

Citibank, N.A. - Pakistan Branches

(Incorporated in the U.S.A. the liability of members being limited)

Balance Sheet

As at 31 December 2006

	Note	2006 (Rupees in '000)	2005
ASSETS			
Cash and balances with treasury banks	6	5,881,934	8,383,947
Balances with other banks	7	2,975,916	729,186
Lendings to financial institutions	8	3,831,005	4,796,504
Investments	9	21,937,387	19,845,100
Advances	10	51,289,271	39,163,339
Operating fixed assets	11	1,186,499	340,656
Deferred tax assets - net	12	828,544	573,115
Other assets	13	3,385,882	2,641,794
		91,316,438	76,473,641
LIABILITIES			
Bills payable	15	1,212,275	1,436,826
Borrowings	16	15,409,454	12,612,553
Deposits and other accounts	17	63,103,884	53,115,538
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	18	5,562,319	3,603,014
		85,287,932	70,767,931
NET ASSETS		6,028,506	5,705,710
REPRESENTED BY			
Head office capital account	19	3,794,244	3,742,948
Reserves		-	-
Unremitted profit		2,274,831	2,007,769
		6,069,075	5,750,717
Deficit on revaluation of securities	20	(40,569)	(45,007)
		6,028,506	5,705,710
CONTINGENCIES AND COMMITMENTS		21	

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

Zubyr Soomro
Chief Executive

Ahsan Akhtar
Chief Financial Officer

Citibank, N.A. - Pakistan Branches

(Incorporated in the U.S.A. the liability of members being limited)

Profit and Loss Account

For the year ended 31 December 2006

	Note	2006	2005
		(Rupees in '000)	
Mark-up/Return/Interest Earned	23	9,017,327	5,635,170
Mark-up/Return/Interest Expensed	24	4,113,089	2,035,755
Net Mark-up/ Interest Income		4,904,238	3,599,415
Provision against non-performing loans and advances - net	10.3	290,444	457,742
Provision for diminution in the value of investments	9.3	50,000	-
Bad debts written off directly	10.4.1	614,765	169,208
		955,209	626,950
Net Mark-up/ Interest Income after provisions		3,949,029	2,972,465
NON MARK-UP/INTEREST INCOME			
Fee, Commission and Brokerage Income		1,648,434	1,804,183
Dividend income		8,995	-
Income from dealing in foreign currencies		427,746	451,897
Gain on sale of securities	25	5,434	79,678
Unrealized gain on revaluation of investments classified as held for trading	9.4	4,210	8,543
Other income	26	579,791	248,450
Total non-mark-up/Interest Income		2,674,610	2,592,751
		6,623,639	5,565,216
NON MARK-UP/INTEREST EXPENSES			
Administrative expenses	27	4,053,108	2,962,639
(Reversal) / Provision for diminution in the value of non-banking assets - net	13.2	(5,408)	6,750
Operating fixed assets written off		638	1,265
Other charges	28	140	672
Total non-mark-up/Interest expenses		4,048,478	2,971,326
		2,575,161	2,593,890
Extra ordinary/unusual items		-	-
PROFIT BEFORE TAXATION		2,575,161	2,593,890
Taxation - Current		1,332,650	1,221,374
- Prior years		(141,594)	-
- Deferred		(261,169)	(135,738)
	29	929,887	1,085,636
PROFIT AFTER TAXATION		1,645,274	1,508,254

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

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Citibank, N.A. - Pakistan Branches

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Statement of Changes in Equity

For the year ended 31 December 2006

	Head office capital account	Unremitted profit	Total
	------(Rupees in '000)-----		
Balance at 1 January 2005	3,722,432	2,450,271	6,172,703
Profit for the year ended 31 December 2005	-	1,508,254	1,508,254
Remittances made to head office	-	(1,950,756)	(1,950,756)
Exchange adjustments on revaluation of capital	20,516	-	20,516
Balance at 31 December 2005	3,742,948	2,007,769	5,750,717
Profit for the year ended 31 December 2006	-	1,645,274	1,645,274
Remittances made to head office	-	(1,378,212)	(1,378,212)
Exchange adjustments on revaluation of capital	51,296	-	51,296
Balance at 31 December 2006	<u>3,794,244</u>	<u>2,274,831</u>	<u>6,069,075</u>

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

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Citibank, N.A. - Pakistan Branches

(Incorporated in the U.S.A. the liability of members being limited)

Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 (Rupees in '000)	2005
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		2,575,161	2,593,890
Less: Dividend income		(8,995)	-
		<u>2,566,166</u>	<u>2,593,890</u>
Adjustments:			
Depreciation		159,232	125,306
Amortization		2,396	-
Provision for diminution in the value of investments		50,000	-
Provision against non-performing advances - net		290,444	457,742
(Reversal) / provision for diminution in the value of non-banking assets-net		(5,408)	6,750
Unrealized gain on revaluation of held for trading investments		(4,210)	(8,543)
Bad debts written off directly		614,765	169,208
Charge for defined benefit plan		33,062	36,792
Gain on sale of fixed assets		(4,874)	(10,713)
Lease rentals		6,506	3,565
Operating fixed assets written off		638	1,265
		<u>1,142,551</u>	<u>781,372</u>
		<u>3,708,717</u>	<u>3,375,262</u>
(Increase) / Decrease in operating assets			
Lendings to financial institutions		965,499	7,445,433
Held-for-trading securities		818,276	(2,111,986)
Advances		(13,031,141)	(6,782,718)
Others assets (excluding advance taxation)		(738,680)	(966,540)
		<u>(11,986,046)</u>	<u>(2,415,811)</u>
Increase / (Decrease) in operating liabilities			
Bills payable		(224,551)	449,558
Borrowings		2,782,475	2,804,103
Deposits and other accounts		9,988,346	6,012,710
Other liabilities (excluding current taxation and payable to defined benefit plan)		1,190,680	1,144,740
		<u>13,736,950</u>	<u>10,411,111</u>
		<u>5,459,621</u>	<u>11,370,562</u>
Contribution to gratuity fund		(23,699)	(49,315)
Income tax paid		(431,794)	(78,389)
Net cash flow from operating activities		<u>5,004,128</u>	<u>11,242,858</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(2,946,175)	(16,841,195)
Dividend income		8,995	-
Investments in operating fixed assets		(1,027,703)	(188,543)
Sale proceeds from disposal of property and equipment		24,468	20,060
Net cash flow used in investing activities		<u>(3,940,415)</u>	<u>(17,009,678)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Payments of lease obligations		(6,506)	(3,565)
Remittances made to head office		(1,378,212)	(1,950,756)
Net cash flow used in financing activities		<u>(1,384,718)</u>	<u>(1,954,321)</u>
Effects of exchange rate changes on cash and cash equivalents		51,296	20,516
(Decrease) in cash and cash equivalents		<u>(269,709)</u>	<u>(7,700,625)</u>
Cash and cash equivalents at beginning of the year	31	9,113,133	16,813,758
Cash and cash equivalents at end of the year	31	<u>8,843,424</u>	<u>9,113,133</u>

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

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Chief Executive

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Chief Financial Officer

Citibank, N.A. - Pakistan Branches

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Notes to the Financial Statements

For the year ended 31 December 2006

1. STATUS AND NATURE OF BUSINESS

Citibank, N.A. - Pakistan Branches (the bank) operates as a branch of a foreign entity. Citibank, N.A., is incorporated and domiciled in the U.S.A., and is a member of Citigroup, which is the ultimate holding company of the bank.

The bank is engaged in banking activities permissible under the Banking Companies Ordinance, 1962. Its registered office is at State Life Building No.1, I.I. Chundrigar Road, Karachi and presently operates through 18 branches (2005: 10 branches) in Pakistan.

2. BASIS OF PRESENTATION

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

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan (SBP) differ with requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence.

The State Bank of Pakistan has deferred the applicability of International Accounting Standard 39- Financial instruments : Recognition and Measurement (IAS 39) and International Accounting Standard 40 - Investment Property (IAS 40) through BSD Circular No. 10 dated 26 August 2002. Accordingly, the requirements of these standards have not been considered in preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention as modified by revaluation of investments and derivative financial instruments which are stated at their fair values.

4.1 Use of accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires management to exercise judgement in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgements were made by the management in the application of accounting policies are disclosed in note 42 to these financial statements.

4.2 Functional currency and presentation currency

These financial statements are presented in Pakistan Rupees which is the bank's functional and presentation currency. All financial information presented in Pakistan Rupees have been rounded to nearest thousand.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented.

5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash and balances with treasury banks, balances with other banks and overdrawn nostro accounts.

5.2 Lendings to / Borrowings from financial institutions

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet and are measured in accordance with the accounting policies for investment securities. The counterparty liability for amounts received under these agreements is included in borrowings from financial institutions. The difference between sale and repurchase price is recognised over the period of transaction as mark-up / return / interest expense using the effective interest method.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized as investments in the balance sheet. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is recognised over the period of transaction as mark-up / return / interest using the effective interest method.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability under borrowings from financial institutions.

5.3 Investments

The bank classifies its investments as follows:

(a) Held for trading

These are securities, which are either acquired for generating a profit from short-term

fluctuation in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit making exists.

(b) Held to maturity

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

(c) Available for sale

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

In accordance with the requirements of the State Bank of Pakistan, quoted securities other than those classified under held to maturity portfolio are stated at fair value. Held to maturity securities are carried at amortised cost.

The difference between the face value and purchase price is amortised over the remaining life of the investment using effective yield method, in order to determine amortised cost.

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. Surplus / deficit arising on revaluation of the bank's held for trading investment portfolio is taken to the profit and loss account.

Investment in unquoted equity securities are stated at cost less impairment. Provision for impairment in value, if any, is taken to income currently.

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

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised using trade date method of accounting.

5.4 Advances

Advances are stated net of general and specific provision.

Provisions for non-performing advances (and relevant mark-up) are made in accordance with the requirements of Prudential Regulations issued by the State Bank of Pakistan.

Corporate advances are written off when there is no realistic prospect of recovery. Consumer advances are generally written off not later than a pre-determined number of days past due, primarily on a contractual basis, or when warranted.

5.5 Operating fixed assets

Tangible

Fixed assets are carried at cost less accumulated depreciation and impairment losses, if any. The cost of fixed assets is depreciated over the useful lives of the related assets using the straight line method at the rates specified in note 11.2

Residual values, useful lives and depreciation methods are reviewed and adjusted, if required, at each balance sheet date.

