENDED JUNE 30, 2006  
(Un-audited)**

	June 30, 2006	June 30, 2005
	(Rupees in thousand)	
<b>Cash flow from operating activities</b>		
Profit before taxation	3,042,147	1,908,299
Less: Dividend income	(1,349,270)	(724,875)
Compensation for delayed assessed Income Tax Refunds	(43,115)	-
	<b>1,649,762</b>	1,183,424
<b>Adjustments for non-cash charges</b>		
Depreciation / amortization	53,647	39,630
Provision against non-performing advances	136,698	48,521
Provision for diminuation in value of investments	-	-
Gain on sale of fixed assets	(632)	(479)
Gain on sale of investment	(34,783)	(200)
Other provisions / direct write offs	1	(4,638)
	<b>154,931</b>	82,834
	<b>1,804,693</b>	1,266,258
<b>(Increase) / decrease in operating assets</b>		
Lendings to financial institutions	937,928	(5,198,251)
Advances	(20,260,460)	(7,450,507)
Other assets (excluding advance taxation)	(756,138)	(405,961)
	<b>(20,078,670)</b>	(13,054,719)
<b>Increase / (decrease) in operating liabilities</b>		
Bills payable	327,589	66,366
Borrowings from financial institutions	(4,097,664)	196,071
Deposits and other accounts	26,006,772	15,756,643
Liability against assets subject to finance lease	(5,406)	(19,806)
Other liabilities (excluding current taxation)	704,930	151,238
	<b>22,936,221</b>	16,150,512
Income tax paid - net	(235,148)	(33,152)
<b>Net cash flow from operating activities</b>	<b>4,427,096</b>	4,328,899
<b>Cash flow from investing activities</b>		
Proceeds from / (Net investments) in held to maturity securities	191,540	1,987,271
Proceeds from / (Net investments) in held for trading securities	50,508	-
Proceeds from / (Net investments) in available for sale securities	(8,778,169)	155,384
Dividend income	70,000	64,792
Investment in operating fixed assets	(206,010)	(46,844)
Sale proceeds of property and equipment disposed off	730	969
<b>Net cash flow (used in) / from investing activities</b>	<b>(8,671,401)</b>	2,161,572
<b>(Decrease) / Increase in cash and cash equivalents</b>	<b>(4,244,305)</b>	6,490,471
<b>Cash and cash equivalents at beginning of the period</b>	<b>18,654,982</b>	7,797,808
<b>Cash and cash equivalents at end of the period</b>	<b>14,410,677</b>	14,288,279
Cash and cash equivalents:		
Cash and balances with treasury banks	12,163,927	7,944,933
Balances with other banks	2,246,750	4,593,346
Money at call lending	-	1,750,000
	<b>14,410,677</b>	14,288,279

The annexed notes from 1 to 12 form an integral part of these financial statements.

**PRESIDENT**

**DIRECTOR**

**DIRECTOR**

**DIRECTOR**

**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED JUNE 30, 2006  
(Un-audited)**

	Share Capital	Capital	Reserve		Issue of bonus shares	Unappropriated Unremitted Profit/(loss)	Total
			Statutory	General			
( Rupees in thousand )							
Balance as at January 01, 2005, as previously reported	1,506,230	2,049	772,000	1,695,350	301,246	143,590	4,420,465
Effect of change in accounting policy with respect to appropriation	-	-	-	(500,000)	(301,246)	801,246	-
Balance as at January 01, 2005 as restated	1,506,230	2,049	772,000	1,195,350	-	944,836	4,420,465
Profit for the half year ended June 30, 2005	-	-	-	-	-	1,531,417	1,531,417
Transfer to General reserve	-	-	-	500,000	-	(500,000)	-
Transfer to Reserve for issue of bonus shares	-	-	-	-	301,246	(301,246)	-
Issue of bonus shares	301,246	-	-	-	(301,246)	-	-
Transfer to reserve for issue of bonus shares	-	-	-	-	542,243	(542,243)	-
Balance as at June 30, 2005 as previously reported	1,807,476	2,049	772,000	1,695,350	542,243	1,132,764	5,951,882
Effect of change in accounting policy with respect to appropriation	-	-	-	-	(542,243)	542,243	-
Balance as at June 30, 2005 as restated	1,807,476	2,049	772,000	1,695,350	-	1,675,007	5,951,882
Transfer to Reserve for issue of bonus shares	-	-	-	-	542,243	(542,243)	-
Issue of bonus shares	542,243	-	-	-	(542,243)	-	-
Profit for the half year ended December 31, 2005	-	-	-	-	-	821,825	821,825
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	-	-	-	-	516,938	(516,938)	-
Balance as at December 31, 2005, as previously reported	2,349,719	2,049	1,243,000	2,495,350	516,938	169,817	6,776,873
Effect of change in accounting policy with respect to appropriation	-	-	-	(800,000)	(516,938)	1,316,938	-
Balance as at December 31, 2005 as restated	2,349,719	2,049	1,243,000	1,695,350	-	1,486,755	6,776,873
Transfer to General reserve	-	-	-	800,000	-	(800,000)	-
Transfer to Reserve for issue of bonus shares	-	-	-	-	516,938	(516,938)	-
Issue of bonus shares	516,938	-	-	-	(516,938)	-	-
Profit for the half year ended June 30, 2006	-	-	-	-	-	2,431,355	2,431,355
Transfer from surplus on Revaluation of Fixed Assets to unappropriated Profit - Net of Tax	-	-	-	-	-	3,087	3,087
<b>Closing Balance as at June 30, 2006</b>	<b>2,866,657</b>	<b>2,049</b>	<b>1,243,000</b>	<b>2,495,350</b>	<b>-</b>	<b>2,604,259</b>	<b>9,211,315</b>

