

SONERI BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2006

	Note	2006 (Rupees in '000)	2005 (Restated)
ASSETS			
Cash and balances with treasury banks	6	5,551,302	4,352,608
Balances with other banks	7	6,603,003	2,453,628
Lendings to financial and other institutions	8	3,193,405	4,845,574
Investments - net	9	16,724,253	16,390,624
Advances - net	10	35,412,248	32,052,544
Operating fixed assets	11	1,929,885	1,765,504
Deferred tax assets		-	-
Other assets - net	12	1,315,578	1,484,598
		<u>70,729,674</u>	<u>63,345,080</u>
LIABILITIES			
Bills payable	14	957,576	863,930
Borrowings	15	8,916,437	8,242,959
Deposits and other accounts	16	53,000,647	47,605,508
Sub-ordinated loans	17	1,199,280	1,199,760
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net	18	338,698	239,654
Other liabilities	19	705,133	803,610
		<u>65,117,771</u>	<u>58,955,421</u>
NET ASSETS		<u><u>5,611,903</u></u>	<u><u>4,389,659</u></u>
REPRESENTED BY			
Share capital	20	3,116,835	1,653,495
Reserves		1,676,602	1,394,542
Unappropriated profit		400,853	753,877
		<u>5,194,290</u>	<u>3,801,914</u>
Surplus on revaluation of assets - net of tax	21	417,613	587,745
		<u><u>5,611,903</u></u>	<u><u>4,389,659</u></u>
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes 1 to 45 and Annexures I & II form an integral part of these financial statements.

President / Chief Executive

Director

Director

Director

SONERI BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 (Rupees in '000)	2005
Mark-up / return / interest earned	23	5,536,098	3,680,956
Mark-up / return / interest expensed	24	<u>3,768,323</u>	<u>2,013,862</u>
Net mark-up / return / interest income		1,767,775	1,667,094
Provision against non-performing loans and advances - net	10.3	<u>36,621</u>	<u>70,223</u>
Provision for diminution in the value of investments	9.3	-	5,700
Bad debts written off directly	10.4	<u>124</u>	<u>45</u>
		<u>36,745</u>	<u>75,968</u>
Net mark-up / return / interest income after provisions		1,731,030	1,591,126
Non mark-up / interest income			
Fee, commission and brokerage income		<u>242,825</u>	<u>218,350</u>
Dividend income		31,205	36,079
Income from dealing in foreign currencies		149,194	113,670
Gain on sale of securities - net	25	112,998	56,553
Unrealised gain / (loss) on revaluation of investments classified as 'held for trading'		-	-
Other income	26	<u>218,655</u>	<u>186,122</u>
Total non-markup / interest income		<u>754,877</u>	<u>610,774</u>
		2,485,907	2,201,900
Non mark-up / interest expenses			
Administrative expenses	27	<u>1,028,824</u>	<u>792,194</u>
Provision against other assets	12.1	-	82
Other charges	28	<u>8,182</u>	<u>9,592</u>
Total non-markup / interest expenses		<u>1,037,006</u>	<u>801,868</u>
		1,448,901	1,400,032
Extra ordinary / unusual items		-	-
Profit before taxation		<u>1,448,901</u>	<u>1,400,032</u>
Taxation - Current	29	<u>448,000</u>	<u>495,000</u>
- Prior years	29	<u>(83,544)</u>	<u>(55,900)</u>
- Deferred	29	<u>99,147</u>	<u>40,699</u>
		<u>463,603</u>	<u>479,799</u>
Profit after taxation		985,298	920,233
Unappropriated profit brought forward		753,877	521,347
Profit available for appropriation		<u>1,739,175</u>	<u>1,441,580</u>
Basic / diluted earnings per share (Rupees)	30	<u>3.29</u>	<u>3.08</u>

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SONERI BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	Capital reserves				General reserve	Unappropriated profit	Total
	Share capital	Reserve for issue of bonus shares	Share premium	Statutory reserve (a)			
	(Rupees in '000)						
Opening balance for the year 2005 as previously reported	1,271,919	381,576	1,405	687,880	521,210	14,771	2,878,761
Transfer to general reserves for the year ended December 31, 2004 appropriated subsequent to year end	-	-	-	-	(125,000)	125,000	-
Transfer to reserve for issue of bonus shares declared subsequent to year end	-	(381,576)	-	-	-	381,576	-
Opening balance for the year 2005 as restated	1,271,919	-	1,405	687,880	396,210	521,347	2,878,761
Effect of change in accounting policy (note 5.19)							
Transfer to general reserves for the year ended December 31, 2004 appropriated subsequent to year end	-	-	-	-	125,000	(125,000)	-
Transfer to reserve for issue of bonus shares declared subsequent to year end	-	381,576	-	-	-	(381,576)	-
Profit after taxation for the year 2005	-	-	-	-	-	920,233	920,233
Issue of bonus shares	381,576	(381,576)	-	-	-	-	-
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax (note 21.1)	-	-	-	-	-	2,920	2,920
Transfers to reserve for issue of bonus shares and to statutory & general reserve	-	496,049	-	184,047	85,000	(765,096)	-
Final cash dividend @10% for the year ended December 31, 2005 declared subsequent to year end	-	-	-	-	-	(165,349)	(165,349)
Balance as at December 31, 2005 as previously reported	1,653,495	496,049	1,405	871,927	606,210	7,479	3,636,565
Effect of change in accounting policy (note 5.19)							
Transfer to general reserve for the year ended December 31, 2005 appropriated subsequent to year end	-	-	-	-	(85,000)	85,000	-
Transfer to reserve for issue of bonus shares declared subsequent to year end	-	(496,049)	-	-	-	496,049	-
Final cash dividend @10% for the year ended December 31, 2005 declared subsequent to year end	-	-	-	-	-	165,349	165,349
Balance as at December 31, 2005 as restated	1,653,495	-	1,405	871,927	521,210	753,877	3,801,914
Effect of change in accounting policy (note 5.19)							
Transfer to general reserves for the year ended December 31, 2005 appropriated subsequent to year end	-	-	-	-	85,000	(85,000)	-
Transfer to reserve for issue of bonus shares declared subsequent to year end	-	496,049	-	-	-	(496,049)	-
Final cash dividend @10% for the year ended December 31, 2005 declared subsequent to year end	-	-	-	-	-	(165,349)	(165,349)
Transfer to reserve for issue of interim bonus shares	-	429,906	-	-	-	(429,906)	-
Issue of bonus shares declared subsequent to year end	496,049	(496,049)	-	-	-	-	-
Issue of interim bonus shares	429,906	(429,906)	-	-	-	-	-
Issue of rights shares during the year	537,385	-	-	-	-	-	537,385
Profit after taxation for the year 2006	-	-	-	-	-	985,298	985,298
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax (note 21.1)	-	-	-	-	-	35,042	35,042
Transfer to statutory reserve	-	-	-	197,060	-	(197,060)	-
Balance as at December 31, 2006	3,116,835	-	1,405	1,068,987	606,210	400,853	5,194,290

(a) This represents reserve created under section 21(i)(a) of the Banking Companies Ordinance, 1962.

The annexed notes 1 to 45 and Annexures I & II form an integral part of these financial statements.

President / Chief Executive

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SONERI BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006	2005
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		1,448,901	1,400,032
Less: Dividend income		31,205	36,079
		<u>1,417,696</u>	<u>1,363,953</u>
Adjustments:			
Depreciation and write offs'		177,087	109,887
Provision against non-performing advances		36,621	70,305
Provision for diminution in the value of investments / other assets		-	5,700
Gain on sale of fixed assets		(2,766)	(3,811)
Bad debts written off directly		124	45
		<u>211,066</u>	<u>182,126</u>
		1,628,762	1,546,079
(Increase)/ decrease in operating assets			
Lendings to financial and other institutions		1,652,169	(1,260,153)
Advances		(3,396,449)	(7,746,907)
Others assets (excluding advance taxation)		30,889	(705,857)
		<u>(1,713,391)</u>	<u>(9,712,917)</u>
Increase/ (decrease) in operating liabilities			
Bills payable		93,646	(29,832)
Borrowings		673,478	285,595
Deposits and other accounts		5,395,139	10,221,752
Other liabilities (excluding current taxation)		135,479	155,304
		<u>6,297,742</u>	<u>10,632,819</u>
		6,213,113	2,465,981
Payments of provision against off-balance sheet obligations		-	-
Income tax paid		(445,560)	(425,336)
Net cash in flow from operating activities		<u>5,767,553</u>	<u>2,040,645</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(6,837,183)	383,085
Net investments in held to maturity securities		6,368,361	(2,989,214)
Dividend income		33,576	32,218
Investments in operating fixed assets		(360,244)	(287,127)
Sale proceeds of property and equipment disposed-off		4,450	6,110
Net cash out flow on investing activities		<u>(791,040)</u>	<u>(2,854,928)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts / payments of sub-ordinated loan		(480)	1,199,760
Issue of right shares		537,385	-
Dividend paid		(165,349)	-
Net cash in flow from / out flow on financing activities		<u>371,556</u>	<u>1,199,760</u>
Increase / (decrease) in cash and cash equivalents		5,348,069	385,477
Cash and cash equivalents at beginning of the year		6,806,236	6,420,759
Cash and cash equivalents at end of the year	31	<u><u>12,154,305</u></u>	<u><u>6,806,236</u></u>

The annexed notes 1 to 45 and Annexures I & II form an integral part of these financial statements.

President / Chief Executive

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SONERI BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. STATUS AND NATURE OF BUSINESS

Soneri Bank Limited was incorporated in Pakistan on September 28, 1991 as a public limited company under the Companies Ordinance, 1984 with registered office situated at 4th floor, IEP building, 97-B / D - 1, Gulberg III, Lahore, Punjab. Its shares are quoted on all the stock exchanges in Pakistan. The bank is engaged in banking services as described in the Banking Companies Ordinance, 1962 and operates 72 branches including two Islamic banking branches (2005: 60 branches including one Islamic banking branch) in Pakistan.