Repairs and maintenance are charged to income as and when incurred. Renewals and improvements are capitalized.

Gains and losses on disposal of fixed assets are included in income currently.

Capital work in progress is stated at cost.

Intangible

Intangible assets are carried at cost less accumulated amortization and impairment losses, if any. The cost of the intangible assets is amortized over the useful lives of the related assets using the straight line method.

5.6 Impairment

The carrying amount of assets are reviewed at each balance sheet date for impairment or 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.

5.7 Taxation

Income tax expense comprises of current and deferred tax and is recognised in profit and loss account except to the extent that it relates to items which are directly recognised in equity, for all such cases, the relating income tax is also directly recognised in equity.

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits available, if any. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments / developments made during the year.

Deferred

Deferred tax is recognised using balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is calculated at the rates that are expected to apply to the period when the differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

5.8 Provisions

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

Provision for guarantee claims and other off balance sheet obligations are recognised when intimated and reasonable certainty exists for the bank to settle the obligation. Charge to profit and loss account is stated net of expected recoveries.

5.9 Staff retirement benefits

Defined benefit plan

The bank operates an approved funded gratuity scheme for all its permanent employees. Expenses relating to the scheme are recognized and contributions to the fund are made based on actuarial recommendations.

A portion of actuarial gains and losses is recognised over the expected average remaining working lives of employees if the net cumulative unrecognised actuarial gains and losses at the end of previous reporting period exceed the "corridor" defined as greater of:

- (a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets), and
- (b) 10% of the fair values of any plan assets at that date.

The most recent actuarial valuation was carried out as at 31 December 2006 using the Projected Unit Credit Actuarial Cost method.

Defined contribution plan

The bank also operates an approved provident fund for all its permanent employees. Equal monthly contributions to the fund are made both by the bank and its employees.

5.10 Revenue recognition

Mark-up / return / interest on advances and investments is recognized on an accrual basis using effective interest method, except in the case of non-performing advances where income is recognised on receipt basis in compliance with the Prudential Regulations issued by the State Bank of Pakistan. Fee and commission are recognised as and when services are performed.

Dividend income is recognised when the bank's right to receive the benefit has been established.

5.11 Derivative financial instruments

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

5.12 Foreign currencies

Foreign currency transactions are recorded at the rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are revalued daily into rupees using spot exchange rates published by the State Bank of Pakistan. The fair value of forward foreign exchange instruments is equivalent to their unrealized gain or loss from marking to market the instrument using forward rates applicable to their respective remaining maturities. Exchange gains and losses are included in income currently, except for gain or loss arising on revaluation of capital account which is taken to equity.

5.13 Segment Reporting

A segment is a distinguishable component of the bank that is engaged either in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments. The operations of the bank are currently based in Pakistan, therefore geographical segment is not relevant.

Business Segments

Trading and Sales

It includes fixed income, foreign exchange, funding, own position securities, lending, borrowing and derivatives.

Retail Banking

It includes retail lending, deposits, banking services and credit card business.

Corporate Banking

Corporate banking includes syndicated financing and services provided in connection with merger and acquisitions, project finance, export finance, trade finance, short-term and long-term lending, bill discounting and negotiation, letter of credit, acceptances, guarantees and deposits.

5.14 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognized amounts and the bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

5.15 Assets acquired in satisfaction of claims

The bank occasionally acquires vehicles and other assets in settlement of certain advances. These are stated at the lower of related advances and the current fair value of such assets. Gains or losses on disposal and unrealized losses on revaluation are recognized in income currently.

5.16 Acceptances

Acceptances comprise undertakings by the bank to pay bills of exchange drawn on customers. The bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

6. CASH AND BALANCES WITH TREASURY BANKS	<i>Note</i>	2006 (Rupees in '000)	2005
In hand			
Local currency		874,001	544,534
Foreign currencies		440,791	228,249
		1,314,792	772,783
With State Bank of Pakistan in			
Local currency current account	6.1	2,639,216	2,413,107
Foreign currency current account		123,397	11,892
		2,762,613	2,424,999
Foreign currency deposit accounts			
Capital with State Bank of Pakistan	19	421,872	3,613,211
Cash reserve account - non-remunerative		347,187	403,070
Special cash reserve account - remunerative	6.2	1,035,470	1,134,566
		1,804,529	5,150,847
With National Bank of Pakistan in			
Local currency current account		-	35,318
		5,881,934	8,383,947

6.1 This represents current account maintained with State Bank of Pakistan under the requirements of section 22 of the Banking Companies Ordinance, 1962.

6.2 This represents special cash reserve maintained against foreign currency deposits mobilised under FE 25 Circular issued by the State Bank of Pakistan and is remunerated at the rate declared by the State Bank of Pakistan on a monthly basis.

7. BALANCES WITH OTHER BANKS	<i>Note</i>	2006 (Rupees in '000)	2005
In Pakistan			
In current accounts		76,770	83,605
Outside Pakistan			
In current accounts	7.1	462,746	277,981
In deposit accounts	7.2	2,436,400	367,600
		2,899,146	645,581
		2,975,916	729,186

7.1 This includes balance of Rs. 460.399 million (2005: Rs. 277.589 million) held with branches of Citibank, N.A. outside Pakistan.

7.2 This represent amounts placed with a branch of Citibank, N.A. outside Pakistan carrying mark-up at 5.17% (2005: 3%) per annum having maturity period of upto one month.

8. LENDINGS TO FINANCIAL INSTITUTIONS

Note 2006 2005
(Rupees in '000)

Call money lendings	8.1	600,000	-
Repurchase agreement lendings (Reverse Repos)	8.2 & 8.4	3,231,005	4,796,504
		3,831,005	4,796,504

8.1 These carry mark-up at rates ranging from 10% to 10.05% per annum having maturity period of upto one month.

8.2 These carry mark-up at rates ranging from 8.6% to 9.95% (2005: 7.75% to 8.15%) per annum having maturity period of upto three months.

8.3 Particulars of lendings to financial institutions

In local currency		3,831,005	4,796,504
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8.4 Securities held as collateral against lendings to financial institutions

Note	2006			2005		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	------(Rupees in '000)-----					
Market Treasury Bills	464,106	1,416,842	1,880,948	3,496,372	-	3,496,372
Pakistan Investment Bonds	850,057	500,000	1,350,057	877,031	423,101	1,300,132
	1,314,163	1,916,842	3,231,005	4,373,403	423,101	4,796,504

9. INVESTMENTS

	2006			2005		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	------(Rupees in '000)-----					

9.1 Investments by types

Held-for-trading securities

Market Treasury Bills	467,284	-	467,284	2,218,519	-	2,218,519
Pakistan Investment Bonds	842,277	99,225	941,502	-	-	-
	1,309,561	99,225	1,408,786	2,218,519	-	2,218,519

Available-for-sale securities

Market Treasury Bills	8,278,257	8,095,434	16,373,691	4,374,413	10,265,476	14,639,889
Pakistan Investment Bonds	3,322,712	890,402	4,213,114	3,000,741	-	3,000,741
Unlisted shares	52,000	-	52,000	52,508	-	52,508
	11,652,969	8,985,836	20,638,805	7,427,662	10,265,476	17,693,138

Investments at cost	12,962,530	9,085,061	22,047,591	9,646,181	10,265,476	19,911,657
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Less: Provision for Diminution in value of Investments

9.3	52,000	-	52,000	2,508	-	2,508
	12,910,530	9,085,061	21,995,591	9,643,673	10,265,476	19,909,149

Investments - (net of provisions)

Surplus on revaluation of						
Held-for-trading securities	9.4	3,868	342	4,210	8,543	-
(Deficit) / surplus on revaluation of						
available-for-sale securities	20	(65,028)	2,614	(62,414)	(59,297)	(13,295)
Total investments at market value		12,849,370	9,088,017	21,937,387	9,592,919	10,252,181

9.2	Investments by segments	Note	2006 (Rupees in '000)	2005
	Federal Government Securities:			
	Market Treasury Bills	9.5	16,840,975	16,858,408
	Pakistan Investment Bonds	9.6 & 9.7	5,154,616	3,000,741
			<u>21,995,591</u>	<u>19,859,149</u>
	Fully Paid up Ordinary Shares:			
	Unlisted companies			
	Khushhali Bank			
	50 (2005: 50) fully paid-up ordinary shares of Rs.1,000,000/- each		50,000	50,000
	Chief Executive - Mr. Ghalib Nishtar			
	Arabian Sea Country Club			
	200,000 (2005: 200,000) fully paid-up ordinary shares of Rs.10/- each		2,000	2,000
	Chief Executive - Mr. Arif Ali Khan Abbasi			
	Investment Corporation of Pakistan			
	Nil (2005: 7,935) fully paid-up ordinary shares of Rs.100/- each		-	508
	Chief Executive - Mr. Abdul Latif Uqaili			
			<u>52,000</u>	<u>52,508</u>
	Total investments at cost		<u>22,047,591</u>	<u>19,911,657</u>
	Less: Provision for diminution in value of investments	9.3	52,000	2,508
	Investments - (net of provisions)		<u>21,995,591</u>	<u>19,909,149</u>
	Surplus on revaluation of held-for-trading securities	9.4	4,210	8,543
	Deficit on revaluation of available-for-sale securities	20	(62,414)	(72,592)
	Total investments at market value		<u>21,937,387</u>	<u>19,845,100</u>
9.3	Particulars of provision for diminution in the value of investments			
	Opening balance		2,508	2,508
	Charge for the year		50,000	-
	Transfer	13.2	(508)	-
	Closing Balance		<u>52,000</u>	<u>2,508</u>
9.3.1	Particulars of provision for diminution in the value of investments by type and segment			
	Unlisted shares - available-for-sale investments		<u>52,000</u>	<u>2,508</u>
9.4	Unrealized gain on revaluation of investments classified as held for trading			
	Market Treasury Bills		3,898	-
	Pakistan Investment Bonds		312	8,543
			<u>4,210</u>	<u>8,543</u>