The annexed notes from 1 to 12 form an integral part of these financial statements.



**INTERIM CONDENSED SELECTED NOTES TO THE ACCOUNTS  
FOR THE HALF YEAR ENDED JUNE 30, 2006  
(Un-audited)**

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**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 (2005: 266 branches) in Pakistan and Azad Jammu and Kashmir at the period 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. Statement of compliance**

The financial statements are unaudited and are being presented in a condensed form in accordance with the requirements of International Accounting Standard 34 - "Interim Financial Reporting" and BSD Circular Letter No. 02, dated May 12, 2004, issued by the State Bank of Pakistan.

**3. Basis of measurement**

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**4. Summary of significant accounting policies**

The same accounting policies and methods of computation are followed in the interim condensed financial statements as compared with the most recent annual financial statements except for:

- a) The Institute of Chartered Accountants of Pakistan issued a circular number 06-2006 dated June 19, 2006 which requires that all declarations of dividends to holders of equity instruments including declaration of bonus issues and other appropriations except appropriations which are required by law after the balance sheet date, should not be recognised as liabilities or change in reserves at the balance sheet date. Previously all declarations of dividend to holders of equity instruments and transfers to reserves relating to profit for the year although declared subsequent to year end, were accounted for in the year to which those related. This change has been applied retrospectively and comparatives have been restated and impact of change has been reflected in the statement of changes in equity.

b) Dividend income on mutual funds has been accounted for in the interim condensed profit and loss account, although declared subsequent to the balance sheet date, in accordance with the practice of the Bank. The Bank has been informed by the external auditors that this practice is not in accordance with International Accounting Standard 18 – Revenue, but has decided to continue it pending a definitive clarification from the Institute of Chartered Accountants of Pakistan. Such dividend from mutual funds recognized in the interim condensed financial statements amounts to Rs. (thousands) 1,271,058 (2005: Rs. (thousands) 649,365) consequently increasing the receivables with the same amount along with earnings per share by Rs 4.21 (2005: Rs. 2.15) respectively. Further, due to the above it is the Bank's practice to reduce the surplus on revaluation of assets by the difference in reduction in Net Assets Value (NAV) of the mutual funds as on June 30, 2006 and the NAV following declaration of the dividend. Hence, surplus on revaluation of assets and investments have been reduced by Rs. (thousands) 1,191,923.

The net impact of the above on the net assets of the Bank as at June 30, 2006 is Rs. (thousands) 15,582.

#### 5. Taxation

Provision for taxation has been made on an estimated basis in these financial statements.