2 BASIS OF PRESENTATION

- (a) In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.
- (b) The financial results of the Islamic Banking branches of the bank has been consolidated in these financial statements for reporting purposes, after eliminating material intra branch transactions / balances. The financial results of the Islamic Banking branches are disclosed in Annexure II to these financial statements.

3 STATEMENT OF COMPLIANCE

- 3.1** 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 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 differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence.
- 3.2** The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.
- 3.3 Initial Application of a Standard or an Interpretation**

Amendments to published standards and new interpretations effective in 2006

IAS 19 (Amendment), Employee Benefits, is mandatory for the bank's accounting periods beginning on or after January 1, 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 disclosures presented in the financial statements.

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2006 but considered not to be relevant or to have any significant effect on the bank's operations have therefore not been detailed in these financial statements.

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

The following amendment to existing standards have been published that are mandatory for the bank's accounting periods beginning on the dates mentioned below:

- IAS 1 Presentation of Financial Statements – Capital Disclosures (Effective from January 1, 2007)

Adoption of the above amendment will only impact the extent of disclosures presented in the financial statements.

4 BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except that certain fixed assets are stated at revalued amounts, certain investments and commitments in respect of certain forward exchange contracts have been marked to market and are carried at fair value and staff retirement benefit are carried at present value.

4.2 Critical accounting estimate and judgements

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 42.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash and balances with treasury banks and balances with other banks in current and deposit accounts.

5.2 Lendings to / borrowings from financial and other institutions

The bank enters into re-purchase agreements (repo) and reverse re-purchase agreements (reverse repo) at contracted rates for a specified period of time. These are recorded as under:

(a) Sale under repurchase obligation

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

(b) Purchase under resale obligation

Securities purchased under agreement to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings to financial and other institutions. The difference between the contracted sales price and resale price is recognised as mark-up income on time proportion basis over the period of the contract.

(c) Other borrowings

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

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 that the bank has the positive intent and ability to hold to maturity.

(c) Available for sale

These are investments, other than those in subsidiaries and associates, if any, that do not fall under the held for trading or held to maturity categories.

Investments other than those categorised as held for trading are initially recognised at fair value which includes transaction costs associated with the investment. Investments classified as held for trading are initially recognised at fair value, and transaction costs are expensed in the profit and loss account.

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the bank commits to purchase or sell the investment.

In accordance with the requirements of State Bank of Pakistan, quoted securities other than those classified as 'held to maturity' are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities classified as 'available for sale', is taken to a separate account shown in the balance sheet below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account.

In accordance with the BSD circular No.14 dated September 24, 2004 issued by SBP, investments classified as 'held to maturity' are carried at amortised cost.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

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

Profit / (loss) on sale of investments is credited / charged to the profit and loss account currently.

5.4 Advances

Advances are stated at cost less specific and general provisions. Specific provision for non performing advances is determined on the basis of Prudential Regulations and the other directives issued by the State Bank of Pakistan and charged to the profit and loss account. The bank also maintains general provision in respect of potential losses present in the portfolio which are not specifically identified. General provision against consumer financing portfolio is maintained as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Advances are written off when there is no realistic prospect of recovery.

5.5 Fixed assets and depreciation

Owned

Property and equipment, other than capital work-in-progress are stated at cost or revalued amount less accumulated depreciation and accumulated impairment loss (if any). Capital work-in-progress is stated at cost less impairment losses.

Depreciation on all operating fixed assets is charged using the straight line method in accordance with the rates specified in note 11.2 to the financial statements after taking into account residual value, if any. The residual values and useful lives are reviewed and adjusted, if appropriate at each balance sheet date.

Surplus arising on revaluation is credited to the surplus on revaluation of fixed assets account. Deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the above mentioned surplus account as allowed under the provisions of the Companies Ordinance, 1984. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets is transferred to unappropriated profit.

Depreciation on additions is charged from the month the assets are available for use while in the case of assets disposed off, it is charged up to the month of disposal.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised.

Gains and losses on sale of fixed assets are charged / credited to the profit and loss account currently, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to unappropriated profit.

Leased

Assets held under finance lease, if any, are stated at lower of fair value or present value of minimum lease payments at inception less accumulated depreciation. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods.

The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of return on the outstanding liability.

Depreciation on assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the bank.

5.6 Operating leases

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

5.7 Impairment

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

5.8 Taxation

Current

Provision for current taxation is based on the taxable income at the current rates of taxation after taking into account available tax credit and rebates, 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 the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities used 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 reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

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

5.9 Provisions

Provisions are recognised 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 a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

5.10 Staff retirement benefits

Defined benefit plan

The bank operates an approved funded gratuity scheme for all its permanent employees. Annual contributions are made to the scheme in accordance with the actuarial recommendation. The actuarial valuation is carried out using the projected unit credit method. The cumulative unrecognised actuarial gain and losses at each valuation date are amortised over the average remaining working lives of the employees in excess of the following corridor limits at the end of the last reporting year:

- (i) 10% of the present value of the defined benefit obligation; and
- (ii) 10% of the fair value of the plan assets

Gratuity is payable to staff on completion of the prescribed qualifying period of service under the scheme.

Defined contribution plan

The bank operates an approved provident fund scheme for all its permanent employees. Equal monthly contributions are made, both by the bank and its employees, to the fund at the rate of 8.33 percent of basic salaries of the employees. The minimum qualifying period of service for the purpose of bank's contribution is five years.

5.11 Employees' compensated absences

Employees' entitlement to annual leave is recognised when they accrue to employees. A provision is made for estimated liability in respect of unavailed leaves earned upto the date of balance sheet.

5.12 Revenue recognition

- Mark-up income / interest on advances and return on investments are recognised on a time proportion basis using the effective yield on the instrument.
- Mark-up / return on classified advances and investments is recognised on receipt basis. Interest / return / mark-up on rescheduled / restructured advances and investments is recognised as permitted by the Prudential Regulations issued by the State Bank of Pakistan, except where in the opinion of the management, it would not be prudent to do so.
- Fee, commission and brokerage income is recognised when earned on time proportion basis.
- Dividend income from investments is recognised when the bank's right to receive the dividend is established.
- Premium or discount on acquisition of investments is capitalised and amortised through the profit and loss account over the remaining period till maturity.

5.13 Foreign currencies

(a) Foreign currency transactions

Foreign currency transactions are translated into rupees at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities in the foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. The fair value of forward cover taken from the State Bank of Pakistan, if any, for foreign currency deposits is added / deducted from value of foreign currency deposits. Outstanding forward foreign exchange contracts and foreign bills purchased excluding swap contracts are valued at the rates applicable to the respective maturities. Exchange gains and losses are included in the current income.

(b) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the bank operates. The financial statements are presented in Pakistani Rupees, which is the bank's functional and presentation currency.

(c) Translation gains and losses

Translation gains and losses are included in the profit and loss account.

(d) Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in the financial statements at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of the transaction.

5.14 Provision for guarantee claims and other off balance sheet obligations

Provision for guarantee claims and other off balance sheet obligations is 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.

5.15 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.

5.16 Financial instruments

5.16.1 Financial assets and liabilities

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

5.16.2 Derivative financial instruments

Derivative financial instruments, if any, are initially recognised at fair value on the date on which a 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 liability when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

5.16.3 Off-setting

Financial assets and financial liabilities are off-set and the net amount is reported in the financial statements when there exists a legally enforceable right to set-off and the bank intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

5.17 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 risks 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

Corporate finance

Corporate banking includes syndicated financing and services provided in connection with mergers and acquisition, underwriting, privatisation, securitisation, research, debts (government, high yield), equity, syndication, IPO and secondary private placements.

Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

Retail Banking

It includes retail lending and deposits, banking services, trust and estates, private lending and deposits, banking service, trust and estates investment advice, merchant / commercial / corporate cards and private labels and retail.

Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange and deposits.

5.18 Earnings per share

The bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the bank by the weighted average number of ordinary shares outstanding during the period / year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

5.19 Dividends, appropriations and transfer between reserves

During the year the bank has changed its accounting policy pertaining to recognition of dividends, appropriations and transfers between reserves (except transfers required by law) made subsequent to the balance sheet date. As per the new policy dividends declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are not recorded in the financial statements. Previously, such dividends declarations and transfers between reserves were being treated as adjusting events in the financial statements of the bank and were recorded as an appropriation into the financial statements. The new policy is in accordance with the requirements of IAS-10: Events after the Balance Sheet date and complies with the requirements set out in BSD Circular No.4 dated February 17, 2006 issued by the State Bank of Pakistan. The change in accounting policy has been applied retrospectively and comparative information has been restated in accordance with the treatment specified in IAS-8: Accounting Policies, Changes in Accounting Estimates and Errors.

Had there been no change in accounting policy, the unappropriated profit as at December 31, 2004 and December 31, 2005 would have been lower by Rs. 506.576 million and Rs. 746.398 million respectively. In addition reserve for issue of bonus shares, general reserves and proposed dividend liability would have been higher by Rs.381.576 million, Rs.125.000 million and Rs. Nil at December 31, 2004 and higher by Rs. 496.049 million, Rs.85.000 million and Rs. 165.349 million at December 31, 2005 respectively.

The effect of the change in accounting policy has been reflected in the statement of changes in equity. The change in accounting policy has not resulted in any change in the profit for the current or prior year.