- 9.5** Market Treasury Bills are for a period up to one year with yields ranging from 8.46% to 9.00% (2005: 7.24% to 8.79%) per annum.
- 9.6** Investments include Pakistan Investment Bonds having face value of Rs. 25 million (2005: Rs. 25 million) deposited with the State Bank of Pakistan against TT / discounting facility granted by them.
- 9.7** Pakistan Investment Bonds are for a period of three, five, ten, fifteen and twenty years with yields ranging from 6.75% to 14.0% (2005: 6.75% to 11.9%) per annum.
- 9.8** **Quality of Available for Sale Securities**

	2006		2005	
	Amount (Rupees in '000)	Rating	Amount (Rupees in '000)	Rating
Federal Government Securities (at market value)				
Market Treasury Bills	16,339,543	N / A	14,620,927	N / A
Pakistan Investment Bonds	4,184,848	N / A	2,947,111	N / A
	<u>20,524,391</u>		<u>17,568,038</u>	
Unlisted companies (at cost)				
Khushhali Bank	50,000	A-(L), A-1(S)	50,000	A-(L), A-1(S)
Arabian Sea Country Club	2,000	N / A	2,000	N / A
Investment Corporation of Pakistan	-	N / A	508	N / A
	<u>52,000</u>		<u>52,508</u>	

L - represents long term rating
S - represents short term rating

10. ADVANCES	2006	2005
	(Rupees in '000)	
Loans, cash credits, running finances, etc. In Pakistan	51,053,128	39,197,950
Bills discounted and purchased (excluding Market Treasury Bills)		
Payable in Pakistan	1,002,935	596,126
Payable outside Pakistan	667,153	515,811
	<u>1,670,088</u>	<u>1,111,937</u>
Advances - gross	52,723,216	40,309,887
Provision for non-performing advances		
Specific	(544,642)	(593,648)
General	(889,303)	(552,900)
	<u>(1,433,945)</u>	<u>(1,146,548)</u>
Advances - net of provision	<u>51,289,271</u>	<u>39,163,339</u>
10.1 Particulars of advances (gross)		
10.1.1 In local currency	51,130,545	38,396,151
In foreign currencies	1,592,671	1,913,736
	<u>52,723,216</u>	<u>40,309,887</u>
10.1.2 Short Term (for upto one year)	19,229,089	24,400,599
Long Term (for over one year)	33,494,127	15,909,288
	<u>52,723,216</u>	<u>40,309,887</u>

- 10.2** Advances include Rs. 571.395 million (2005: Rs 618.611 million) which have been placed under non-performing status as detailed below:-

	2006			2005		
	Classified advances	Provision required *	Provision held	Classified advances	Provision required *	Provision held
	------(Rupees in '000)-----					
Category of classification						
Substandard	9,008	3,079	3,079	102,799	83,938	83,938
Doubtful	5,240	2,620	2,620	6,839	6,373	6,373
Loss	557,147	538,943	538,943	508,973	503,337	503,337
	<u>571,395</u>	<u>544,642</u>	<u>544,642</u>	<u>618,611</u>	<u>593,648</u>	<u>593,648</u>

* Adjusted for any amounts of liquid assets without recourse to a court of law and discounted forced sale values of mortgaged / pledged properties as valued by professional valuers.

10.3 Particulars of provision against non-performing advances

	Note	2006			2005		
		Specific	General	Total	Specific	General	Total
		------(Rupees in '000)-----					
Opening balance		593,648	552,900	1,146,548	534,135	166,088	700,223
Charge for the year		11,378	336,403	347,781	94,999	386,812	481,811
Amounts written off	10.4	(3,047)	-	(3,047)	(11,417)	-	(11,417)
Reversals		(57,337)	-	(57,337)	(24,069)	-	(24,069)
Closing balance		<u>544,642</u>	<u>889,303</u>	<u>1,433,945</u>	<u>593,648</u>	<u>552,900</u>	<u>1,146,548</u>

10.3.1 Particulars of provision against non-performing advances

	2006			2005		
	Specific	General	Total	Specific	General	Total
	------(Rupees in '000)-----					
In local currency	<u>544,642</u>	<u>889,303</u>	<u>1,433,945</u>	<u>593,648</u>	<u>552,900</u>	<u>1,146,548</u>

- 10.3.2** General provision represents provision against consumer loans as required by the prudential regulations issued by the State Bank of Pakistan.

10.4 PARTICULARS OF WRITE OFFs:

Note	2006	2005
	(Rupees in '000)	
10.3	3,047	11,417
	<u>614,765</u>	<u>169,208</u>
	<u>617,812</u>	<u>180,625</u>
10.5	69,141	18,209
	<u>548,671</u>	<u>162,416</u>
	<u>617,812</u>	<u>180,625</u>

10.5 Details of loan write off of Rs. 500,000 and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to person(s) during the year ended 31 December 2006 is given in Annexure-1.

10.6 Particulars of loans and advances to directors, associated companies, etc.	<i>Note</i>	2006 (Rupees in '000)	2005
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons *			
Balance at beginning of year		622,644	565,280
Loans granted during the year		970,602	276,226
Repayments		(803,266)	(218,862)
Balance at end of year		789,980	622,644

* Represents loans given by the bank to their executives and other employees as per the terms of their employment.

11. OPERATING FIXED ASSETS

Capital work-in-progress	<i>11.1</i>	247,645	26,898
Property and equipment	<i>11.2</i>	916,690	313,758
Intangible assets	<i>11.3</i>	22,164	-
		1,186,499	340,656

11.1 Capital work-in-progress - civil works	247,645	26,898
--	----------------	--------

11.2 Property and equipment

	2006							Rate of depreciation %
	COST			DEPRECIATION			BOOK VALUE	
	As at 1 January 2006	Additions/ (Deletions)	As at 31 December 2006	As at 1 January 2006	Charge for the year / (depreciation on deletions)	As at 31 December 2006	As at 31 December 2006	
------(Rupees in '000)-----								
Leasehold land and buildings	1,978	-	1,978	1,943	5	1,948	30	5
Furniture and fixture	279,089	177,148 (19,856)	436,381	245,909	23,223 (18,447)	250,685	185,696	10-50
Electrical, office and computer equipment	822,698	463,234 (278,701)	1,007,231	635,217	99,991 (277,949)	457,259	549,972	14.3-33.33
Vehicles	153,823	142,014 (45,661)	250,176	60,761	36,013 (27,590)	69,184	180,992	20
2006	1,257,588	782,396 (344,218)	1,695,766	943,830	159,232 (323,986)	779,076	916,690	
	2005							Rate of depreciation %
	COST			DEPRECIATION			BOOK VALUE	
	As at 1 January 2005	Additions/ (Deletions)	As at 31 December 2005	As at 1 January 2005	Charge for the year / (depreciation on deletions)	As at 31 December 2005	As at 31 December 2005	
------(Rupees in '000)-----								
Leasehold land and buildings	1,978	-	1,978	1,934	9	1,943	35	5
Furniture and fixture	271,259	10,236 (2,406)	279,089	219,802	27,199 (1,092)	245,909	33,180	10-50
Electrical, office and computer equipment	716,376	133,639 (27,317)	822,698	590,840	71,694 (27,317)	635,217	187,481	14.3-33.3
Vehicles	132,687	50,844 (29,708)	153,823	54,767	26,404 (20,410)	60,761	93,062	20
2005	1,122,300	194,719 (59,431)	1,257,588	867,343	125,306 (48,819)	943,830	313,758	

11.2.1 The gross carrying value of fully depreciated assets still in use amounts to Rs. 519.362 million (2005: Rs. 652.399 million).

11.2.2 The fair value of buildings on leasehold land is Rs. 205 million (2005: Rs. 69 million).

11.3 Intangible assets

	2006							
	COST			AMORTISATION			BOOK VALUE	Rate of Amortisation %
	As at	Additions/	As at	As at	Amortisation for	As at	As at	
	1 January	(Deletions)	31 December	1 January	the year /	31 December	31 December	
	2006		2006	2006	(Amortisation on	2006	2006	
				deletions)				
	----- (Rupees in '000) -----							
Computer Software	22,090	24,560 (22,090)	24,560	22,090	2,396 (22,090)	2,396	22,164	33.33

11.4 Disposal of fixed assets during the year

	Cost	Book value	Sale price	Mode of disposal	Particulars of buyers
	------(Rupees in '000)-----				
Furniture and Fixture					
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000	7,463	1,194	760	Open Bid	Zafar Mechanical Work
Assets written off	12,393	215	-	Written off	
	19,856	1,409	760		
Electrical, office and Computer Equipment					
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000	2,913	329	300	Open Bid	Zafar Mechanical Work
Assets written off	275,788	423	-	Written off	
	278,701	752	300		
Vehicles					
Disposal to Employees	963	610	610	Terms of Employment	Adil Rustom Tarapore
	849	283	340	Terms of Employment	Adnan Meeraj
	962	482	748	Terms of Employment	Ahsan Akhtar
	849	269	283	Terms of Employment	Ali Kazi
	945	32	532	Terms of Employment	Amena Arif
	849	241	241	Terms of Employment	Anil Charakla
	849	368	368	Terms of Employment	Asif Meenai
	795	490	517	Terms of Employment	Atif Irshad
	849	368	368	Terms of Employment	Aun Ali Raza
	943	534	762	Terms of Employment	Azhar Khan
	849	241	241	Terms of Employment	Faisal Amin
	849	410	410	Terms of Employment	Faisal Hussain
	849	480	495	Terms of Employment	Farahnaz Patel
	849	241	241	Terms of Employment	Hanif Sulaiman
	849	283	283	Terms of Employment	Ibrar Gul Niazi
	1,287	1,094	1,030	Terms of Employment	Imran Zaidi
	795	424	424	Terms of Employment	Kamran Ahmed
	769	141	141	Terms of Employment	Mir Aziz
	795	517	517	Terms of Employment	Misbah Naqvi
	849	156	156	Terms of Employment	Mohsin Aziz
	854	171	171	Terms of Employment	Nadeem Arshad
	943	377	393	Terms of Employment	Nadeem Saleh
	943	361	655	Terms of Employment	Nadir Sarela
	849	325	325	Terms of Employment	Nauman Amjad
	1,002	767	862	Terms of Employment	Pouruchisty Sidhwa
	850	354	354	Terms of Employment	Rizwan Hussainy
	735	110	110	Terms of Employment	Rodney Judd
	735	25	25	Terms of Employment	Saashah Chugthai
	849	538	538	Terms of Employment	Salman Irshad
	849	495	495	Terms of Employment	Saquib Ayub
	849	495	495	Terms of Employment	Saquib Cheema
	849	396	396	Terms of Employment	Shyam Shahani
	849	552	552	Terms of Employment	Umer Naveed Minhas
	849	340	340	Terms of Employment	Usman Ali
	1,002	684	733	Terms of Employment	Zulfiqar Hamid
	765	-	538	Open Bid	Imran Dhedhi
	849	-	508	Open Bid	Imran Dhedhi
	865	-	508	Open Bid	Imran Dhedhi
	769	-	540	Open Bid	Asif Ibrahim
	901	-	392	Open Bid	Asif Ibrahim
	1,330	399	345	Open Bid	Syed Kashif Zameer
	139	-	475	Open Bid	Syed Kashif Zameer
	709	-	545	Open Bid	Syed Kashif Zameer
	769	-	551	Open Bid	Syed Kashif Zameer
	310	-	239	Open Bid	Syed Kashif Zameer
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000.	769	-	551	Open Bid	Auto King
Items having book value of more than Rs 250,000 or cost of more than Rs 1,000,000.	6,886	4,018	3,065	Open Bid	Platinum Motors
	45,661	18,071	23,408		
	344,218	20,232	24,468		
Intangible Assets					
Assets written off	22,090	-	-	Written off	
	366,308	20,232	24,468		