#### 6. Investments

	Held by bank	Given as collateral	Total
(Rupees in thousand)			
June 30, 2006 (Un-audited)	24,828,382	-	24,828,382
December 31, 2005 (Audited)	17,676,181	350,000	18,026,181

#### 6.1 Investments by types

Unaudited June 30, 2006			
	Held by bank	Given as collateral	Total
(Rupees in thousand)			
Held-for-Trading securities	1,811	-	1,811
Available-for-sale securities	17,372,865	-	17,372,865
Held-to-maturity securities	3,089,981	-	3,089,981
Subsidiary	164,943	-	164,943
	20,629,600	-	20,629,600
Less : Provision for diminution in value of investments	(400)	-	(400)
Add : Surplus on revaluation of investments	4,199,182	-	4,199,182
Investments ( net of provisions )	24,828,382	-	24,828,382

	<b>Note</b>	<b>(Un-audited) June 30, 2006 (Rupees in thousand)</b>	<b>(Audited) December 31, 2005</b>
<b>7. Advances</b>			
Loans, cash credits, running finances etc- in Pakistan		<b>73,462,586</b>	58,771,710
Net investment in finance lease- in Pakistan Financing under Continuous Funding System		<b>3,268,084 523,465</b>	3,026,657 371,874
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		<b>4,788,735</b>	809,892
Payable outside Pakistan		<b>2,667,935</b>	1,473,375
		<b>7,456,670</b>	2,283,267
		<b>84,710,805</b>	64,453,508
Provision for non-performing advances			
- Specific	7.1	<b>(862,778)</b>	(732,673)
- General	7.2	<b>(100,561)</b>	(97,130)
		<b>(963,339)</b>	(829,803)
		<b>83,747,466</b>	63,623,705

**7.1** Advances include Rs. 1,580 million ( 2005 : 1,359 million ) which have been classified as non-performing in various categories as detailed below:

Category of classification	Domestic	Overseas	Total	Provision Required	Provision Held
	(Rupees in thousand)				
Other assets especially mentioned	95,358	-	95,358	-	-
Substandard	118,732	-	118,732	9,144	9,144
Doubtful	257,246	-	257,246	48,867	48,867
Loss	1,109,210	-	1,109,210	804,767	804,767
	<b>1,580,546</b>	<b>-</b>	<b>1,580,546</b>	<b>862,778</b>	<b>862,778</b>

**7.2** General provision represents provision against consumer financing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan.

## 8. Share Capital

<b>June 30, 2006</b>	December 31, 2005		<b>(Un-audited) June 30, 2006</b>	(Audited) December 31, 2005
(No. of Shares)			(Rupees in thousand)	
		<b>Authorised</b>		
		Ordinary shares of		
<b>1,000,000,000</b>	1,000,000,000	Rs. 10/- each	<b>10,000,000</b>	10,000,000
		<b>Fully paid shares</b>		
		Ordinary shares of		
<b>15,750,000</b>	15,750,000	Rs. 10/- each paid in cash	<b>157,500</b>	157,500
		<b>Bonus shares</b>		
		Opening balance of fully		
		paid bonus shares of		
<b>219,221,860</b>	134,872,988	Rs. 10/- each	<b>2,192,219</b>	1,348,730
		Issued during the year		
		of Rs. 10/- each		
<b>51,693,809</b>	84,348,872		<b>516,938</b>	843,489
<b>286,665,669</b>	234,971,860		<b>2,866,657</b>	2,349,719

## 9. Contingencies and Commitments

### 9.1 Transaction related contingent liabilities

Guarantees favouring		
Government	<b>3,871,963</b>	4,252,433
Banks and financial institutions	<b>222,736</b>	73,495
Others	<b>4,820,179</b>	1,102,738
	<b>8,914,878</b>	5,428,666
Stand by letters of credit favouring others	-	-
	<b>8,914,878</b>	5,428,666

### 9.2 Trade related contingent liabilities

Letters of credit	<b>12,642,057</b>	10,740,452
Acceptances	<b>8,289,224</b>	2,576,582
	<b>20,931,281</b>	13,317,034

### 9.3 Other contingencies

Claims against the bank not acknowledged as debt	<b>399,230</b>	403,484
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### 9.4 Commitments in respect of forward lending

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

	<b>(Un-audited)</b> <b>June 30,</b> <b>2006</b> <b>(Rupees in thousand)</b>	(Audited) December 31, 2005
<b>9.5 Commitments for sale of securities</b>	<b>1,811</b>	43,558
<b>9.6 Commitments in respect of forward exchange contracts</b>		
Purchase	398,483	268,336
Sale	2,756,738	1,569,803
	<b>3,155,221</b>	1,838,139
<b>9.7 Commitments for the acquisition of operating fixed assets</b>	<b>-</b>	8,839
<b>10. Related party transactions</b>		

Related parties comprise subsidiary, companies with common directorship, directors, 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. Amount due from and due to related parties are shown under receivable and payable.