	Note	2006	2005
		(Rupees in '000)	
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency	6.1	988,046	783,317
Foreign currency		234,429	234,013
In transit			
Local currency		-	1,000
Foreign currency		4,915	11,526
With State Bank of Pakistan in			
Local currency current account	6.2	3,499,831	2,353,064
Foreign currency current account	6.3	166,039	191,324
Foreign currency deposit account against foreign currency deposits mobilised	6.4	509,376	602,599
With National Bank of Pakistan in			
Local currency current account		148,666	175,765
		<u>5,551,302</u>	<u>4,352,608</u>

6.1 This includes National Prize Bonds of Rs.3.801 million (2005: Rs.2.116 million).

6.2 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in current account opened with the SBP at a sum not less than such percentage of its time and demand liabilities as may be prescribed by SBP.

6.3 This represents current account maintained with the SBP as per their requirements.

6.4 This represents foreign currency cash reserve maintained with SBP at an amount equivalent to at least 20% of the bank's foreign currency deposits mobilised under FE-25 scheme. The foreign currency cash reserve comprises of an amount equivalent to atleast 5% of the bank's foreign currency deposits mobilised under FE-25 scheme which is kept in a non-remunerative account. The balance reserve equivalent to at least 15% of the bank's foreign currency deposits mobilised under FE-25 scheme is maintained in a remunerative account on which the bank is entitled to earn a return which is declared by SBP on a monthly basis. During the current year, this deposit account was remunerated at rates ranging from 3.39% per annum to 4.35% per annum (2005: 1.40% per annum to 3.29% per annum).

	Note	2006	2005
		(Rupees in '000)	
7. BALANCES WITH OTHER BANKS			
In Pakistan			
On current account		1,242,424	412,002
On deposit account	7.1	4,100,000	1,000,016
Outside Pakistan			
On current account	7.2	1,260,579	1,041,610
		<u>6,603,003</u>	<u>2,453,628</u>

7.1 These deposits carry mark-up at rates ranging from 11.25 % to 12.75 % per annum (2005:11.50 % to 12.00 % per annum) and have a maturity period of upto four months.

7.2 This includes Rs.762.428 million (2005:Rs.239.049 million) held in Automated Investment Plans. This balance is current by nature and on increase in the balance above a specified amount, the bank is entitled to earn interest from the correspondent banks at agreed upon rates.

SONERI BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. STATUS AND NATURE OF BUSINESS

Soneri Bank Limited was incorporated in Pakistan on September 28, 1991 as a public limited company under the Companies Ordinance, 1984 with registered office situated at 4th floor, IEP building, 97-B / D - 1, Gulberg III, Lahore, Punjab. Its shares are quoted on all the stock exchanges in Pakistan. The bank is engaged in banking services as described in the Banking Companies Ordinance, 1962 and operates 72 branches including two Islamic banking branches (2005: 60 branches including one Islamic banking branch) in Pakistan.

2 BASIS OF PRESENTATION

- (a) In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.
- (b) The financial results of the Islamic Banking branches of the bank has been consolidated in these financial statements for reporting purposes, after eliminating material intra branch transactions / balances. The financial results of the Islamic Banking branches are disclosed in Annexure II to these financial statements.

3 STATEMENT OF COMPLIANCE

- 3.1** 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 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 differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence.
- 3.2** The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.
- 3.3 Initial Application of a Standard or an Interpretation**

Amendments to published standards and new interpretations effective in 2006

IAS 19 (Amendment), Employee Benefits, is mandatory for the bank's accounting periods beginning on or after January 1, 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 disclosures presented in the financial statements.

The other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2006 but considered not to be relevant or to have any significant effect on the bank's operations have therefore not been detailed in these financial statements.

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

The following amendment to existing standards have been published that are mandatory for the bank's accounting periods beginning on the dates mentioned below:

- IAS 1 Presentation of Financial Statements – Capital Disclosures (Effective from January 1, 2007)

Adoption of the above amendment will only impact the extent of disclosures presented in the financial statements.

4 BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except that certain fixed assets are stated at revalued amounts, certain investments and commitments in respect of certain forward exchange contracts have been marked to market and are carried at fair value and staff retirement benefit are carried at present value.

4.2 Critical accounting estimate and judgements

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 42.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash and balances with treasury banks and balances with other banks in current and deposit accounts.

5.2 Lendings to / borrowings from financial and other institutions

The bank enters into re-purchase agreements (repo) and reverse re-purchase agreements (reverse repo) at contracted rates for a specified period of time. These are recorded as under:

(a) Sale under repurchase obligation

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

(b) Purchase under resale obligation

Securities purchased under agreement to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings to financial and other institutions. The difference between the contracted sales price and resale price is recognised as mark-up income on time proportion basis over the period of the contract.

(c) Other borrowings

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

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 that the bank has the positive intent and ability to hold to maturity.

(c) Available for sale

These are investments, other than those in subsidiaries and associates, if any, that do not fall under the held for trading or held to maturity categories.

Investments other than those categorised as held for trading are initially recognised at fair value which includes transaction costs associated with the investment. Investments classified as held for trading are initially recognised at fair value, and transaction costs are expensed in the profit and loss account.

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the bank commits to purchase or sell the investment.

In accordance with the requirements of State Bank of Pakistan, quoted securities other than those classified as 'held to maturity' are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities classified as 'available for sale', is taken to a separate account shown in the balance sheet below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account.

In accordance with the BSD circular No.14 dated September 24, 2004 issued by SBP, investments classified as 'held to maturity' are carried at amortised cost.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

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

Profit / (loss) on sale of investments is credited / charged to the profit and loss account currently.

5.4 Advances

Advances are stated at cost less specific and general provisions. Specific provision for non performing advances is determined on the basis of Prudential Regulations and the other directives issued by the State Bank of Pakistan and charged to the profit and loss account. The bank also maintains general provision in respect of potential losses present in the portfolio which are not specifically identified. General provision against consumer financing portfolio is maintained as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Advances are written off when there is no realistic prospect of recovery.

5.5 Fixed assets and depreciation

Owned

Property and equipment, other than capital work-in-progress are stated at cost or revalued amount less accumulated depreciation and accumulated impairment loss (if any). Capital work-in-progress is stated at cost less impairment losses.

Depreciation on all operating fixed assets is charged using the straight line method in accordance with the rates specified in note 11.2 to the financial statements after taking into account residual value, if any. The residual values and useful lives are reviewed and adjusted, if appropriate at each balance sheet date.

Surplus arising on revaluation is credited to the surplus on revaluation of fixed assets account. Deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the above mentioned surplus account as allowed under the provisions of the Companies Ordinance, 1984. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets is transferred to unappropriated profit.

Depreciation on additions is charged from the month the assets are available for use while in the case of assets disposed off, it is charged up to the month of disposal.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised.

Gains and losses on sale of fixed assets are charged / credited to the profit and loss account currently, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to unappropriated profit.

Leased

Assets held under finance lease, if any, are stated at lower of fair value or present value of minimum lease payments at inception less accumulated depreciation. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods.

The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of return on the outstanding liability.

Depreciation on assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the bank.

5.6 Operating leases

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

5.7 Impairment

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

5.8 Taxation

Current

Provision for current taxation is based on the taxable income at the current rates of taxation after taking into account available tax credit and rebates, 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 the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities used 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 reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

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

5.9 Provisions

Provisions are recognised 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 a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

5.10 Staff retirement benefits

Defined benefit plan

The bank operates an approved funded gratuity scheme for all its permanent employees. Annual contributions are made to the scheme in accordance with the actuarial recommendation. The actuarial valuation is carried out using the projected unit credit method. The cumulative unrecognised actuarial gain and losses at each valuation date are amortised over the average remaining working lives of the employees in excess of the following corridor limits at the end of the last reporting year:

- (i) 10% of the present value of the defined benefit obligation; and
- (ii) 10% of the fair value of the plan assets

Gratuity is payable to staff on completion of the prescribed qualifying period of service under the scheme.

Defined contribution plan

The bank operates an approved provident fund scheme for all its permanent employees. Equal monthly contributions are made, both by the bank and its employees, to the fund at the rate of 8.33 percent of basic salaries of the employees. The minimum qualifying period of service for the purpose of bank's contribution is five years.

5.11 Employees' compensated absences

Employees' entitlement to annual leave is recognised when they accrue to employees. A provision is made for estimated liability in respect of unavailed leaves earned upto the date of balance sheet.

5.12 Revenue recognition

- Mark-up income / interest on advances and return on investments are recognised on a time proportion basis using the effective yield on the instrument.
- Mark-up / return on classified advances and investments is recognised on receipt basis. Interest / return / mark-up on rescheduled / restructured advances and investments is recognised as permitted by the Prudential Regulations issued by the State Bank of Pakistan, except where in the opinion of the management, it would not be prudent to do so.
- Fee, commission and brokerage income is recognised when earned on time proportion basis.
- Dividend income from investments is recognised when the bank's right to receive the dividend is established.
- Premium or discount on acquisition of investments is capitalised and amortised through the profit and loss account over the remaining period till maturity.

5.13 Foreign currencies

(a) Foreign currency transactions

Foreign currency transactions are translated into rupees at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities in the foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. The fair value of forward cover taken from the State Bank of Pakistan, if any, for foreign currency deposits is added / deducted from value of foreign currency deposits. Outstanding forward foreign exchange contracts and foreign bills purchased excluding swap contracts are valued at the rates applicable to the respective maturities. Exchange gains and losses are included in the current income.

(b) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the bank operates. The financial statements are presented in Pakistani Rupees, which is the bank's functional and presentation currency.

(c) Translation gains and losses

Translation gains and losses are included in the profit and loss account.

(d) Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in the financial statements at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of the transaction.

5.14 Provision for guarantee claims and other off balance sheet obligations

Provision for guarantee claims and other off balance sheet obligations is 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.

5.15 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.