12. DEFERRED TAX ASSETS - NET	<i>Note</i>	2006	2005
		(Rupees in '000)	
Deferred debits arising in respect of			
Provision and write offs against non-performing advances		668,313	505,845
Fixed assets timing differences		-	33,378
Payable to defined benefit plan (gratuity)		11,036	6,307
Deficit on revaluation of securities	20	21,845	27,585
Other deductible temporary differences		152,116	-
Deferred credits arising due to			
Fixed assets timing differences		(24,766)	-
		828,544	573,115
13. OTHER ASSETS			
Income/ Mark-up accrued in local currency		1,176,992	885,199
Income/ Mark-up accrued in foreign currency		33,380	30,731
Advances, deposits, advance rent and other prepayments		407,956	218,917
Non-banking assets acquired in satisfaction of claims	13.1	24,128	30,894
Branch adjustment account		1,853	874
Unrealised gain on forward foreign exchange contracts, foreign currency options and interest rate derivative contracts		1,169,461	1,211,288
Receivable from the State Bank of Pakistan - customer encashed USD Bonds		4,471	15,675
Others		578,642	264,117
		3,396,883	2,657,695
Less: Provision held against other assets	13.2	11,001	15,901
Other Assets (Net of Provision)		3,385,882	2,641,794
13.1 Market value of non-banking assets acquired in satisfaction of claims		41,915	38,841
13.2 PROVISION AGAINST OTHER ASSETS			
Opening balance		15,901	9,151
Charge for the year		6,653	10,496
Reversals		(12,061)	(3,746)
Transfer	9.3	508	-
Closing balance		11,001	15,901
14. CONTINGENT ASSETS			
There were no contingent assets as at the balance sheet date.			
15. BILLS PAYABLE			
In Pakistan		1,212,275	1,436,826

16.	BORROWINGS	Note	2006	2005
			(Rupees in '000)	
	In Pakistan		<u>15,409,454</u>	<u>12,612,553</u>
16.1	Particulars of borrowings with respect to currencies			
	In local currency		15,409,454	12,612,553
	In foreign currencies		-	-
			<u>15,409,454</u>	<u>12,612,553</u>
16.2	Details of borrowings Secured / Unsecured			
	<i>Secured</i>			
	Borrowings from State Bank of Pakistan			
	Under export refinance scheme	16.2.1	2,770,873	1,151,737
	Repurchase agreement borrowings	16.2.2	11,024,155	10,060,701
			<u>13,795,028</u>	<u>11,212,438</u>
	<i>Unsecured</i>			
	Call borrowings	16.2.3	1,600,000	980,000
	Overdrawn nostro accounts		14,426	-
	Trading account liabilities		-	420,115
			<u>1,614,426</u>	<u>1,400,115</u>
			<u>15,409,454</u>	<u>12,612,553</u>
16.2.1	These are secured by granting of the right to recover the outstanding amount from the bank at the date of maturity of the finance by directly debiting the current account maintained by the bank with the State Bank of Pakistan.			
16.2.2	These carry mark up at rates ranging from 8.25% to 9.25% (2005: 7% to 8.5%) per annum having maturity period of upto two months.			
16.2.3	These carry mark-up at rates ranging from 9.10% to 10.30% (2005: 6% to 8.8%) per annum having maturity period of upto six months.			
17.	DEPOSITS AND OTHER ACCOUNTS			
	Customers			
	Fixed deposits		36,617,564	29,553,857
	Savings deposits		16,250,031	13,069,904
	Current Accounts - Non-remunerative		9,726,879	10,295,456
	Other deposits		133,955	101,964
			<u>62,728,429</u>	<u>53,021,181</u>
	Financial Institutions			
	Remunerative deposits		75,962	37,415
	Non-remunerative deposits		299,493	56,942
			<u>375,455</u>	<u>94,357</u>
			<u>63,103,884</u>	<u>53,115,538</u>
17.1	Particulars of deposits			
	In local currency		56,014,176	45,051,520
	In foreign currencies		7,089,708	8,064,018
			<u>63,103,884</u>	<u>53,115,538</u>

18. OTHER LIABILITIES	<i>Note</i>	2006	2005
		(Rupees in '000)	
Mark-up/ Return/ Interest payable in local currency		1,125,649	420,485
Mark-up/ Return/ Interest payable in foreign currencies		6,631	3,732
Unearned commission and income on bills discounted		25,521	85,341
Accrued expenses		740,821	552,136
Provisions for taxation - net		980,082	220,820
Unrealised loss on forward foreign exchange contracts, foreign currency options and interest rate derivative contracts		1,204,061	1,094,472
Unremitted head office expenses		506,853	334,770
Payable to regional offices for support services		54,383	64,891
Payable to defined benefit plan	33.3	31,839	22,476
Provision against off-balance sheet obligations	18.1	7,185	7,185
Advances from customers		428,767	282,128
Others		450,527	514,578
		5,562,319	3,603,014

18.1 Provision against off-balance sheet obligations

Opening balance	7,185	7,185
Charge for the year	-	-
Reversals	-	-
Amount Written off	-	-
Closing balance	7,185	7,185

19. HEAD OFFICE CAPITAL ACCOUNT

Capital held as:

Interest free deposit in approved foreign exchange

Remitted from Head Office - net of repatriated capital USD 6.930 million (2005: USD 60.430 million)		184,755	1,611,143
Revaluation surplus allowed by the State Bank of Pakistan - cumulative	19.1	237,117	2,002,068
		421,872	3,613,211

Deposit of un-encumbered approved securities

Market Treasury Bills	19.2	3,242,635	-
Pakistan Investment Bonds	19.3	129,737	129,737
		3,372,372	129,737
		3,794,244	3,742,948

- 19.1** Represents surplus in proportion to interest free deposit in approved foreign exchange maintained with State Bank of Pakistan.
- 19.2** During the year, the head office capital account representing USD 53.5 million which was earlier held in the interest free deposit account with State Bank of Pakistan was converted into local currency. The converted amount has been invested in Market Treasury Bills having face value of Rs 3,500 million.
- 19.3** This represents Pakistan Investment Bonds having face value of Rs. 130 million (2005: Rs 130 million).
- 19.4** Capital has been deposited with the State Bank of Pakistan in compliance with sub-section (3) of section 13 of the Banking Companies Ordinance, 1962.

20. DEFICIT ON REVALUATION OF SECURITIES

Deficit on revaluation of available-for-sale securities		(62,414)	(72,592)
Less: Related deferred tax asset	12	21,845	27,585
		(40,569)	(45,007)

21. CONTINGENCIES AND COMMITMENTS	<i>Note</i>	2006	2005
		(Rupees in '000)	
21.1 Direct credit substitutes			
Includes general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities.			
(i) Government		-	-
(ii) Banking companies and other financial institutions		2,518,952	2,882,163
(iii) Others		219,246	534,474
		<u>2,738,198</u>	<u>3,416,637</u>
21.2 Transaction-related contingent liabilities			
Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credit related to particular transactions:			
(i) Government		395,804	2,435,770
(ii) Banking companies and other financial institutions		9,698	260,756
(iii) Others		4,030,895	307,686
		<u>4,436,397</u>	<u>3,004,212</u>
21.3 Trade-related contingent liabilities			
Includes short-term self liquidating trade related contingent liabilities arising from the movement of goods, such as documentary credits where the underlying shipment is used as security.			
Letters of credit		<u>8,727,727</u>	<u>6,971,494</u>
21.4 Other contingencies			
Indemnity issued		15,484	15,484
Claims not acknowledged as debt		1,684	1,684
	21.4.1	<u>17,168</u>	<u>17,168</u>
21.4.1	These are not recognised as debt as the probability of these crystallising against the bank is considered remote.		
21.5 Commitments in respect of forward transactions			
Forward purchase of trading securities		1,300,760	-
Forward sale of trading securities		967,153	-
Forward agreement lending (reverse repos)		-	950,941
Forward agreement borrowings (repos)		3,492,252	473,169
Uncancellable commitments to extend credit		<u>600,000</u>	<u>-</u>
21.6 Commitments in respect of forward exchange contracts			
Purchase		38,430,304	37,849,005
Sale		<u>38,312,917</u>	<u>28,990,032</u>

The bank utilises foreign exchange instruments to meet the needs of its customers and as part of its asset and liability management activity to hedge its own exposure to currency risk.

	<i>Note</i>	2006	2005
21.7 Commitments in respect of operating leases		(Rupees in '000)	
Not later than one year		10,612	594
Later than one year and not later than five years		20,930	-
		31,542	594

The bank has obtained vehicles under operating lease agreements for upto five years. The above represents minimum lease payments under the non-cancellable operating lease agreements.

21.8 Other commitments

Interest rate derivative contracts (notional amount)	22.1	32,063,538	18,960,240
Foreign currency options	22.1	23,637,440	6,700,730

22. DERIVATIVE INSTRUMENTS

Derivative is a type of instrument whose price is dependent upon or derived from one or more underlying assets. Forward contracts, options and swaps are the most common type of derivatives. Also included in derivatives are structured financial products that have one or more characteristics of forwards, futures, swaps and options.