	<b>(Un-audited)</b> <b>June 30, 2006</b> <b>(Rupees in thousand)</b>	
	<b>Advances</b>	<b>Lending to</b>
<b>10.1 Transactions with associated undertaking/ related parties</b>		
<b>Advances / Lending to financial institutions</b>		
Outstanding at the beginning of the period	704,084	-
Made during the period	728,806	11,291,982
Repaid / matured during the period	877,297	11,291,982
Outstanding at the end of period	<b>555,593</b>	-
Markup earned	36,066	4,615
Deposits in current / corporate premier account at the end of period	37,096	-
Security deposits in respect of finance lease	743	-
Lease finance arrangements	7,427	-
Markup paid on deposits during the period	808	-

No provision has been recognised in respect of advances given to related parties

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**10.2** The transactions were carried out at an arm's length in accordance with the accounting policy of the Bank.

Contributions to and accruals in respect of staff retirement plans are made in accordance with actuarial valuation/ terms of contribution plan.

Remuneration to chief executive and executives was paid in accordance with their terms of employment.

Vehicles were sold to certain executives as per the Bank's policy.

**11. Date of authorisation for issue**

The interim condensed financial statements were authorised for issue on August 24, 2006 by the Board of Directors of the Bank.

**12. General**

**12.1** The corresponding figures have been restated due to change in accounting policy as explained in note 4. However, no other significant reclassification has been made during the period.

**12.2** The figures of the profit and loss account for the quarter ended March 31, 2006 and March 31, 2005 have not been subjected to a limited scope review by the auditors.

**12.3** Figures have been rounded off to the nearest thousand.

**PRESIDENT**

**DIRECTOR**

**DIRECTOR**

**DIRECTOR**



**INTERIM CONDENSED CONSOLIDATED BALANCE SHEET**  
**AS AT JUNE 30, 2006**  
**(Un-audited)**

	(Un-audited) June 30, 2006	(Audited) December 31, 2005
Note	(Rupees in thousand)	
<b>ASSETS</b>		
Cash and bank balances with treasury banks	12,163,927	8,787,387
Balances with other banks	2,246,750	9,367,595
Lendings to financial institutions	6,155,752	7,593,681
Investments	6 24,828,382	18,026,181
Advances	7 83,751,966	63,631,205
Other assets	4,077,051	2,036,797
Operating fixed assets	1,867,326	1,715,061
Deferred tax assets	-	-
	<b>135,091,154</b>	111,157,907
<b>LIABILITIES</b>		
Bills payable	805,591	478,090
Borrowings from financial institutions	2,693,343	6,791,007
Deposits and other accounts	114,471,796	88,464,949
Sub-ordinated loans	-	-
Liability against assets subject to finance lease	49,997	55,403
Other liabilities	2,443,604	1,469,868
Deferred tax liabilities	284,067	220,177
	<b>120,748,398</b>	97,479,494
<b>NET ASSETS</b>	<b>14,342,756</b>	13,678,413
<b>REPRESENTED BY</b>		
Share capital	8 2,866,657	2,349,719
Reserves	3,740,399	2,940,399
Unappropriated profit	2,614,251	1,495,054
	<b>9,221,307</b>	6,785,172
Surplus on revaluation of assets	5,121,449	6,893,241
<b>Contingencies and commitments</b>	9 <b>14,342,756</b>	13,678,413

The annexed notes from 1 to 12 form an integral part of these financial statements.

**16**      **PRESIDENT**                      **DIRECTOR**                      **DIRECTOR**                      **DIRECTOR**