5.16 Financial instruments

5.16.1 Financial assets and liabilities

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

5.16.2 Derivative financial instruments

Derivative financial instruments, if any, are initially recognised at fair value on the date on which a 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 liability when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

5.16.3 Off-setting

Financial assets and financial liabilities are off-set and the net amount is reported in the financial statements when there exists a legally enforceable right to set-off and the bank intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

5.17 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 risks 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

Corporate finance

Corporate banking includes syndicated financing and services provided in connection with mergers and acquisition, underwriting, privatisation, securitisation, research, debts (government, high yield), equity, syndication, IPO and secondary private placements.

Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

Retail Banking

It includes retail lending and deposits, banking services, trust and estates, private lending and deposits, banking service, trust and estates investment advice, merchant / commercial / corporate cards and private labels and retail.

Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange and deposits.

5.18 Earnings per share

The bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the bank by the weighted average number of ordinary shares outstanding during the period / year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

5.19 Dividends, appropriations and transfer between reserves

During the year the bank has changed its accounting policy pertaining to recognition of dividends, appropriations and transfers between reserves (except transfers required by law) made subsequent to the balance sheet date. As per the new policy dividends declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are not recorded in the financial statements. Previously, such dividends declarations and transfers between reserves were being treated as adjusting events in the financial statements of the bank and were recorded as an appropriation into the financial statements. The new policy is in accordance with the requirements of IAS-10: Events after the Balance Sheet date and complies with the requirements set out in BSD Circular No.4 dated February 17, 2006 issued by the State Bank of Pakistan. The change in accounting policy has been applied retrospectively and comparative information has been restated in accordance with the treatment specified in IAS-8: Accounting Policies, Changes in Accounting Estimates and Errors.

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The effect of the change in accounting policy has been reflected in the statement of changes in equity. The change in accounting policy has not resulted in any change in the profit for the current or prior year.

	Note	2006 (Rupees in '000)	2005
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In hand			
Local currency	6.1	988,046	783,317
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Local currency		-	1,000
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With State Bank of Pakistan in			
Local currency current account	6.2	3,499,831	2,353,064
Foreign currency current account	6.3	166,039	191,324
Foreign currency deposit account against foreign currency deposits mobilised	6.4	509,376	602,599
With National Bank of Pakistan in			
Local currency current account		148,666	175,765
		<u>5,551,302</u>	<u>4,352,608</u>

6.1 This includes National Prize Bonds of Rs.3.801 million (2005: Rs.2.116 million).

6.2 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in current account opened with the SBP at a sum not less than such percentage of its time and demand liabilities as may be prescribed by SBP.

6.3 This represents current account maintained with the SBP as per their requirements.

6.4 This represents foreign currency cash reserve maintained with SBP at an amount equivalent to at least 20% of the bank's foreign currency deposits mobilised under FE-25 scheme. The foreign currency cash reserve comprises of an amount equivalent to atleast 5% of the bank's foreign currency deposits mobilised under FE-25 scheme which is kept in a non-remunerative account. The balance reserve equivalent to at least 15% of the bank's foreign currency deposits mobilised under FE-25 scheme is maintained in a remunerative account on which the bank is entitled to earn a return which is declared by SBP on a monthly basis. During the current year, this deposit account was remunerated at rates ranging from 3.39% per annum to 4.35% per annum (2005: 1.40% per annum to 3.29% per annum).

	Note	2006 (Rupees in '000)	2005
7. BALANCES WITH OTHER BANKS			
In Pakistan			
On current account		1,242,424	412,002
On deposit account	7.1	4,100,000	1,000,016
Outside Pakistan			
On current account	7.2	1,260,579	1,041,610
		<u>6,603,003</u>	<u>2,453,628</u>

7.1 These deposits carry mark-up at rates ranging from 11.25 % to 12.75 % per annum (2005:11.50 % to 12.00 % per annum) and have a maturity period of upto four months.

7.2 This includes Rs.762.428 million (2005:Rs.239.049 million) held in Automated Investment Plans. This balance is current by nature and on increase in the balance above a specified amount, the bank is entitled to earn interest from the correspondent banks at agreed upon rates.

8. LENDINGS TO FINANCIAL AND OTHER INSTITUTIONS	Note	2006 (Rupees in '000)	2005
Call money lendings	8.2	1,750,000	2,975,000
Repurchase agreement lendings (Reverse Repo)	8.3	1,443,405	1,570,574
Others - Letters of placement (LOP)		-	300,000
		<u>3,193,405</u>	<u>4,845,574</u>
8.1 Particulars of lendings			
In local currency		3,193,405	4,845,574
In foreign currencies		-	-
		<u>3,193,405</u>	<u>4,845,574</u>

8.2 These represent lendings to various commercial banks in the inter bank money market. These carry mark-up at rates ranging from 10.50% to 12.00% per annum (2005: from 7.00% to 10.00% per annum) and have a maturity period of upto three months from the date of lending.

8.3 Securities held as collateral against lendings to financial and other institution

	2006			2005		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	----- (Rupees in '000) -----					
Market Treasury Bills	-	-	-	846,759	-	846,759
Ordinary Shares	1,443,405	-	1,443,405	723,815	-	723,815
	<u>1,443,405</u>	<u>-</u>	<u>1,443,405</u>	<u>1,570,574</u>	<u>-</u>	<u>1,570,574</u>

The above lendings carry mark-up rates ranging from 14.5% per annum to 19.79% per annum (2005: From 7.00% to 17.56% per annum) and have a maturity period upto one month.

9. INVESTMENTS

9.1 Investments by types	Note	2006			2005		
		Held by bank	Further Given as collateral	Total	Held by bank	Further Given as collateral	Total
		----- (Rupees in '000) -----					
Available for sale securities							
Market Treasury Bills		7,112,911	-	7,112,911	-	-	-
Pakistan Investment Bonds		1,005,524	2,100,000	3,105,524	94,848	3,085,412	3,180,260
Federal Investment Bonds		53,606	-	53,606	215,944	-	215,944
Fully paid-up ordinary shares		326,545	-	326,545	487,545	-	487,545
Units of mutual funds		271,737	-	271,737	149,391	-	149,391
Fully paid up preference shares		45,421	-	45,421	45,421	-	45,421
		<u>8,815,744</u>	<u>2,100,000</u>	<u>10,915,744</u>	<u>993,149</u>	<u>3,085,412</u>	<u>4,078,561</u>
Held to maturity securities							
Market Treasury Bills		-	-	-	4,583,999	373,624	4,957,623
Pakistan Investment Bonds		2,433,705	-	2,433,705	1,721,499	1,319,330	3,040,829
Certificates of Investments		2,400,000	-	2,400,000	3,555,000	-	3,555,000
Term Finance Certificates and bonds		1,059,179	-	1,059,179	707,793	-	707,793
		<u>5,892,884</u>	<u>-</u>	<u>5,892,884</u>	<u>10,568,291</u>	<u>1,692,954</u>	<u>12,261,245</u>
Investments at cost		<u>14,708,628</u>	<u>2,100,000</u>	<u>16,808,628</u>	<u>11,561,440</u>	<u>4,778,366</u>	<u>16,339,806</u>
Less: Provision for diminution in the value of investments	9.3	(5,700)	-	(5,700)	(5,700)	-	(5,700)
Investments (net of provision)		<u>14,702,928</u>	<u>2,100,000</u>	<u>16,802,928</u>	<u>11,555,740</u>	<u>4,778,366</u>	<u>16,334,106</u>
Surplus / (deficit) on revaluation of available for sale securities	21.2	(158,643)	79,968	(78,675)	1,433,760	(1,377,242)	56,518
Total investments at market value		<u>14,544,285</u>	<u>2,179,968</u>	<u>16,724,253</u>	<u>12,989,500</u>	<u>3,401,124</u>	<u>16,390,624</u>

9.2 Investments by segments	Note	2006 (Rupees in '000)	2005
Federal Government Securities			
- Market Treasury Bills		7,112,911	4,957,623
- Federal Investment Bonds	9.4	53,606	215,944
- Pakistan Investment Bonds		5,539,229	6,221,089
		12,705,746	11,394,656
Fully paid up ordinary shares of Rs 10 each			
Listed companies			
- Hub Power Company Limited [553,000 (2005: 639,000)]		20,241	23,130
- Fauji Fertilizer Company Limited [720,368 (2005: 617,868)]		57,039	42,493
- Pakistan Oilfields Limited [91,350 (2005: 391,900)]		29,576	141,612
- Pakistan State Oil Company Limited [10,800 (2005: NIL)]		4,216	-
- Engro Chemicals Pakistan Limited [NIL (2005: 304,600)]		-	31,474
- Oil & Gas Development Company Limited [60,000 (2005: 103,124)]		7,822	9,028
- Askari Commercial Bank Limited [475,007 (2005: 254,000)]		32,503	20,362
- Pakistan Telecommunication Company Limited [110,000 (2005: NIL)]		7,447	-
- Pakistan Cement Company Limited [NIL (2005: 200,000)]		-	1,890
- Fauji Cement Company Limited [200,000 (2005: 200,000)]		3,295	3,295
- Dewan Farooque Spinning Mills Limited [NIL (2005: 1,000,000)]		-	10,000
- Macpac Films Limited [NIL (2005: 100,000)]		-	2,230
- Pakistan PTA Limited [100,000 (2005: 100,000)]		1,278	1,278
- Packages Limited [3,000 (2005: 3,400)]		436	494
- National Bank of Pakistan [80,000 (2005: 100,000)]		21,538	10,847
- Indus Motor Company Limited [103,000 (2005: 27,700)]		18,328	2,778
- Pakistan Petroleum Limited [15,000 (2005: 490,500)]		3,484	101,538
- Attock Refinery Limited [35,000 (2005: 25,000)]		5,855	5,100
- The Bank of Punjab [335,230 (2005: 485,000)]		32,130	49,296
- NIB Bank Limited [50,000 (2005: NIL)]		1,744	-
- Dewan Hattar Cement Limited [25,000 (2005: NIL)]		459	-
- Arif Habib Securities Limited [15,000 (2005: NIL)]		3,427	-
- D.G.Khan Cement Company Limited [39,875 (2005: NIL)]		4,679	-
- Fauji Fertilizer Bin Qasim Limited [15,000 (2005: NIL)]		566	-
- Faysal Bank Limited [20,000 (2005: NIL)]		1,429	-
- Lucky Cement Limited [140,000 (2005: NIL)]		13,988	-
- Maple Leaf Cement Factory Limited [25,000 (2005: NIL)]		1,117	-
- Sui Northern Gas Pipelines Limited [16,500 (2005: NIL)]		1,440	-
- International Industries Limited [26,467 (2005: NIL)]		2,954	-
- Artistic Denim Mills Limited [100,000 (2005: NIL)]		5,144	-
- Pakistan Industrial Credit & Investment Corporation [100,000 (2005: NIL)]		7,358	-
- MCB Bank Limited [25,000 (2005: NIL)]		6,352	-
Un-listed companies			
- Khushhali Bank [25 (2005: 25) shares of Rs 1,000,000 each] (President: Mr. M. Ghalib Nishtar)	9.5	25,000	25,000
- Pakistan Export Finance Guarantee Agency Limited [569,958 (2005: 569,958)] (Chief Executive: Mr. S. M. Zaeem)	9.6	5,700	5,700
		326,545	487,545
Fully paid up preference shares of Rs 10 each			
Listed companies			
- Shakarganj Mills Limited [4,542,067 (2005: 4,542,067)]		45,421	45,421
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates			
Listed Term Finance Certificates of Rs 5,000 each			
- Shahmurad Sugar Mills Limited [NIL (2005:4,000)]		-	3,332
- First Dawood Investment Bank Limited [5,000 (2005: 5,000)]		25,000	25,000
Balance carried forward		25,000	28,332