The Bank enters into derivatives contracts for market making and for creating effective hedges to enable customers and the bank to transfer, modify or reduce their interest rate and foreign exchange risks. The bank as an Authorized Derivative Dealer (ADD) is an active participant in the derivative market of Pakistan.

All transactions involving cross currency swaps are subject to State Bank of Pakistan's prior approval.

Overall responsibility for derivatives trading activity lies with treasury. Existence of an independent market risk function together with the Asset Liability Committee (ALCO) assists in the identification and quantification of risks on derivatives. This involves:

- coordinating approvals of market risk limits;
- formulation of policies and procedures with respect to market risk and
- monitoring of market risk and credit risk exposure.

Treasury operations records transactions in the books, while finance reports the price and liquidity information independently.

The risk embedded in derivatives transactions are discussed in note 40.

22.1 Product Analysis

2006						
Counterparties	Interest Rate and Cross Currency Swaps		Forward Rate Agreements		FX Options	
	No. of	Notional	No. of	Notional	No. of	Notional
	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)
With Banks for						
Hedging	10	7,670,025	-	-	14	11,818,720
Market Making	9	4,970,276	-	-	3	457,710
With FIs other than banks		-				
Hedging	-	-	-	-	-	-
Market Making	3	1,531,175	-	-	-	-
With other entities for		-				
Hedging	-	-	-	-	-	-
Market Making	38	17,892,062	-	-	11	11,361,010
Total		-				
Hedging	10	7,670,025	-	-	14	11,818,720
Market Making	50	24,393,513	-	-	14	11,818,720
	60	32,063,538	-	-	28	23,637,440

2005						
Counterparties	Interest Rate and Cross Currency Swaps		Forward Rate Agreements		FX Options	
	No. of	Notional	No. of	Notional	No. of	Notional
	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)
With Banks for						
Hedging	3	5,573,214	-	-	31	3,350,365
Market Making	6	4,400,000	-	-	1	90,394
With FIs other than banks		-				
Hedging	-	-	-	-	-	-
Market Making	1	253,000	-	-	-	-
With other entities for		-				
Hedging	-	-	-	-	-	-
Market Making	18	8,734,026	-	-	30	3,259,971
Total						
Hedging	3	5,573,214	-	-	31	3,350,365
Market Making	25	13,387,026	-	-	31	3,350,365
	28	18,960,240	-	-	62	6,700,730

22.2 Maturity Analysis

Interest Rate and Cross Currency Swaps

Remaining Maturity	2006				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			------(Rupees in '000)-----		
Upto 1 month	-	-	-	-	-
1 to 3 months	1	1,000,000	-	11	11
3 to 6 months	-	-	-	-	-
6 months to 1 Year	-	-	-	-	-
1 to 2 Years	17	10,816,838	(130,022)	111,886	(18,136)
2 to 3 Years	5	1,368,286	(935)	28,510	27,575
3 to 5 Years	25	9,756,153	(10,483)	278,804	268,321
5 to 10 years	12	9,122,261	(146,616)	272,121	125,505
Above 10 Years	-	-	-	-	-
	60	32,063,538	(288,056)	691,332	403,276

Remaining Maturity	2005				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
			------(Rupees in '000)-----		
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 months to 1 Year	3	506,648	(185)	175	(10)
1 to 2 Years	-	-	-	-	-
2 to 3 Years	10	10,898,236	(140,688)	157,536	16,848
3 to 5 Years	7	1,571,328	(121)	13,901	13,780
5 to 10 years	8	5,984,028	(55,787)	70,193	14,406
Above 10 Years	-	-	-	-	-
	28	18,960,240	(196,781)	241,805	45,024

23. MARK-UP/RETURN/INTEREST EARNED	<i>Note</i>	2006	2005
		(Rupees in '000)	
On loans and advances to			
Customers		6,693,312	4,153,567
Financial Institutions		43,967	66,633
On investments in			
Held for trading securities		81,655	81,026
Available for sale securities		1,485,952	731,906
On deposits with financial institutions		99,186	101,699
On securities purchased under resale agreements (reverse repo)		613,255	500,339
		9,017,327	5,635,170
24. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		2,924,358	1,352,539
Securities sold under repurchase agreements (repo)		797,967	453,684
Other short term borrowings		375,120	193,488
Interest paid on trading account liabilities		15,644	36,044
		4,113,089	2,035,755
25. GAIN ON SALE OF SECURITIES			
Federal Govt. Securities			
Market Treasury Bills		3,887	34,590
Pakistan Investment Bonds		1,547	45,088
		5,434	79,678
26. OTHER INCOME			
Credit losses recovered		94,527	99,143
Net profit on sale of property and equipment		4,874	10,713
Income from interest rate derivative contracts		470,711	137,418
Others		9,679	1,176
		579,791	248,450
27. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		1,041,322	817,794
Charge for defined benefit plan		33,062	36,792
Contribution to defined contribution plan		35,312	28,216
Head office / Regional office expenses		172,084	146,673
Rent, taxes, insurance, electricity, etc.		338,985	200,767
Contract Services		898,081	653,936
Legal and professional charges		16,388	17,800
Communications		166,521	201,707
Repairs and maintenance		89,203	54,391
Travelling and conveyance		169,227	101,400
Rentals of operating leases		6,506	3,565
Stationery and printing		99,378	72,488
Advertisement and publicity		240,739	95,949
Support services from regional offices		263,236	172,170
Donations	27.1	20	850
Auditors' remuneration	27.2	2,021	1,173
Depreciation	11.2	159,232	125,306
Amortization of intangible assets	11.3	2,396	-
Others		319,395	231,662
		4,053,108	2,962,639

27.1 Donations

Donations do not include any donee in whom any executive of the bank or his / her spouse has any interest.

27.2 Auditors' remuneration

2006
(Rupees in '000)

2005

Audit fee	1,100	770
Fee for the half yearly review	250	205
Special certifications and sundry advisory services	550	105
Out-of-pocket expenses	121	93
	<u>2,021</u>	<u>1,173</u>

28. OTHER CHARGES

Penalties imposed by State Bank of Pakistan	<u>140</u>	<u>672</u>
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29. TAXATION

For the year

Current	1,332,650	1,221,374
Deferred	<u>(261,169)</u>	<u>(135,738)</u>
	<u>1,071,481</u>	<u>1,085,636</u>

For prior years

Current	(141,594)	-
	<u>929,887</u>	<u>1,085,636</u>

30. RELATIONSHIP BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT

Profit before taxation	<u>2,575,161</u>	<u>2,593,890</u>
Taxation at the applicable tax rate of 35% (2005: 38%)	901,306	985,678
Taxation effect of expenses that are not deductible in determining taxable income	431,344	235,696
Deferred taxation relating to origination and reversal of temporary differences	<u>(261,169)</u>	<u>(135,738)</u>
	<u>1,071,481</u>	<u>1,085,636</u>

The income tax return for the tax year 2006 i.e. income year ended 31 December 2005 has been duly filed which is deemed to be assessed under Section 120 of the Income Tax Ordinance, 2001.

31. CASH AND CASH EQUIVALENTS	2006	2005
	(Rupees in '000)	
Cash and balance with treasury banks	5,881,934	8,383,947
Balance with other banks	2,975,916	729,186
Overdrawn nostro accounts	(14,426)	-
	8,843,424	9,113,133

32. STAFF STRENGTH	2006	2005
	Number of employees	
Permanent	997	753
Contractual basis	1	-
Bank's own staff strength at the end of the year	998	753
Outsourced	3,079	2,401
Total staff strength at the end of the year	4,077	3,154

33. DEFINED BENEFIT PLAN

33.1 General description

All permanent employees with a minimum service period of five years or more with the bank are entitled to end of service benefits calculated at 130 percent of basic salary for each year of service with the bank. The assets of the funded plan are held independently in a separate trustee administered fund.

33.2 Principal actuarial assumptions

The latest actuarial valuation was carried out as at 31 December 2006 using the "Projected Unit Credit Actuarial Cost" method. The main assumptions used for the actuarial valuation were as follows:

	2006	2005
Estimated interest rates on plan assets of the fund - per annum	10%	8%
Estimated rate of increase in salaries of the employees based on historical increases - per annum	10%	8%
Estimated service length of the employees	6 years	6 years

33.3 Reconciliation of payable to defined benefit plan	2006	2005
	(Rupees in '000)	
Present value of defined benefit obligations	222,913	196,992
Fair value of plan assets	(122,568)	(184,598)
Net actuarial (losses) / gains not recognized	(68,506)	10,082
	31,839	22,476

33.4 Movement in payable to defined benefit plan	2006	2005
	(Rupees in '000)	
Opening balance	22,476	34,999
Charge for the year	33,062	36,792
Contribution to fund made by the bank during the year	(23,699)	(49,315)
Closing balance	31,839	22,476

33.5 Movement in defined benefit obligation		
Obligation at the beginning of the year	196,992	200,621
Current service cost	30,450	33,051
Interest cost	15,760	16,050
Benefits paid by the fund	(54,676)	(53,191)
Actuarial losses on obligation	34,387	461
Obligation at the end of the year	222,913	196,992

33.6 Movement in fair value of plan asset		
Opening balance	184,598	174,086
Expected return on plan assets	14,768	13,927
Contribution by the bank	23,699	49,315
Benefits paid by the bank	(54,675)	(53,191)
Actuarial (loss) / gain by the bank	(45,822)	461
Fair value at the end of the year	122,568	184,598

33.7 Charge for defined benefit plan		
Current service cost	30,450	33,051
Interest cost	15,760	16,050
Expected return on plan assets	(14,768)	(13,927)
Amortization of transitional obligations	1,620	1,618
	33,062	36,792

33.8 Actual return on plan assets	15,721	13,927
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33.9 Five year data on surplus / (deficit) of the plan and experience adjustments

	2006	2005	2004	2003	2002
	------(Rupees in 000)-----				
Present value of defined benefit obligation	(222,913)	(196,992)	(200,621)	(153,907)	(134,102)
Fair value of plan assets	122,568	184,598	174,086	97,864	66,498
Surplus / (deficit)	(100,345)	(12,394)	(26,535)	(56,043)	(67,604)
Experience adjustments on plan liabilities [loss/(gain)]	(34,387)	(461)	(41,651)	(16,983)	-
Experience adjustments on plan assets [loss/(gain)]	(45,822)	461	57,023	10,961	-

33.10 Components of plan assets as a percentage of total plan assets

	2006	2005
Government securities	99.5%	92.3%
Others (including bank balances)	0.5%	7.7%
	<u>100.0%</u>	<u>100.0%</u>

33.11 The expected contributions to the gratuity fund for the next year commencing 1 January 2007 is Rs 55.566 million.

34. DEFINED CONTRIBUTION PLAN

All permanent employees of the bank are entitled to end of service benefits through a recognised provident fund, whereby the bank and all permanent employees are required to make monthly contributions to the scheme at 10 percent of basic salary.