**INTERIM CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE HALF YEAR ENDED JUNE 30, 2006  
(Un-audited)**

	Quarter ended June 30, 2006	Half year ended June 30, 2006	Quarter ended June 30, 2005	Half year ended June 30, 2005
	(Rupees in thousand)			
Mark-up / return / interest earned	2,774,091	5,119,500	1,381,035	2,404,372
Mark-up / return / interest expensed	1,696,507	3,124,717	493,278	833,651
Net mark-up / return / interest income	1,077,584	1,994,783	887,757	1,570,721
Provision against non-performing loans and advances	37,751	136,698	40,617	48,521
Provision for diminution in the value of investments	-	-	-	-
Bad debts written off directly	(1,050)	1	-	458
	36,701	136,699	40,617	48,979
Net mark-up / return / interest income after provisions	1,040,883	1,858,084	847,140	1,521,742
<b>NON MARK UP / INTEREST INCOME</b>				
Fee, commission and brokerage income	162,633	256,659	49,360	101,036
Dividend income	1,273,680	1,349,270	684,835	724,875
Income from dealing in foreign currencies	42,266	73,878	21,075	25,740
Other income	109,142	291,121	38,069	98,876
Total non mark-up / interest income	1,587,721	1,970,928	793,339	950,527
	2,628,604	3,829,012	1,640,479	2,472,269
<b>NON MARK UP / INTEREST EXPENSES</b>				
Administrative expenses	407,121	783,747	301,403	567,225
Other provisions / write offs	-	-	(5,096)	(5,096)
Other charges	7	26	61	61
Total non mark-up / interest expenses	407,128	783,773	296,368	562,190
Extraordinary / unusual items	-	-	-	-
<b>PROFIT BEFORE TAXATION</b>	2,221,476	3,045,239	1,344,111	1,910,079
Taxation - Current	310,800	548,301	239,508	441,108
- Prior years	-	-	(55,527)	(55,527)
- Deferred	63,890	63,890	(7,591)	(7,591)
	374,690	612,191	176,390	377,990
<b>PROFIT AFTER TAXATION</b>	1,846,786	2,433,048	1,167,721	1,532,089
Unappropriated profit brought forward	764,378	1,495,054	514,073	950,951
Transfer from Surplus on Revaluation of Fixed Assets - Net of Tax	3,087	3,087	-	-
	767,465	1,498,141	514,073	950,951
Profit available for appropriation	2,614,251	3,931,189	1,681,794	2,483,040
Appropriations				
Transfer to:				
Statutory reserve	-	-	-	-
Capital reserve	-	-	-	-
Reserve for the issue of bonus shares	-	516,938	-	301,246
General reserve	-	800,000	-	500,000
	-	1,316,938	-	801,246
Unappropriated profit brought forward	2,614,251	2,614,251	1,681,794	1,681,794
Earnings per share (Rupees)	6.44	8.49	4.07	5.34

The annexed notes from 1 to 12 form an integral part of these financial statements.

**PRESIDENT**

**DIRECTOR**

**DIRECTOR**

**DIRECTOR**

**17**

**INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE HALF YEAR ENDED JUNE 30, 2006  
(Un-audited)**

	June 30, 2006	June 30, 2005
	(Rupees in thousand)	
<b>Cash flow from operating activities</b>		
Profit before taxation	3,045,239	1,910,079
Less: Dividend income	(1,349,270)	(724,875)
Compensation for delayed assessed Income Tax Refunds	(43,115)	-
	<u>1,652,854</u>	<u>1,185,204</u>
<b>Adjustments for non-cash charges</b>		
Depreciation / amortization	53,647	39,630
Provision against non-performing advances	136,698	48,521
Provision for diminuation in value of investments	-	-
Gain on sale of fixed assets	(632)	(479)
Gain on sale of investment	(34,783)	(200)
Other provisions / direct write offs	1	(4,638)
	<u>154,931</u>	<u>82,834</u>
	<u>1,807,785</u>	<u>1,268,038</u>
<b>(Increase) / decrease in operating assets</b>		
Lendings to financial institutions	937,928	(5,198,251)
Advances	(20,257,460)	(7,450,507)
Other assets (excluding advance taxation)	(760,984)	(407,546)
	<u>(20,080,516)</u>	<u>(13,056,304)</u>
<b>Increase / (decrease) in operating liabilities</b>		
Bills payable	327,500	66,366
Borrowings from financial institutions	(4,097,664)	196,071
Deposits and other accounts	26,006,847	15,756,661
Liability against assets subject to finance lease	(5,406)	(19,806)
Other liabilities (excluding current taxation)	705,201	151,021
	<u>22,936,478</u>	<u>16,150,313</u>
Income tax paid - net	(236,651)	(33,152)
	<u>4,427,096</u>	<u>4,328,895</u>
<b>Net cash flow from operating activities</b>	<u>4,427,096</u>	<u>4,328,895</u>
<b>Cash flow from investing activities</b>		
Proceeds / (Net investments) in held to maturity securities	191,540	1,987,271
Proceeds / (Net investments) in held for trading securities	50,508	-
Proceeds / (Net investments) in available for sale securities	(8,778,169)	155,384
Dividend income	70,000	64,792
Investment in operating fixed assets	(206,010)	(46,844)
Sale proceeds of property and equipment disposed off	730	969
	<u>(8,671,401)</u>	<u>2,161,572</u>
<b>Net cash flow from investing activities</b>	<u>(8,671,401)</u>	<u>2,161,572</u>
<b>Increase in cash and cash equivalents</b>	<u>(4,244,305)</u>	<u>6,490,467</u>
<b>Cash and cash equivalents at beginning of the period</b>	<u>18,654,982</u>	<u>7,797,833</u>
<b>Cash and cash equivalents at end of the period</b>	<u>14,410,677</u>	<u>14,288,300</u>
<b>Cash and cash equivalents:</b>		
Cash and balances with treasury banks	12,163,927	7,944,954
Balances with other banks	2,246,750	4,593,346
Money at call lending	-	1,750,000
	<u>14,410,677</u>	<u>14,288,300</u>