	Note	2006 (Rupees in '000)	2005
Balance brought forward		25,000	28,332
- Orix Leasing Pakistan Limited [NIL (2005:10,000)]		-	50,000
- Faysal Bank Limited [6,000 (2005:NIL)]	9.7	30,000	-
- Sui Southern Gas Company Limited [4,000 (2005:4,000)]		3,331	9,992
- Maple Leaf Cement Factory Limited [NIL (2005:4,000)]		-	6,664
- Crescent Leasing Corporation Limited [3,000 (2005:3,000)]		15,000	15,000
- Shakarganj Mills Limited [NIL (2005:4,000)]		-	7,995
- Securetel SPV Limited [NIL (2005:5,000)]		-	2,083
- Trust Leasing Limited [3,000 (2005: 3,000)]		9,000	12,000
- Bank Al-Habib Limited - I [5,000 (2005: 5,000)]		24,975	24,990
- Bank Al-Habib Limited - II [3,000 (2005: NIL)]	9.7	15,000	-
- United Bank Limited 1st issue [8,000 (2005: 8,000)]		39,969	39,985
- United Bank Limited 2nd issue [7,000 (2005: 7,000)]		34,998	34,999
- United Bank Limited 3rd issue [9,716 (2005: NIL)]		48,580	-
- Askari Commercial Bank Limited [17,961 (2005: 17,961)]		89,769	89,800
- Jahangir Siddiqui & Company Limited 2nd issue [4,000 (2005: 4,000)]		19,980	19,988
- Jahangir Siddiqui & Company Limited 4th issue [4,000 (2005: NIL)]		20,000	-
- Naimat Basal Oil & Gas Securitization Company Limited [10,000 (2005:10,000)]		35,927	46,704
- Bank Al-Falah Limited [3,000 (2005: 3,000)]		14,994	15,000
- Azgard Nine Limited [10,000 (2005: 10,000)]		49,980	50,000
- Union Bank Limited (now Standard Chartered Bank Pakistan Limited [5,000 (2005: 5,000)])		24,995	25,000
- First International Investment Bank Limited [3,000 (2005: NIL)]		15,000	-
- Gharibwal Cement Limited [8,000 (2005: NIL)]	9.7	40,000	-
- Pakistan Mobile Communication Limited [5,000 (2005: NIL)]		24,995	-
- Worldcall Communication Limited [4,227 (2005: NIL)]		21,135	-
- Allied Bank Limited [6,000 (2005: NIL)]	9.7	30,000	-
- Escort Investment Bank Limited [2,000 (2005: NIL)]	9.7	10,000	-
- JS-ABAMCO Financial Receivables Securitization Limited [5,000 (2005: NIL)]	9.7	25,000	-
Un-Listed Term Finance Certificates of Rs. 5,000 each			
- Kohinoor Textile Mills Limited [5,000 (2005: 5,000)]		9,375	15,625
- Dewan Textile Mills Limited [10,000 (2005:10,000)]		6,250	18,750
- Crescent Leasing Corporation Limited [6,000 (2005:6,000)]		9,000	15,000
- Crescent Commercial Bank Limited (formerly Trust Commercial Bank Limited [NIL (2005:5,000)])		-	12,495
- Grays Leasing Limited [3,000 (2005: 3,000)]		5,625	9,375
- Crescent Steel & Allied Products Limited [8,000 (2005: 8,000)]		25,000	35,000
- Dewan Farooque Spinning Mills Limited [5,000(2005: 5,000)]		18,750	25,000
- Tandlianwala Sugar Mills Limited [5,000 (2005: 5,000)]		22,500	25,000
- Pakistan Mobile Communication (Pvt.) Limited [10,000 (2005: 10,000)]		50,000	50,000
- Azgard Nine Limited [40,000 (2005: NIL)]		200,000	-
- Dewan Cement Limited - Series 'A' (Profit bearing)		14,926	17,891
- Dewan Cement Limited - Series 'B' (Non-Profit bearing)		5,125	5,125
WAPDA Sukuk bonds [5000 (2005: NIL) of Rs 5,000 each]		25,000	-
		1,059,179	707,793
Others - Units of Mutual Funds			
Open ended			
- National Investment Unit Trust [2,100,841 (2005: 639,067)] (Managed by National Investment Trust Limited)		100,000	28,055
- Meezan Islamic Fund [200,000 (2005: 295,036)] (Managed by Al Meezan Investment Management Limited)		10,000	10,000
- Atlas Stock Market Fund [20,000 (2005: 22,499)] (Managed by Atlas Asset Management Limited)		10,000	10,000
- Faysal Balanced Growth Fund [100,000 (2005: 114,516)] (Managed by Faysal Asset Management Limited)		10,000	10,184
Balance carried forward		130,000	58,239

	Note	2006 (Rupees in '000)	2005
<i>Balance brought forward</i>		130,000	58,239
- Pakistan Capital Market Fund [999,080 (2005:492,000)] (Managed by Arif Habib Investment Management Limited)		9,300	4,892
- Al-Falah GHP Value Fund [300,737 (2005:200,000)] (Managed by Alfalah GHP Investment Management Limited)		15,882	10,000
- Faysal Income & Growth Fund [NIL (2005:100,000)] (Managed by Faysal Asset Management Limited)		-	10,000
- NAFA Cash Fund [1,019,000 (2005:NIL)] (Managed by National Fullerton Asset Management Limited)		10,000	-
- Pakistan International Element Islamic Fund [503,691 (2005:NIL)] (Managed by Arif Habib Investment Management Limited)		25,000	-
- Reliance Income Fund [200,000 (2005:NIL)] (Managed by Faysal Asset Management Limited)		10,000	-
- Atlas Islamic Fund [20,000 (2005:NIL)] (Managed by Atlas Asset Management Limited)		10,000	-
- United Money Market Fund [238,047 (2005:NIL)] (Managed by UBL Fund Managers Limited)		25,000	-
Closed-end			
- UTP Large Capital Fund (Formerly ABAMCO Composite Fund) [923,197 (2005: 3,899,697)]		9,192	38,897
- Pakistan Strategic Allocation Fund [2,495,500 (2005: 2,495,500)]		24,955	24,955
- PICIC Investment Fund [134,600 (2005: 134,600)]		2,408	2,408
		271,737	149,391
Certificates of Investment		2,400,000	3,555,000
Total investments at cost		16,808,628	16,339,806
Less: Provision for diminution in the value of investment	9.3	(5,700)	(5,700)
Investments (net of provision)		16,802,928	16,334,106
(Deficit) / surplus on revaluation of available for sale securities	21.2	(78,675)	56,518
Total investments at market value		16,724,253	16,390,624
9.3 Particulars of provision for diminution in value of investments			
Opening balance		5,700	-
Charge for the year		-	5,700
Closing balance		5,700	5,700
9.3.1 Particulars of provision for diminution in value of investments by type and segment			
Available for sale securities			
Unlisted companies			
- Fully paid up ordinary shares of Rs 10 each			
- Pakistan Export Finance Guarantee Agency Limited		5,700	5,700
		5,700	5,700
9.4	This includes securities having a market value of Rs 32.099 million (2005: Rs 33.707 million) pledged with the State Bank of Pakistan and the National Bank of Pakistan as security to facilitate T. T. discounting facility to branches of the bank.		
9.5	This represents the bank's subscription towards the paid-up capital of Khushhali Bank Limited. Pursuant to section 10 of the Khushhali Bank Ordinance, 2000 strategic investors including the bank were not allowed to sell or transfer their investment before a period of 5 years which expired on 10 October 2002. Thereafter, such sale / transfer would be subject to the prior approval of SBP. In addition, profits if any, and other income of Khushhali Bank, shall not be used to pay any dividend to the members, and shall be utilised to promote the objectives of Khushhali Bank.		
9.6	This investment can only be sold to an existing investor.		

9.7 These represent payments made by the bank towards its participation in Pre - Initial Public Offering (Pre-IPO). The certificates against these subscriptions have not been issued by December 31, 2006.