35. COMPENSATION OF CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive		Executives	
	2006	2005	2006	2005
	------(Rupees in '000)-----			
Managerial remuneration	20,000	19,065	294,132	218,942
Charge for defined benefit plan	866	805	20,031	15,568
Contribution to defined contribution plan	800	747	18,490	14,370
Rent and house maintenance	3,200	2,987	77,370	71,404
Utilities	1,112	831	24,024	19,216
Medical	131	120	4,355	2,111
Others	1,132	999	50,897	28,544
	<u>27,241</u>	<u>25,554</u>	<u>489,299</u>	<u>370,155</u>
Number of persons	<u>1</u>	<u>1</u>	<u>180</u>	<u>150</u>

The Chief Executive and certain executives have been provided with free use of bank maintained cars and household equipment in accordance with their terms of employment.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The table below sets out the carrying value and estimated fair value of on-balance sheet and off-balance sheet financial instruments:

36.1 On-balance sheet financial instruments

	2006		2005	
	Book value	Fair value	Book value	Fair value
	------(Rupees in '000)-----			
Financial Assets				
Cash and balances with treasury banks	5,881,934	5,881,934	8,383,947	8,383,947
Balances with other banks	2,975,916	2,975,916	729,186	729,186
Lendings to financial institutions	3,831,005	3,831,005	4,796,504	4,796,504
Investments	21,937,387	21,937,387	19,845,100	19,845,100
Advances	51,289,271	51,289,271	39,163,339	39,163,339
Other assets	3,385,882	3,385,882	2,641,794	2,641,794
	<u>89,301,395</u>	<u>89,301,395</u>	<u>75,559,870</u>	<u>75,559,870</u>
Financial Liabilities				
Bills payable	1,212,275	1,212,275	1,436,826	1,436,826
Borrowings	15,409,454	15,409,454	12,612,553	12,612,553
Deposits and other accounts	63,103,884	63,103,884	53,115,538	53,115,538
Other liabilities	5,562,319	5,562,319	3,603,014	3,603,014
	<u>85,287,932</u>	<u>85,287,932</u>	<u>70,767,931</u>	<u>70,767,931</u>

36.2 Off-balance sheet financial instruments

Forward purchase of foreign exchange	<u>38,430,304</u>	<u>38,430,304</u>	<u>37,849,005</u>	<u>37,849,005</u>
Forward sale of foreign exchange	<u>38,312,917</u>	<u>38,312,917</u>	<u>28,990,032</u>	<u>28,990,032</u>
Forward purchase of trading securities	<u>1,300,760</u>	<u>1,300,760</u>	<u>-</u>	<u>-</u>
Forward sale of trading securities	<u>967,153</u>	<u>967,153</u>	<u>-</u>	<u>-</u>
Forward agreement lending (reverse repos)	<u>-</u>	<u>-</u>	<u>950,941</u>	<u>950,941</u>
Forward agreement borrowings (repos)	<u>3,492,252</u>	<u>3,492,252</u>	<u>473,169</u>	<u>473,169</u>
Interest rate derivative contracts	<u>32,063,538</u>	<u>32,063,538</u>	<u>18,960,240</u>	<u>18,960,240</u>
Foreign Currency Options	<u>23,637,440</u>	<u>23,637,440</u>	<u>6,700,730</u>	<u>6,700,730</u>

As at 31 December 2006 the net fair value of all on-balance sheet and off-balance sheet financial instruments has been based on the valuation methodology outlined below:

(a) Advances and deposits

For all advances and deposits, the fair values have been taken at book values as these are not considered materially different based on the current market rates of return and rate repricing profiles of similar advances and deposits portfolios.

(b) Investments

The fair value of investments is based on market prices or average of quotations received from brokers with the exception of unquoted equity investments. For unquoted investments, the fair values have been considered to equal the net book value.

(c) Other financial instruments

The fair value of all other on-balance sheet and off-balance sheet financial instruments are considered to approximate their book values as they are short term in nature.

37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2006			
	Trading & Sales	Retail Banking	Corporate Banking	Total
	------(Rupees in '000)-----			
Total income	2,500,970	6,172,929	3,018,038	11,691,937
Total expenses	1,716,582	5,749,779	2,580,302	10,046,663
Net income	784,388	423,150	437,736	1,645,274
Segment Assets (Gross)	20,982,013	40,380,960	31,450,411	92,813,384
Segment Non Performing Loans	-	125,003	446,392	571,395
Segment Provision Required *	-	1,018,250	478,696	1,496,946
Segment Liabilities	13,982,216	37,831,960	33,473,756	85,287,932
Segment Return on net Assets (ROA) (%)	11.2%	16.6%	21.6%	21.9%
Segment Cost of funds (%)	10.2%	5.1%	7.4%	6.9%

	2005			
	Trading & Sales	Retail Banking	Corporate Banking	Total
	------(Rupees in '000)-----			
Total income	1,689,191	4,203,983	2,334,747	8,227,921
Total expenses	1,094,382	3,456,704	2,168,581	6,719,667
Net income	594,809	747,279	166,166	1,508,254
Segment Assets (Gross)	23,016,557	28,784,227	25,837,814	77,638,598
Segment Non Performing Loans	-	123,747	494,864	618,611
Segment Provision Required *	-	693,427	471,530	1,164,957
Segment Liabilities	13,070,276	26,573,100	31,124,555	70,767,931
Segment Return on net Assets (ROA) (%)	6.0%	33.8%	3.1%	22.0%
Segment Cost of funds (%)	7.6%	2.3%	4.5%	4.2%

The provision against each segment represents provision held against advances, investments and other assets.

38. RELATED PARTY TRANSACTIONS

Transactions with related parties comprise of transactions in the normal course of business with other branches of Citibank, N.A. outside Pakistan, other direct and indirect subsidiaries of Citigroup including Citibank Housing Finance Company Limited (CHFC) - dissolved during the year, retirement benefit plan and key management personnel of the bank. These transactions were made on commercial terms and conditions.

38.1 Details of significant transactions with related parties are as follows:

	2006	2005
	(Rupees in '000)	
Balances outstanding as at year end		
Placements with other Citibank branches		
At 01 January	367,600	7,186,674
Placements during the year	121,746,148	261,685,733
Settlements during year	(119,677,348)	(268,504,807)
As at 31 December	<u>2,436,400</u>	<u>367,600</u>
Deposits of associated undertakings		
At 01 January	17,718	17,211
Deposits	118,704	739,608
Withdrawals	(136,422)	(739,101)
As at 31 December	<u>-</u>	<u>17,718</u>
Balances due from other Citibank branches	460,399	277,589
Interest receivable on placements with a Citibank branch	619	252
Balances due to other Citibank branches	73,801	66,095
Unremitted head office expenses	506,853	334,770
Payable to regional offices for support services	54,383	64,891
Payable to defined benefit plan	31,839	22,476
	2006	2005
	(Rupees in '000)	
Sale of securities to associated undertaking	-	193,687
Purchase of securities from associated undertaking	-	199,963
Profit / expense for the year		
Interest received on placements with other Citibank branches	24,200	27,602
Interest paid on deposits from associated undertaking	94	66
Service charges received from associated undertaking	703	1,406
Regional expenses for support services	263,236	172,170
Head office expenses	172,084	146,673
Remuneration paid to key management personnel	59,826	53,932

39. CAPITAL ADEQUACY

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

		2006	2005
		(Rupees in '000)	
Regulatory Capital Base			
<i>Tier I Capital</i>			
Head office capital account		3,794,244	3,742,948
Unremitted profits (net of losses)		2,274,831	2,007,769
		6,069,075	5,750,717
Less: Adjustments		(40,569)	(45,007)
<i>Total Tier I Capital</i>		6,028,506	5,705,710
<i>Tier II Capital</i>			
Subordinated Debt (upto 50% of total Tier I Capital)		-	-
General Provision subject to 1.25% of total risk weighed assets		765,070	-
Revaluation Reserve (upto 50%)		-	-
<i>Total Tier II Capital</i>		765,070	-
<i>Eligible Tier III Capital</i>			
		-	-
Total Regulatory Capital	(a)	6,793,576	5,705,710
	Note	2006	2005
Risk-Weighted Exposures		Book Value	Risk Adjusted Value
		Book Value	Risk Adjusted Value
		------(Rupees in '000)-----	
<i>Credit Risk</i>			
Balance Sheet Items			
Cash and other liquid assets		12,088,855	595,183
Money at call		600,000	120,000
Investments	39.1	20,524,391	-
Loans and advances	39.2	51,726,063	45,129,208
Fixed assets		1,186,499	1,186,499
Other assets		4,214,426	3,780,096
		90,340,234	50,810,986
Off Balance Sheet items			
Loan repayment guarantees and acceptances		2,738,198	2,563,959
Performance and bid bonds etc	39.3	4,436,397	1,119,735
Stand by letters of credit	39.3	8,711,870	2,801,635
Outstanding Foreign Exchange Contracts			
Purchase	39.4	38,430,304	169,408
Sales	39.4	38,312,917	221,142
Outstanding derivative contracts		32,063,538	1,452,844
		124,693,224	8,328,723
Credit risk-weighted exposures		59,139,709	42,885,740
<i>Market Risk</i>			
General market risk		160,766	138,818
Specific market risk		-	-
Foreign exchange risk		4,506	4,678
Total capital charge for market risk	(b)	165,272	143,496
<i>Market risk weighted exposure (b x 12.5)</i>		2,065,900	1,793,700
<i>Total Risk-Weighted exposures</i>		61,205,609	44,679,440
<i>Capital Adequacy Ratio [(a) / (c) x 100]</i>		11.10%	12.77%

39.1 Investments exclude held for trading portfolio amounting to Rs. 1,413 million (2005: Rs. 2,227 million). The held for trading portfolio is subject to market risk and is included in the computation of capital charge for market risk.