The annexed notes from 1 to 12 form an integral part of these financial statements.

**INTERIM CONDENSED CONSOLIDATED  
STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF YEAR ENDED JUNE 30, 2006 (Un-audited)**

	Share Capital	Capital	Reserve		Issue of bonus shares	Unappropriated Unremitted Profit/(loss)	Total
			Statutory	General			
( Rupees in thousand )							
Balance as at January 01, 2005, as previously reported	1,506,230	2,049	772,000	1,695,350	301,246	149,705	4,426,580
Effect of change in accounting policy with respect to appropriation	-	-	-	(500,000)	(301,246)	801,246	-
Balance as at January 01, 2005 as restated	1,506,230	2,049	772,000	1,195,350	-	950,951	4,426,580
Transfer to General reserve	-	-	-	500,000	-	(500,000)	-
Transfer to Reserve for issue of bonus shares	-	-	-	-	301,246	(301,246)	-
Profit for the half year ended June 30, 2005	-	-	-	-	-	1,532,089	1,532,089
Issue of bonus shares	301,246	-	-	-	(301,246)	-	-
Transfer to reserve for issue of bonus shares	-	-	-	-	542,243	(542,243)	-
Balance as at June 30, 2005 as previously reported	1,807,476	2,049	772,000	1,695,350	542,243	1,139,551	5,958,669
Effect of change in accounting policy with respect to appropriation	-	-	-	-	(542,243)	542,243	-
Balance as at June 30, 2005 as restated	1,807,476	2,049	772,000	1,695,350	-	1,681,794	5,958,669
Transfer to Reserve for issue of bonus shares	-	-	-	-	542,243	(542,243)	-
Profit for the half year ended December 31, 2005	-	-	-	-	-	823,337	823,337
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	-	-	-	-	516,938	(516,938)	-
Issue of bonus shares	542,243	-	-	-	(542,243)	-	-
Balance as at December 31, 2005, as previously reported	2,349,719	2,049	1,243,000	2,495,350	516,938	178,116	6,785,172
Effect of change in accounting policy with respect to appropriation	-	-	-	(800,000)	(516,938)	1,316,938	-
Balance as at December 31, 2005 as restated	2,349,719	2,049	1,243,000	1,695,350	-	1,495,054	6,785,172
Transfer to General reserve	-	-	-	800,000	-	(800,000)	-
Transfer to Reserve for issue of bonus shares	-	-	-	-	516,938	(516,938)	-
Issue of bonus shares	516,938	-	-	-	(516,938)	-	-
Profit for the half year ended June 30, 2006	-	-	-	-	-	2,433,048	2,433,048
Transfer from surplus on Revaluation of Fixed Assets to unappropriated Profit - Net of Tax	-	-	-	-	-	3,087	3,087
<b>Closing Balance as at June 30, 2006</b>	<b>2,866,657</b>	<b>2,049</b>	<b>1,243,000</b>	<b>2,495,350</b>	<b>-</b>	<b>2,614,251</b>	<b>9,221,307</b>

The annexed notes from 1 to 12 form an integral part of these financial statements.