9.8 Market Treasury Bills, Federal Investment Bonds and Pakistan Investment Bonds are eligible for discounting with the State Bank of Pakistan.

9.9 Significant particulars relating to government securities, term finance certificates and certificates of investment are as follows:

Name of investment	Maturity	Principal payments	Coupon rate (%)	Coupon payments
Market Treasury Bills	January 2007 to December 2007	On maturity	8.48 to 9.00	At maturity
Federal Investment Bonds	January 2007 to November 2007	On maturity	15.00	Semi-annually
Pakistan Investment Bonds	April 2007 to January 2024	On maturity	6.00 to 10.00	Semi-annually
Term Finance Certificates	June 2007 to December 2014	Semi-annually/ quarterly/monthly	3.50 to 17.00	Semi-annually
Certificates of Investment	January 2007 to March 2007	On maturity	11.00 to 12.75	At maturity

9.10 Quality of available for sale securities

Securities (at market value)	2006		2005	
	Amount	Rating	Amount	Rating
	(Rupees in '000)			
Federal Government Securities				
- Market Treasury Bills	7,109,580	N / A	-	N / A
- Federal Investment Bonds	53,400	N / A	215,388	N / A
- Pakistan Investment Bonds	3,021,823	N / A	3,093,874	N / A
Fully paid up ordinary shares of Rs 10 each				
Listed companies				
- Hub Power Company Limited	14,931	N / A	15,336	N / A
- Fauji Fertilizer Company Limited	76,035	N / A	84,648	N / A
- Pakistan Oilfields Limited	31,949	N / A	167,732	N / A
- Pakistan State Oil Company Limited	3,176	AAA(L), A1+(S)	-	AAA(L), A1+(S)
- Engro Chemicals Pakistan Limited	-	AA(L), A1+ (S)	50,091	AA(L), A1+ (S)
- Oil & Gas Development Company Limited	6,882	N / A	12,169	N / A
- Askari Commercial Bank Limited	49,852	AA+(L), A1+(S)	32,207	AA+(L), A1+(S)
- Pakistan Telecommunication Company Limited	4,873	N / A	-	N / A
- Pakistan Cement Company Limited	-	N / A	3,140	N / A
- Fauji Cement Company Limited	3,020	N / A	4,600	N / A
- Dewan Farooque Spinning Mills Limited	-	N / A	8,800	N / A
- Macpac Films Limited	-	N / A	1,955	N / A
- Pakistan PTA Limited	490	N / A	805	N / A
- Packages Limited	630	AA(L), A1+ (S)	687	AA(L), A1+ (S)
- National Bank of Pakistan	17,940	AAA(L), A1+ (S)	19,945	AAA(L), A1+ (S)
- Indus Motor Company Limited	20,085	N / A	4,872	N / A
- Pakistan Petroleum Limited	3,480	N / A	103,129	N / A
- Attock Refinery Limited	2,916	AA-(L), A1+ (S)	5,200	AA-(L), A1+ (S)
- The Bank of Punjab	33,942	AA(L), A1+ (S)	49,688	AA(L), A1+ (S)
- NIB Bank Limited	1,220	A+(L), A1 (S)	-	-
- Dewan Hattar Cement Limited	250	N / A	-	-
- Arif Habib Securities Limited	3,241	N / A	-	-
- D.G.Khan Cement Company Limited	2,510	N / A	-	-
- Fauji Fertilizer Bin Qasim Limited	427	N / A	-	-
- Maple Leaf Cement Factory Limited	435	N / A	-	-
- Faysal Bank Limited	1,210	AA(L), A1+ (S)	-	-
- Lucky Cement Limited	8,386	N / A	-	-
- Sui Northern Gas Pipelines Limited	1,081	AA-(L), A1+ (S)	-	-
- International Industries Limited	2,885	N / A	-	-
- Artistic Denim Mills Limited	5,385	N / A	-	-
- Pakistan Industrial Credit & Investment Corporation	6,245	AA(L), A1+ (S)	-	-
- MCB Bank Limited	6,153	AA(L), A1+ (S)	-	-
Un-listed companies - at cost				
- Khushhali Bank	25,000	A-(L), A-1(S)	25,000	A-(L), A-1(S)
- Pakistan Export Finance Guarantee Agency Limited	5,700	N / A	5,700	N / A
<i>Balance carried forward</i>	10,525,132		3,904,966	

	2006		2005	
	Amount	Rating	Amount	Rating
----- (Rupees in '000) -----				
<i>Balance brought forward</i>	10,525,132		3,904,966	
Fully paid up preference shares of Rs 10 each				
Listed companies				
- Shakarganj Mills Limited	45,421	N / A	49,963	N / A
Units of Mutual Funds				
Open ended				
- National Investment Unit Trust	94,223	4-Star	32,752	4-Star
- Meezan Islamic Fund	11,910	5-Star	22,207	5-Star
- Atlas Stock Market Fund	11,058	4-Star	14,148	4-Star
- Faysal Balanced Growth Fund	10,077	N / A	14,453	N / A
- Pakistan Capital Market Fund	11,439	5-Star	7,296	5-Star
- Al-Falah GHP Value Fund	17,208	N / A	10,256	N / A
- Faysal Income & Growth Fund	-	A+(f)	10,244	A+(f)
- NAFA Cash Fund	10,720	N / A	-	-
- Pakistan International Element Islamic Fund	24,112	N / A	-	-
- Reliance Income Fund	10,212	N / A	-	-
- Atlas Islamic Fund	10,000	N / A	-	-
- United Money Market Fund	25,008	N / A	-	-
Closed-end				
- UTP Large Capital Fund (Formerly ABAMCO Composite Fund)	7,385	4-Star	37,147	4-Star
- Pakistan Strategic Allocation Fund	21,212	5-Star	29,197	5-Star
- PICIC Investment Fund	1,952	3-Star	2,450	3-Star
Total	<u>10,837,069</u>		<u>4,135,079</u>	

L represent Long Term Rating
S represent Short Term Rating

	Note	2006	2005
(Rupees in '000)			
10. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		32,287,262	28,427,132
Outside Pakistan		-	-
		<u>32,287,262</u>	<u>28,427,132</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		585,220	336,866
Payable outside Pakistan		2,955,877	3,682,200
		<u>3,541,097</u>	<u>4,019,066</u>
Advances - gross		35,828,359	32,446,198
Provision for non-performing advances	10.3	(416,111)	(393,654)
Advances - net of provision		<u>35,412,248</u>	<u>32,052,544</u>
10.1 Particulars of advances (Gross)			
10.1.1 In local currency		30,648,616	26,375,708
In foreign currencies		5,179,743	6,070,490
		<u>35,828,359</u>	<u>32,446,198</u>
10.1.2 Short Term (for upto one year)		28,977,777	26,278,583
Long Term (for over one year)		6,850,582	6,167,615
		<u>35,828,359</u>	<u>32,446,198</u>

- 10.2** Advances include Rs.351.710 million (2005:Rs.350.324 million) which have been placed under non-performing status as detailed below:-

Category of Classification	2006								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- (Rupees in '000) -----								
OAEM	505	-	505	-	-	-	-	-	-
Substandard	5,273	-	5,273	1,309	-	1,309	1,309	-	1,309
Doubtful	1,359	-	1,359	683	-	683	683	-	683
Loss	344,573	-	344,573	344,573	-	344,573	344,573	-	344,573
	<u>351,710</u>	<u>-</u>	<u>351,710</u>	<u>346,565</u>	<u>-</u>	<u>346,565</u>	<u>346,565</u>	<u>-</u>	<u>346,565</u>
Category of Classification	2005								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total

10.3 Particulars of provision against non-performing advances

	2006				2005			
	Specific	Consumer	General	Total	Specific	Consumer	General	Total
	----- (Rupees in '000) -----							
Opening balance	324,654	19,000	50,000	393,654	262,424	12,901	50,000	325,325
Charge for the year	45,678	546	-	46,224	118,224	6,099	-	124,323
Amount written off - note 10.4	(14,164)	-	-	(14,164)	(1,894)	-	-	(1,894)
Reversals	(9,603)	-	-	(9,603)	(54,100)	-	-	(54,100)
Closing balance	<u>346,565</u>	<u>19,546</u>	<u>50,000</u>	<u>416,111</u>	<u>324,654</u>	<u>19,000</u>	<u>50,000</u>	<u>393,654</u>

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

- 10.3.2** General provision represents provision made in respect of potential losses present in the portfolio but not specifically identified. The provision has been determined on the basis of the management's best estimate.

10.3.3 Particulars of provisions against non-performing advances

	2006				2005			
	Specific	Consumer	General	Total	Specific	Consumer	General	Total
	----- (Rupees in '000) -----							
In local currency	346,565	19,546	50,000	416,111	324,654	19,000	50,000	393,654
In foreign currencies	-	-	-	-	-	-	-	-
	<u>346,565</u>	<u>19,546</u>	<u>50,000</u>	<u>416,111</u>	<u>324,654</u>	<u>19,000</u>	<u>50,000</u>	<u>393,654</u>

	Note	2006 (Rupees in '000)	2005
10.4 Particulars of write offs:			
10.4.1 Against Provisions	10.3	14,164	1,894
Directly charged to Profit & Loss account		124	45
		<u>14,288</u>	<u>1,939</u>
10.4.2 Write offs of Rs. 500,000 and above	10.5	13,816	1,799
Write offs of below Rs. 500,000		472	140
		<u>14,288</u>	<u>1,939</u>

10.5 Details of loan write offs 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 a person(s) during the year ended December 31, 2006 is given at Annexure- 1. However, this write off does not affect the bank's right to recover the debts from these customers.