39.2 These are stated gross of general reserve amounting to Rs. 889.3 million. However, only Rs 765.1 million has been added to supplementary capital as per the maximum allowable limit. Further, advances secured against government securities / own deposits / cash margin amounting to Rs. 452.5 million (2005: Rs. 1,071.3 million) have been deducted from gross advances.

39.3 Cash margins amounting to Rs. 15.86 million (2005: Rs. 89.184 million) have been deducted from the related off balance sheet items.

39.4 Foreign exchange contracts having original maturities of 14 days or less have been excluded.

40. RISK MANAGEMENT

The overall risk management framework relies upon the bank's internal corporate wide standards and covers credit, market, operational and liquidity risks, including undertaking, measuring, monitoring and reporting of risks. It may be noted that:

- These standards are governed by specific policies which are defined and documented.
- Risks are measured using defined methodologies.
- Limits for credit, market and liquidity risks are approved by Risk Management, which is “independent” of the Business areas.
- Dedicated risk management and control functions are in place for credit (Corporate and Consumer), market, liquidity and operational risks.

Additionally, Risk Management maintains oversight of the regulatory, economic, reputational and legal risks associated with the above-mentioned risks areas.

40.1 Credit Risk

This represents the potential for financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations arising out of activities which include lending, sales and trading, derivatives, securities transaction and settlement.

Corporate credit risk

This risk is managed through the following:

- Single center of control for each credit relationship that coordinates credit activities with the borrower.
- Documented target market and portfolio concentration limits that establish the credit appetite and minimum acceptable standards (both borrower and industry specific), provide portfolio diversification and maintain risk/capital alignment.
- Consistent standards for credit origination, documentation and remedial management.
- Maintenance of accurate and consistent borrower risk ratings through use of statistical models (periodically validated) or approved scoring methodologies to derive both the borrower’s “probability of default” and subsequently the “loss-given-default” after taking into consideration the available credit risk mitigants.
- Periodic stress testing of the credit portfolio based on emerging or expected risk events.

Consumer credit risk

Independent credit risk management is responsible for establishing the Consumer credit policy, approving specific policies and procedures, providing ongoing assessment of Consumer portfolio risk and approving new products. The Consumer Credit Cycle management entails the following:

- Product approval.
- Consistent and prudent underwriting standards.
- Robust account management policies to manage the portfolio.
- Efficient Collection and recovery unit to ensure acceptable loss norms.
- Reliable and accurate Management Information System to support informed decision making.
- Effective anti-fraud controls to minimize fraud losses.

40.1.1 Segmental information

40.1.1.1 Segments by class of business

	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Food Manufacturing	1,559,836	2.96	1,417,495	2.25	432,042	2.71
Textile	6,147,151	11.66	591,122	0.94	529,793	3.33
Chemical and Pharmaceuticals	2,011,001	3.81	9,017,763	14.29	1,537,810	9.66
Cement	4,386,944	8.32	5,083	0.01	2,058,035	12.93
Footwear and Leather garments	115,021	0.22	8,220	0.01	16,529	0.10
Automobile and transportation equipment	2,765,321	5.24	647,628	1.03	284,015	1.78
Electronics and electrical appliances	416,475	0.79	311,778	0.49	51,025	0.32
Tobacco	194,056	0.37	-	-	120,904	0.76
Power (electricity), Gas, Water, Sanitary	1,253,200	2.38	3,291,569	5.22	5,766,444	36.22
Wholesale and Retail Trade	468,859	0.89	-	-	220,808	1.39
Transport, Storage and Communication	1,996,073	3.79	6,661,569	10.56	1,072,154	6.73
Financial	1,796,542	3.41	1,262,262	2.00	1,629,807	10.24
Individuals	24,014,151	45.55	35,462,463	56.20	-	-
Others	5,598,586	10.61	4,426,932	7.00	2,200,124	13.83
	52,723,216	100	63,103,884	100	15,919,490	100

	2005					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Food manufacturing	1,306,251	3.24	2,079,331	3.91	460,525	3.43
Textile	5,542,504	13.75	127,320	0.24	884,319	6.59
Chemical and pharmaceuticals	2,056,210	5.10	6,920,220	13.03	1,399,919	10.44
Cement	3,976,138	9.86	1,914,463	3.60	1,412,418	10.53
Footwear and Leather garments	161,618	0.40	3,266	0.01	62,564	0.47
Automobile and transportation equipment	339,238	0.84	286,262	0.54	797,629	5.95
Electronics and electrical appliances	105,930	0.26	55,745	0.10	94,888	0.71
Tobacco	-	-	269,946	0.51	224	-
Power (electricity), Gas, Water, Sanitary	762,563	1.89	7,884,203	14.85	262,200	1.96
Wholesale and Retail Trade	572,000	1.42	893	0.00	257,973	1.92
Transport, Storage and Communication	2,365,575	5.87	6,073,372	11.43	924,890	6.90
Financial	1,741,001	4.32	318,962	0.60	4,780,657	35.65
Individuals	16,071,186	39.87	23,564,900	44.37	-	-
Others	5,309,673	13.18	3,616,655	6.81	2,071,305	15.45
	40,309,887	100	53,115,538	100	13,409,511	100

40.1.1.2 Segment by sector

2006					
	Advances		Deposits		Contingencies and Commitments
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000) Percent
Public / Government	2,662,507	5.0%	298,758	0.5%	5,664,477 35.6%
Private	50,060,709	95.0%	62,805,126	99.5%	10,255,013 64.4%
	<u>52,723,216</u>	<u>100.0%</u>	<u>63,103,884</u>	<u>100%</u>	<u>15,919,490</u> <u>100.0%</u>
2005					
	Advances		Deposits		Contingencies and commitments
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000) Percent
Public / Government	1,228,851	3.0%	559,042	1.1%	746,071 5.6%
Private	39,081,036	97.0%	52,556,496	98.9%	12,663,440 94.4%
	<u>40,309,887</u>	<u>100.0%</u>	<u>53,115,538</u>	<u>100.0%</u>	<u>13,409,511</u> <u>100%</u>

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

	2006		2005	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	------(Rupees in '000)-----			
Textile	175,539	157,590	214,824	190,981
Automobile and transportation equipment	-	-	1,444	1,444
Financial	2,111	2,111	2,111	2,111
Individuals	130,064	118,159	125,450	124,330
Others	263,681	266,782	274,782	274,782
	<u>571,395</u>	<u>544,642</u>	<u>618,611</u>	<u>593,648</u>

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

Public/ Government	-	-	-	-
Private	571,395	544,642	618,611	593,648
	<u>571,395</u>	<u>544,642</u>	<u>618,611</u>	<u>593,648</u>

40.1.1.5 GEOGRAPHICAL SEGMENT ANALYSIS

	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	------(Rupees in '000)-----			
Pakistan	<u>2,575,161</u>	<u>91,316,438</u>	<u>6,028,506</u>	<u>15,919,490</u>
	2005			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	------(Rupees in '000)-----			
Pakistan	<u>2,593,890</u>	<u>76,473,641</u>	<u>5,705,710</u>	<u>13,409,511</u>

Total assets employed include intra group items of Rs.130.107 million (2005: Rs. 645.441 million).

40.1.1.6 Market Risk

Market risk is the risk of losses arising from fluctuation in the market value of trading and non-trading portfolios. The primary sources of market risk are fluctuation in interest rates and foreign exchange rates.

Market risks are measured in accordance with the bank's established standards, under which the business is required to establish, with approval from independent market risk management, a market risk limit framework, including risk measures, limits and controls, that clearly defines approved risk profiles and is within the parameters of the bank's overall risk appetite. In all cases, businesses are ultimately responsible for the market risks they take and for remaining within their defined limits.

The bank's principal measure of earnings risk to earnings from non-trading portfolios due to interest rate changes is Interest Rate Exposure (IRE). This measures the change in expected Net Interest Revenue from changes in market rates of interest. Market risk in trading portfolios is measured through a complementary set of tools, including factor sensitivities, value-at-risk, and stress testing.

The bank uses the Standardized Measurement Method for determining the capital charge against market risks. This approach covers the bank's trading portfolios, comprising off-balance sheet transactions including derivatives, and securities classified under the trading portfolio.

40.1.1.7 Foreign Exchange Risk

Foreign Exchange Risk is the risk of loss resulting from adverse movement in exchange rates. Exchange position arising from trading activities are monitored through foreign exchange limits on aggregate and individual basis. Hedging strategies and mark to market valuations are used to mitigate exchange risk resulting from open positions. Overall exchange position risk is maintained in accordance with the regulatory requirements prescribed by the State Bank of Pakistan.

	2006			
	Assets	Liabilities *	Off-balance sheet items	Net foreign currency exposure
	------(Rupees in '000)-----			
United States dollar	8,046,189	7,968,958	(85,388)	(8,157)
Great Britain pound	180,275	490,214	341,499	31,560
Japanese yen	445,791	295,461	(148,572)	1,758
Euro	280,663	1,022,156	763,895	22,402
Swiss Francs	41,404	22,494	(17,296)	1,614
Other currencies	129,205	119,864	11,757	21,098
Foreign currency exposure	9,123,527	9,919,147	865,895	70,275
Pakistan rupee	82,192,911	81,397,291	(865,895)	(70,275)
	<u>91,316,438</u>	<u>91,316,438</u>	<u>-</u>	<u>-</u>
	2005			
	Assets	Liabilities *	Off-balance sheet items	Net foreign currency exposure
	------(Rupees in '000)-----			
United States dollar	9,786,712	12,180,028	2,428,727	35,411
Great Britain pound	60,318	412,656	361,540	9,202
Japanese yen	75,735	98,623	25,620	2,732
Euro	936,216	894,840	(35,736)	5,640
Swiss francs	56,223	53,867	(1,989)	367
Other currencies	33,639	28,363	(152)	5,124
Foreign currency exposure	10,948,843	13,668,377	2,778,010	58,476
Pakistan rupee	65,524,798	62,805,264	(2,778,010)	(58,476)
	<u>76,473,641</u>	<u>76,473,641</u>	<u>-</u>	<u>-</u>

*Includes head office capital account in United States dollar, unremitted profit and deficit on revaluation of assets in Pakistan rupee.