**PRESIDENT**

**DIRECTOR**

**DIRECTOR**

**DIRECTOR**

**SELECTED NOTES TO THE CONSOLIDATED ACCOUNTS  
FOR THE HALF YEAR ENDED JUNE 30, 2006  
(Un-audited)**

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**1. Status and nature of business**

The Bank of Punjab Group comprises of The Bank of Punjab and Punjab Modaraba Services (Pvt.) Limited. 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 (2005: 266 branches) in Pakistan and Azad Jammu and Kashmir at the period 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. The Punjab Modaraba Services (Pvt.) Limited is a wholly owned subsidiary of The Bank of Punjab and is primarily engaged in the business of floating and managing modarabas.

**2. Statement of compliance**

These consolidated financial statements of The Bank of Punjab Group include The Bank of Punjab and its wholly owned subsidiary Punjab Modaraba Services (Pvt.) Limited. The financial statements are unaudited and are being presented in a condensed form in accordance with the requirements of International Accounting Standard 34 - "Interim Financial Reporting" and BSD Circular Letter No. 02, dated May 12, 2004, issued by the State Bank of Pakistan.

**3. Basis of measurement**

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**4. Summary of significant accounting polices**

The same accounting policies and methods of computation are followed in the interim condensed consolidated financial statements as compared with the most recent annual financial statements except for:

- a) The Institute of Chartered Accountants of Pakistan issued a circular number 06-2006 dated June 19, 2006 which requires that all declarations of dividends to holders of equity instruments including declaration of bonus issues and other appropriations except appropriations which are required by law after the balance sheet date, should not be recognised as liabilities or change in reserves at the balance sheet date. Previously all declarations of dividend to holders of equity instruments and transfers to reserves relating to profit for the year although declared subsequent to year end, were accounted for in the year to which those related. This change has been applied retrospectively and comparatives have been restated and impact of change has been reflected in the statement of changes in equity.

- b) Dividend income on mutual funds has been accounted for in the interim condensed consolidated profit and loss account, although declared subsequent to the balance sheet date, in accordance with the practice of the Bank. The Bank has been informed by the external auditors that this practice is not in accordance with International Accounting Standard 18 – Revenue, but has decided to continue it pending a definitive clarification from the Institute of Chartered Accountants of Pakistan. Such dividend from mutual funds recognized in the interim condensed financial statements amounts to Rs. (thousands) 1,271,058 (2005: Rs. (thousands) 649,365) consequently increasing the receivables with the same amount alongwith earnings per share by Rs 4.21 (2005: Rs. 2.15) respectively. Further, due to the above it is the Bank's practice to reduce the surplus on revaluation of assets by the difference in reduction in Net Assets Value (NAV) of the mutual funds as on June 30, 2006 and the NAV following declaration of the dividend. Hence, surplus on revaluation of assets and investments have been reduced by Rs. (thousands) 1,191,923.

The net impact of the above on the net assets of the Bank as at June 30, 2006 is Rs. (thousands) 15,582.

## 5. Taxation

Provision for taxation has been made on an estimated basis in these financial statements.

## 6. Investments

	Held by bank	Given as collateral	Total
	(Rupees in thousand)		
June 30, 2006 (Un-audited)	24,828,382	-	24,828,382
December 31, 2005 (Audited)	17,676,181	350,000	18,026,181

### 6.1 Investments by types Unaudited

	Unaudited June 30, 2006		
	Held by bank	Given as collateral	Total
	(Rupees in thousand)		
Held-for-Trading securities	1,811	-	1,811
Available-for-sale securities	17,372,865	-	17,372,865
Held-to-maturity securities	3,089,981	-	3,089,981
Associates	164,943	-	164,943
	20,629,600	-	20,629,600
Less : Provision for diminution in value of investments	(400)	-	(400)
Add : Surplus on revaluation of investments	4,199,182	-	4,199,182
Investments ( net of provisions )	24,828,382	-	24,828,382

	Note	(Un-audited) June 30, 2006 (Rupees in thousand)	(Audited) December 31, 2005
<b>7. Advances</b>			
Loans, cash credits, running finances etc- in Pakistan		73,467,086	58,779,210
Net investment in finance lease- in Pakistan Financing under Continuous Funding System		3,268,084 523,465	3,026,657 371,874
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		4,788,735	809,892
Payable outside Pakistan		2,667,935	1,473,375
		7,456,670	2,283,267
		84,715,305	64,461,008
Provision for non-performing advances			
- Specific	7.1	(862,778)	(732,673)
- General	7.2	(100,561)	(97,130)
		(963,339)	(829,803)
		83,751,966	63,631,205

7.1 Advances include Rs. 1,580 million ( 2005 : 1,359 million ) which have been classified as non-performing in various categories as detailed below:

Category of classification	Domestic	Overseas	Total	Provision Required	Provision Held
	(Rupees in thousand)				
Other assets especially mentioned	95,358	-	95,358	-	-
Substandard	118,732	-	118,732	9,144	9,144
Doubtful	257,246	-	257,246	48,867	48,867
Loss	1,109,210	-	1,109,210	804,767	804,767
	1,580,546	-	1,580,546	862,778	862,778

7.2 General provision represents provision against consumer financing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan.