	2006 (Rupees in '000)	2005
10.6 Particulars of loans and advances to directors, associated companies, etc.		
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons*		
Balance at beginning of the year	98,161	70,750
Loans granted during the year	51,475	62,499
Repayments	<u>(34,403)</u>	<u>(35,088)</u>
Balance at end of the year	<u>115,233</u>	<u>98,161</u>

* Represent 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	11.1	71,026	46,556
Property and equipment	11.2	<u>1,858,859</u>	<u>1,718,948</u>
		<u>1,929,885</u>	<u>1,765,504</u>
11.1 Capital work-in-progress			
Civil works		50,814	30,105
Advances to suppliers and contractors		6,252	-
Advance against purchase of premises		12,011	13,157
Advance against purchase of furniture and fixture		-	1,646
Consultant's fee and other charges		1,949	1,648
		<u>71,026</u>	<u>46,556</u>

11.2 Property and equipment

	2006														Rate of depreciation
	COST / REVALUATION						ACCUMULATED DEPRECIATION						Book value at December 31, 2006	%	
	At January 1, 2006	Additions/ (deletions)	Reversal due to revaluation	Revaluation surplus	Other adjustments	Transfers in / transfer out	At December 31, 2006	At January 1, 2006	Charge for the year / (depreciation on deletions)	Reversal due to revaluation	Reversal due to other adjustments	Transfers / adjustments			
(Rupees in '000)														%	
Land and buildings on leasehold land	1,404,231	167,543	-	-	2,894	(18,070)	1,556,598	13,346	84,555	-	7,200	(978)	104,123	1,452,475	5
Leasehold improvement	110,541	16,216	-	-	(165)	-	126,592	31,708	5,660	-	(7,126)	-	30,242	96,350	5
Furniture and fixture	61,390	9,319 (103)	-	-	-	-	70,606	34,153	4,496 (103)	-	-	-	38,546	32,060	10-20
Electrical, office and computer equipment	381,459	115,591 (5,638)	-	-	#####	-	489,006	209,071	64,776 (5,420)	-	464	-	268,891	220,115	10-20
Vehicles	91,490	27,105 (10,191)	-	-	(323)	-	108,081	41,885	17,365 (8,490)	-	(538)	-	50,222	57,859	20
2006	2,049,111	335,774 (15,932)	-	-	-	(18,070)	2,350,883	330,163	176,852 (14,013)	-	-	(978)	492,024	1,858,859	
	2005														Rate of depreciation
	COST / REVALUATION						ACCUMULATED DEPRECIATION						Book value at December 31, 2005	%	
	At January 1, 2005	Additions/ (deletions)	Reversal due to revaluation	Revaluation surplus	Other adjustments	Transfers in / transfer out	At December 31, 2005	At January 1, 2005	Charge for the year / (depreciation on deletions)	Reversal due to revaluation	Reversal due to other adjustments	Transfers / adjustments			
(Rupees in '000)														%	
Land and buildings on leasehold land	694,679	167,868	(132,988)	774,949	-	-	1,404,231	137,377	35,930	(132,988)	-	(25,970) (1,003)	13,346	1,390,885	5
Leasehold improvement	-	10,264	-	-	-	100,277	110,541	-	5,738	-	-	25,970	31,708	78,833	5
Furniture, fixture and equipment	413,986	85,336 (56,473)	-	-	-	-	442,849	243,299	54,704 (55,782)	-	-	1,003	243,224	199,625	10-20
Vehicles	71,287	27,408 (7,205)	-	-	-	-	91,490	33,967	13,231 (5,313)	-	-	-	41,885	49,605	20
2005	1,179,952	290,876 (63,678)	(132,988)	774,949	-	100,277	2,049,111	414,643	109,603 (61,095)	(132,988)	-	-	330,163	1,718,948	

The comparative information in respect of this disclosure has been presented based on the requirements which were applicable to the prior year financial statements.

11.2.1 The cost of fully depreciated property and equipment still in use amounted to Rs.156.130 million (2005: Rs.141.324 million).

11.2.2 During the year 2005 leasehold land and buildings on leasehold land were revalued by M/s Harvester Services (Pvt.) Limited (Valuation and Engineering Consultants) on the basis of their professional assessment of their present market value. The revaluation resulted in a net surplus of Rs.774.949 million over the book value which has been incorporated in the books of the bank on November 30, 2005.

Had the land and building on leasehold land not been revalued their carrying amounts would have been Rs.757.315 million. (2005: Rs.620.428 million).

11.2.3 Disposals / deletions of property and equipment with original cost or book value in excess of rupees one million or two hundred fifty thousand respectively (which ever is less):

Particulars	Cost	Book value	Sale price / insurance proceeds	Mode of disposal / settlement	Particulars of buyers / insurance company
Furniture, fixtures					
WDV below Rs 250,000/- each and cost of less than Rs 1,000,000	103	-	-	Write-off	
	103	-	-		
Motor vehicles					
	939	376	391	As per Service rules	Ex-permanent employee (Mr. Nisar Ali Khoja)
	365	322	350	Insurance claim	EFU General Insurance Company Limited
	841	434	434	As per Service rules	Ex-permanent employee (Mr. Abdul Rasheed Mughal)
	731	231	-	Write-off	
WDV below Rs 250,000/- each and cost of less than Rs 1,000,000	7,315	338	2,607	Various	Various
	10,191	1,701	3,782		
Electrical office and computer equipment					
WDV below Rs 250,000/- each and cost of less than Rs 1,000,000	336	4	-	Write-off	
	5,302	214	668	Various	Various
	5,638	218	668		
	15,932	1,919	4,450		

12 OTHER ASSETS	Note	2006	2005
		(Rupees in '000)	
Income / mark-up accrued in local currency		927,886	708,721
Income / mark-up accrued in foreign currency		7,608	23,751
Advances, deposits, advance rent and other prepayments		201,065	126,603
Unrealised gain on forward foreign exchange contracts		98,574	82,351
Suspense account		10,183	18,812
Income tax recoverable		-	152,852
Stationary and stamps in hand		31,678	22,527
Due from the State Bank of Pakistan		8,607	337,334
Unrealised gain on derivative financial instruments-net		-	4,126
Advance against Membership Card of Islamabad Stock Exchange (Guarantee) Limited		11,100	11,100
Branch adjustment account		3,464	-
Amount due in respect of payment made for acquisition of premises at Faisalabad	12.1	17,092	-
Others		1,922	22
		<u>1,319,179</u>	<u>1,488,199</u>
Less: Provision held against other assets	12.2	(3,601)	(3,601)
Other assets (net of provision)		<u>1,315,578</u>	<u>1,484,598</u>

12.1 This represents amount due in respect of a property purchased by the bank for branch premises at Faisalabad. The transaction could not be executed due to dispute in the title of the seller. The bank has initiated proceedings for recovery of the amount paid by it to the seller. The seller has agreed to settle the amount in three installments and the first installment of Rs 6.21 million was received subsequent to the year end.

	Note	2006 (Rupees in '000)	2005
12.2 Provision against other assets			
Opening balance		3,601	3,519
Charge for the year		-	82
Closing balance		<u>3,601</u>	<u>3,601</u>
13 CONTINGENT ASSETS			
There were no contingent assets as at the balance sheet date.			
14 BILLS PAYABLE			
In Pakistan		957,576	863,930
Outside Pakistan		-	-
		<u>957,576</u>	<u>863,930</u>
15 BORROWINGS			
In Pakistan		8,498,663	7,399,794
Outside Pakistan		417,774	843,165
		<u>8,916,437</u>	<u>8,242,959</u>
15.1 Particulars of borrowings with respect to currencies			
In local currency		8,498,663	7,399,794
In foreign currencies		417,774	843,165
		<u>8,916,437</u>	<u>8,242,959</u>
15.2 Details of borrowings secured / unsecured			
Secured			
Borrowings from the State Bank of Pakistan			
Under export refinance scheme	15.2.1	5,006,194	3,967,738
Under Locally Manufactured Machinery (LMM) scheme		-	-
Long Term Finance - export oriented projects	15.2.2	642,469	161,232
Repurchase agreement borrowings	15.2.3	2,100,000	3,270,824
		7,748,663	7,399,794
Unsecured			
Call borrowings	15.2.4	750,000	-
Overdrawn nostro accounts		417,774	843,165
		1,167,774	843,165
		<u>8,916,437</u>	<u>8,242,959</u>

15.2.1 Borrowings under the Export Refinance Scheme of the State Bank of Pakistan (SBP) carry interest at rates ranging from 6.50% to 7.50% per annum (2005:3.50% to 7.50% per annum). These are secured against demand promissory notes.

15.2.2 These borrowings have been made from SBP for providing financing facilities to customers for import of machinery, plant, equipment and accessories thereof (not manufactured locally) by export oriented units.

15.2.3 These funds are borrowed in the local inter-bank market against pledge of Government Securities at rates ranging between 8.45% to 9.00% per annum (2005: 7.50% to 8.60% per annum) and have a maturing period of up to three months.

15.2.4 These call borrowings carry mark-up at rates ranging from 9.25% to 10.25% per annum (2005: Nil) and are repayable latest by March 15, 2007.

15.2.5 The carrying value of the Government Securities pledged against the above borrowings amounted to Rs.2,179.968 million (2005: Rs.3,401.125 million).