40.2 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

Interest rate risk is the risk that value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to the interest rate risk arises from mismatches of financial assets and liabilities and off-balance sheet financial instruments that mature or reprice in a given period. The bank manages these mismatches through risk management strategies where significant changes in gap positions can be adjusted.

The position for on-balance sheet financial instruments is based on the earlier of contractual repricing or maturity date. The position for off-balance sheet financial instruments is based on settlement dates.

2006												
	Effective	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments
	Yield/ Interest rate %		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
			------(Rupees in '000)-----									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury bank:	0.0 - 4.35	5,881,934	1,035,470	-	-	-	-	-	-	-	-	4,846,464
Balances with other banks	0.0 - 5.17	2,975,916	2,436,400	-	-	-	-	-	-	-	-	539,516
Lending to financial institutions	8.6 - 10.05	3,831,005	3,080,948	750,057	-	-	-	-	-	-	-	-
Investments	6.75 - 14.0	21,937,387	1,120,560	4,599,568	5,037,778	7,376,299	976,002	989,201	854,414	803,660	179,905	-
Advances	0.0 - 36.0	51,289,271	22,793,452	8,450,567	3,481,085	2,464,880	1,821,860	4,598,367	4,800,361	1,549,056	1,179,655	149,988
Other assets	-	3,385,882	-	-	-	-	-	-	-	-	-	3,385,882
		89,301,395	30,466,830	13,800,192	8,518,863	9,841,179	2,797,862	5,587,568	5,654,775	2,352,716	1,359,560	8,921,850
Liabilities												
Bills payable	-	1,212,275	-	-	-	-	-	-	-	-	-	1,212,275
Borrowings	8.25 - 10.30	15,409,454	11,240,477	2,870,006	1,284,545	-	-	-	-	-	-	14,426
Deposits and other accounts	0.0 - 12.0	63,103,884	24,313,327	9,135,771	7,630,764	9,716,711	369,068	1,379,411	398,505	-	-	10,160,327
Other liabilities	-	5,562,319	-	-	-	-	-	-	-	-	-	5,562,319
		85,287,932	35,553,804	12,005,777	8,915,309	9,716,711	369,068	1,379,411	398,505	-	-	16,949,347
On-balance sheet gap		4,013,463	(5,086,974)	1,794,415	(396,446)	124,468	2,428,794	4,208,157	5,256,270	2,352,716	1,359,560	(8,027,497)
Off-balance sheet financial instruments												
		-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap		4,013,463	(5,086,974)	1,794,415	(396,446)	124,468	2,428,794	4,208,157	5,256,270	2,352,716	1,359,560	(8,027,497)
Cumulative Yield/Interest Risk Sensitivity Gap			(5,086,974)	(3,292,559)	(3,689,005)	(3,564,537)	(1,135,743)	3,072,414	8,328,684	10,681,400	12,040,960	4,013,463

In addition to the on-balance sheet financial instruments, foreign exchange and interest rate derivative contracts, as disclosed in note 21.6 and 21.8 are also subject to interest rate risk.

40.3 Liquidity Risk

Liquidity risk is the risk that the bank may be unable to meet a financial commitment to a customer, creditor, or investor when due.

A uniform liquidity risk management policy exists for the bank, under which there is a single set of standards for the measurement of liquidity risk. Management of liquidity is performed on a daily basis by the Treasurer and is monitored by independent risk management with oversight by Country Asset and Liability Committee (ALCO). The objective of ALCO is to monitor and review the overall liquidity and balance sheet positions of the bank.

An annual funding and liquidity plan is approved by ALCO and independent risk management team. The plan includes analysis of the balance sheet, as well as the economic and business conditions impacting the liquidity of the bank. As part of the plan, liquidity limits, ratios and triggers are established and approved.

40.3.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the bank

	Total	2006								
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
----- (Rupees in '000) -----										
Assets										
Cash and balances with treasury banks	5,881,934	5,460,062	-	-	-	-	-	-	421,872	-
Balances with other banks	2,975,916	2,975,916	-	-	-	-	-	-	-	-
Lending to financial institutions	3,831,005	3,080,948	750,057	-	-	-	-	-	-	-
Investments	21,937,387	1,120,560	4,599,568	5,037,778	7,376,299	976,002	989,201	854,414	803,660	179,905
Advances	51,289,271	6,433,572	7,492,838	5,203,403	5,875,501	6,084,114	6,126,478	8,728,304	4,165,406	1,179,655
Other assets	3,385,882	3,385,882	-	-	-	-	-	-	-	-
Operating fixed assets	1,186,499	9,836	19,672	29,508	48,379	90,554	149,076	259,115	285,246	295,113
Deferred tax assets	828,544	-	-	-	39,345	-	-	789,199	-	-
	91,316,438	22,466,776	12,862,135	10,270,689	13,339,524	7,150,670	7,264,755	10,631,032	5,676,184	1,654,673
Liabilities										
Bills payable	1,212,275	1,212,275	-	-	-	-	-	-	-	-
Borrowings	15,409,454	11,254,903	2,870,006	1,284,545	-	-	-	-	-	-
Deposits and other accounts	63,103,884	34,473,654	9,135,771	7,630,764	9,716,711	369,068	1,379,411	398,505	-	-
Other liabilities	5,562,319	5,562,319	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
	85,287,932	52,503,151	12,005,777	8,915,309	9,716,711	369,068	1,379,411	398,505	-	-
Net assets	<u>6,028,506</u>	<u>(30,036,375)</u>	<u>856,358</u>	<u>1,355,380</u>	<u>3,622,813</u>	<u>6,781,602</u>	<u>5,885,344</u>	<u>10,232,527</u>	<u>5,676,184</u>	<u>1,654,673</u>
Represented by:										
Head office capital account	3,794,244									
Unremitted profit	2,274,831									
Deficit on revaluation of securities	(40,569)									
	<u>6,028,506</u>									

The saving deposits have been classified as maturing upto three months as they do not have any contractual maturity. However they are not expected to fall materially below their current level.

40.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk is inherent in the Bank's activities and as with other risk types is managed through an overall framework with check and balances that include recognised ownership of the risk by the businesses, independent risk management oversight and independent review by corporate audit. The operational risk policy codifies the core governing principles for operational risk management and provides a framework for operational risk. In accordance with the policy, each business area is responsible to identify its key operational risks as well as the controls established to mitigate those risks and to ensure compliance with laws, regulations, regulatory administrative actions and bank policies.

The operational risk policy and its requirements facilitate the effective communication of operational risks both within and across businesses. Information about the businesses' operational risk, historical losses, and the control environment is reported by each major business segment and functional area, and summarised for senior management.

The bank has created a strategic framework for information security technology initiatives, and has implemented enhancements to various Information Security programs across its business covering Risk Management, Security Incident Response and Electronic transportable Media. The Bank also implemented tools to increase the effectiveness of its data protection and entitlement management programs.

The business continuity program provides risk analysis and robust support for business resiliency. The office of Business Continuity, with the support of the senior management, continued to coordinate preparedness and mitigate business continuity risks by reviewing and testing recovery procedures.

41. DATE OF AUTHORISATION

These financial statements were authorised for issue on 16 March 2007 by the management of the bank.

42. ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Provision against loans and advances portfolio

The bank reviews its loans and advances portfolio to assess amount of non performing loans and advances and provision required there against on a monthly basis. The provision is made in accordance with Prudential Regulations issued by the State Bank of Pakistan.

(b) Income taxes

In making the estimates for income taxes currently payable by the bank, the management looks at the current income tax laws and the decisions of appellate authorities on disputed issues in the past. The bank has made adequate provisions in respect of taxes payable, therefore no amount is shown as a contingent liability of the bank.

(c) Funded Gratuity Scheme

The bank has adopted certain actuarial assumptions as disclosed in note 33.2 to the financial statements for determining present value of defined obligations and fair value of plan assets, based on actuarial advice. Any change in assumptions from actual results would change the amount of unrecognized gain and losses for the year 2007.

(d) Fair Value of Derivatives

The fair value of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates in effect at the balance sheet date and the rates contracted.

43. GENERAL

43.1 Revised format of annual financial statements

These financial statements have been prepared using the revised format of financial statements prescribed in BSD circular no 4, dated 17 February 2006 issued by the State Bank of Pakistan. The revised format for presentation of financial statements is applicable for annual financial statements prepared by banks for periods commencing from 1 January 2006. The significant changes in the revised format for presentation of financial statements include the introduction of disclosures in respect of the Bank's derivative instruments and risk management.

43.2 Amendments to published standards and new interpretation effective in 2006

IAS 19 (Amendment) - Employee Benefits, is mandatory for the bank's accounting period beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. As the bank does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of this amendment only impacts the format and extent of disclosure presentation in the financial statements.

Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after 1 January 2006 which are not considered relevant nor have any significant effect on the bank's operations are not detailed in these financial statements.

43.3 Standards, interpretations and amendments to published approved accounting standard that are not yet effective

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after 1 January 2007 are either not relevant to the bank's operations or are not expected to have significant impact on the bank's financial statements other than certain increased disclosure in certain cases:

IAS 1- Presentation of financial statements - amendments relating capital disclosures	effective from accounting period beginning on or after 1 January 2007
IFRS 2 - Share based payments	effective from accounting period beginning on or after 1 January 2007
IFRS 3 - Business combinations	effective from accounting period beginning on or after 1 January 2007

IFRS 5 - Non-current assets held for sale and discontinued operations	effective from accounting period beginning on or after 1 January 2007
IFRS 6 - Exploration for and evaluation of mineral resources	effective from accounting period beginning on or after 1 January 2007
IFRIC 8 - Scope of IFRS 2- share based payments	effective from accounting period beginning on or after 1 May 2006
IFRIC 9 - Reassessment of embedded derivatives	effective from accounting period beginning on or after 1 June 2006
IFRIC 10 - Interim financial reporting and impairment	effective from accounting period beginning on or after 1 November 2007
IFRIC 11- Group and treasury share transactions	effective from accounting period beginning on or after 1 March 2007
IFRIC 12 - Services concession arrangements	effective from accounting period beginning on or after 1 January 2008

43.4 Comparatives

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison and to conform with changes in presentation in the current year.

Zubyr Soomro
Chief Executive

Ahsan Akhtar
Chief Financial Officer