## 8. Share Capital

June 30, 2006 (No. of Shares)	December 31, 2005	(Un-audited) June 30, 2006 (Rupees in thousand)	(Audited) December 31, 2005
<b>Authorised</b>			
1,000,000,000	1,000,000,000	10,000,000	10,000,000
<b>Fully paid shares</b>			
15,750,000	15,750,000	157,500	157,500
<b>Bonus shares</b>			
219,221,860	134,872,988	2,192,219	1,348,730
51,693,809	84,348,872	516,938	843,489
286,665,669	234,971,860	2,866,657	2,349,719

	<b>(Un-audited)</b> <b>June 30,</b> <b>2006</b> <b>(Rupees in thousand)</b>	(Audited) December 31, 2005
<b>9. Contingencies and Commitments</b>		
<b>9.1 Transaction related contingent liabilities</b>		
Guarantees favouring		
Government	3,871,963	4,252,433
Banks and financial institutions	222,736	73,495
Others	4,820,179	1,102,738
	<b>8,914,878</b>	5,428,666
Stand by letters of credit favouring others	-	-
	<b>8,914,878</b>	5,428,666
<b>9.2 Trade related contingent liabilities</b>		
Letters of credit	12,642,057	10,740,452
Acceptances	8,289,224	2,576,582
	<b>20,931,281</b>	13,317,034
<b>9.3 Other contingencies</b>		
Claims against the bank not acknowledged as debt	399,230	403,484
<b>9.4 Commitments in respect of forward lending</b>		
The Bank makes commitments to extend credit in normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
<b>9.5 Commitments for sale of securities</b>	<b>1,811</b>	43,558
<b>9.6 Commitments in respect of forward exchange contracts</b>		
Purchase	398,483	268,336
Sale	2,756,738	1,569,803
	<b>3,155,221</b>	1,838,139
<b>9.7 Commitments for the acquisition of operating fixed assets</b>	-	8,839
<b>10. Related party transactions</b>		
Related parties comprise subsidiary, companies with common directorship, directors, 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. Amount due from and due to related parties are shown under receivable and payable.		

		(Un-audited) June 30, 2006 (Rupees in thousand)	
		Advances	Lending to
<b>10.1</b>	<b>Transactions with associated undertaking/ related parties</b>		
	<b>Advances / Lending to financial institutions</b>		
	Outstanding at the beginning of the period	704,084	-
	Made during the period	728,806	11,291,982
	Repaid / matured during the period	877,297	11,291,982
	Outstanding at the end of period	555,593	-
	Markup earned	36,066	4,615
	Deposits in current / corporate premier account at the end of period	37,096	-
	Security deposits in respect of finance lease	743	-
	Lease finance arrangements	7,427	-
	Markup paid on deposits during the period	808	-

No provision has been recognised in respect of advances given to related parties

**10.2 Dividend Income from Subsidiary**

Share deposit money paid during the period - -

**10.3** The transactions were carried out at an arm's length in accordance with the accounting policy of the Bank.

Contributions to and accruals in respect of staff retirement plans are made in accordance with actuarial valuation/ terms of contribution plan.

Remuneration to chief executive and executives was paid in accordance with their terms of employment.

Vehicles were sold to certain executives as per the Bank's policy.

**11. Date of authorisation for issue**

The interim condensed financial statements were authorised for issue on August 24, 2006 by the Board of Directors of the Bank.

**12. General**

**12.1** The corresponding figures have been restated due to change in accounting policy as explained in note 4. However, no other significant reclassification has been made during the period.

**12.2** The figures of the profit and loss account for the quarter ended March 31, 2006 and March 31, 2005 have not been subjected to a limited scope review by the auditors.

**12.3** Figures have been rounded off to the nearest thousand.

**PRESIDENT**

**DIRECTOR**

**DIRECTOR**

**DIRECTOR**