		2006	2005
		(Rupees in '000)	
16	DEPOSITS AND OTHER ACCOUNTS		
	Customers		
	Remunerative		
	Fixed deposits	16,205,806	8,544,944
	Savings deposits	21,132,755	26,100,189
	Non-Remunerative		
	Current Accounts	9,503,116	9,679,022
	Call deposits	178,556	220,147
	Margin deposits	391,239	313,642
	Special exporter account	3,273	15,980
	Others	83,914	114,872
		47,498,659	44,988,796
	Financial Institutions		
	Remunerative saving deposits	634,003	1,107,020
	Remunerative fixed deposits	4,867,758	1,507,597
	Non-remunerative current deposits	227	2,095
		5,501,988	2,616,712
		<u>53,000,647</u>	<u>47,605,508</u>
16.1	Particulars of deposits		
	In local currency	49,658,714	43,693,183
	In foreign currencies	3,341,933	3,912,325
		<u>53,000,647</u>	<u>47,605,508</u>
17	SUB-ORDINATED LOANS - UNSECURED (NON-PARTICIPATORY)		
	Listed Term Finance Certificates	<u>1,199,280</u>	<u>1,199,760</u>
17.1	Liability against Term Finance Certificates is stated at nominal amount. The liability is subordinated as to payment of principal and profit to all other indebtedness of the bank (including deposits) and is not redeemable before maturity without prior approval of the State Bank of Pakistan. Rate of mark-up on the liability is based on the floating rate of six months KIBOR prevailing immediately preceding the date before the start of each six month period for the profit due at the end of the semi-annual period plus 1.60% (subject to no floor and caps) per annum payable semi-annually.		

The major redemption will commence from 78th month of the issue in the following manner:-

Month	Redemption
-October 2011	25% of the issue amount
-March 2012	25% of the issue amount
-September 2012	25% of the issue amount
-March 2013	25% of the issue amount

		Note	2006	2005
		(Rupees in '000)		
18	DEFERRED TAX LIABILITIES - NET			
	Deferred credits arising due to			
	Accelerated tax depreciation		186,074	140,199
	Surplus on revaluation of fixed assets	21.1	250,791	269,660
			436,865	409,859
	Deferred debits arising in respect of			
	Provision for diminution in the value of investments		1,995	1,995
	Provision against non-performing advances		65,639	137,780
	Deficit on revaluation of securities	21.2	30,533	30,430
			98,167	170,205
			<u>338,698</u>	<u>239,654</u>

19 OTHER LIABILITIES	2006	2005
	(Rupees in '000)	
	(Restated)	
Mark-up / return / interest payable in local currency	536,250	392,491
Mark-up / return / interest payable in foreign currency	1,585	1,235
Unearned commission and income on bills discounted	17,630	19,238
Accrued expenses	27,469	18,214
Current taxation (provisions less payments)	54,350	288,306
Branch adjustment account	-	43,388
Provision for employees' compensated absences	37,770	30,326
Others	30,079	10,412
	<u>705,133</u>	<u>803,610</u>

20 SHARE CAPITAL**20.1 Authorised capital**

2006	2005		2006	2005
(Number of shares)			(Rupees in '000)	
<u>500,000,000</u>	<u>300,000,000</u>	Ordinary shares of Rs. 10/- each	<u>5,000,000</u>	<u>3,000,000</u>

20.2 Issued, subscribed and paid-up capital

	2006			2005			(Rupees in '000)	
	Issued for cash	Issued as bonus shares	Total	Issued for cash	Issued as bonus shares	Total		
	----- Number of shares -----							
Opening balance	33,000,000	132,349,354	165,349,354	33,000,000	94,191,796	127,191,796	1,653,494	1,271,919
Shares issued during the year	53,738,533	92,595,607	146,334,140	-	38,157,558	38,157,558	1,463,341	381,576
Closing balance	<u>86,738,533</u>	<u>224,944,961</u>	<u>311,683,494</u>	<u>33,000,000</u>	<u>132,349,354</u>	<u>165,349,354</u>	<u>3,116,835</u>	<u>1,653,495</u>

20.3 Major shareholders (holding more than 20% of total paid-up capital) as at December 31, 2006 are as follows:

Name of shareholder	Number of shares held	Percentage of shareholding
National Investment (Unit) Trust	73,142,016	23.47%
Trustees - Alauddin Feerasta Trust	63,158,936	20.26%
	<u>136,300,952</u>	<u>43.73%</u>

21 SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS	Note	2006	2005
		(Rupees in '000)	
Surplus / (deficit) on revaluation (net of tax) of:			
- fixed assets	21.1	465,755	500,797
- securities	21.2	(48,142)	86,948
		<u>417,613</u>	<u>587,745</u>
21.1 Surplus on revaluation of fixed assets - net of tax			
Surplus on revaluation of fixed assets as at January 01		770,457	-
Surplus arising on revaluation of fixed assets during the year	11.2.2	-	774,949
Transferred to unappropriated profit in respect of incremental depreciation charge on related assets - net of deferred tax		(35,042)	(2,920)
Related deferred tax liability		(18,869)	(1,572)
		<u>(53,911)</u>	<u>(4,492)</u>
Surplus on revaluation of fixed assets as at December 31		716,546	770,457
Less: Related deferred tax liability	18	(250,791)	(269,660)
		<u>465,755</u>	<u>500,797</u>

	Note	2006 (Rupees in '000)	2005
21.2 (Deficit) / surplus on revaluation of available for sale securities			
Federal Government Securities		(87,238)	(86,942)
Quoted shares / closed end mutual funds		7,777	115,234
Others - open ended mutual funds		786	28,226
		<u>(78,675)</u>	<u>56,518</u>
Related deferred tax asset	18	<u>30,533</u>	<u>30,430</u>
		<u>(48,142)</u>	<u>86,948</u>
22 CONTINGENCIES AND COMMITMENTS			
22.1 Direct credit substitutes			
Financial guarantees issued favouring:			
- Government		34,012	22,127
- Others		31,783	49,905
		65,795	72,032
22.2 Transaction-related contingent liabilities			
Guarantees issued favouring:			
- Government		1,401,727	1,204,255
- Financial institutions		83,175	36,903
- Others		475,083	399,516
		1,959,985	1,640,674
22.3 Trade-related contingent liabilities			
Letters of credit		8,619,280	10,001,461
Acceptances		3,383,437	3,572,642
22.4 Commitments in respect of forward lending			
Commitments to extend credit		1,474,379	1,138,642
22.5 Commitments in respect of forward exchange contracts			
Purchase			
- From other banks		8,295,686	7,111,863
- From customers		3,834,781	3,884,638
		12,130,467	10,996,501
Sale			
- To banks		12,400,904	10,576,740
- To customers		499,387	253,688
		12,900,291	10,830,428
The maturities of the above contracts are spread over a period of one to two years.			
23 MARK-UP / RETURN / INTEREST EARNED			
a) On loans and advances to customers		3,478,881	2,304,626
b) On investments:			
i) Available for sale securities		655,350	412,752
ii) Held to maturity securities		729,012	577,491
c) On deposits with financial institutions/ the State Bank of Pakistan		241,667	18,302
d) On securities purchased under resale agreements		228,120	215,982
e) On call lendings		175,355	118,199
f) On placements with financial institutions		27,713	33,604
		<u>5,536,098</u>	<u>3,680,956</u>

	Note	2006 (Rupees in '000)	2005
24 MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		3,155,248	1,612,297
Securities sold under repurchase agreements		175,371	100,191
Call borrowings		3,607	2,040
Long-term borrowings		134,698	78,357
Borrowings from the State Bank of Pakistan under export re-finance scheme and export oriented projects		299,399	220,977
		<u>3,768,323</u>	<u>2,013,862</u>
25 GAIN ON SALE OF SECURITIES			
Ordinary shares -Listed companies		90,105	32,917
Other securities - Mutual funds' units		22,893	23,636
		<u>112,998</u>	<u>56,553</u>
26 OTHER INCOME			
Net profit on sale of property and equipment		2,766	3,811
Rent on lockers		4,592	3,129
Recovery of expenses from customers		62,658	57,068
Service charges		88,179	62,259
Rebate on bank charges on nostro accounts - net		36,281	28,398
Miscellaneous		24,179	31,457
		<u>218,655</u>	<u>186,122</u>
27 ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		299,211	236,268
Charge for employees' compensated absences		13,496	12,757
Charge for defined benefit plan	33.7	8,455	6,740
Contribution to defined contribution plan		8,857	7,331
Non-executive directors' fees, allowances and other expenses		150	135
Rent, taxes, insurance, electricity, etc.		103,055	78,959
Legal and professional charges		16,048	10,946
Communications		56,587	49,638
Repairs and maintenance		16,829	15,129
Stationery and printing		27,472	28,840
Advertisement and publicity		37,814	22,171
Donations	27.1	1,500	10,000
Auditors' remuneration	27.2	1,071	949
Depreciation	11.2	176,852	109,603
Brokerage & commission		14,740	11,603
Automation expenses		56,733	34,774
Entertainment		18,279	13,243
Fees & subscription		17,537	13,998
Motor vehicles running expenses		27,577	21,798
Remittance charges		32,035	33,157
Service charges		35,831	30,172
Training expenses		11,446	11,911
Traveling expenses		12,622	10,423
Others		34,627	21,649
		<u>1,028,824</u>	<u>792,194</u>
27.1	This represents donation given to Pakistan Centre for Philanthropy in which none of the bank's directors or executives or their spouses had any interest.		
27.2 Auditors' remuneration	Note	2006 (Rupees in '000)	2005
Audit fee		600	500
Fee for audit of provident and gratuity funds		39	39
Special certifications		115	180
Fee for half yearly review of financial statements		125	100
Out-of-pocket expenses		192	130
		<u>1,071</u>	<u>949</u>

	Note	2006 (Rupees in '000)	2005
28 OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan			
- on account of annual inspection		7,670	8,262
- on account of misreporting, non-compliance etc.		117	921
Operating fixed assets written-off		235	284
Zakat paid		160	125
		<u>8,182</u>	<u>9,592</u>
29 TAXATION			
For the year			
Current		448,000	495,000
Deferred		19,147	40,699
		<u>467,147</u>	<u>535,699</u>
For prior years			
Current		(83,544)	(55,900)
Deferred		80,000	-
		<u>(3,544)</u>	<u>(55,900)</u>
		<u>463,603</u>	<u>479,799</u>
29.1 Relationship between tax expense and accounting profit			
Profit before taxation		<u>1,448,901</u>	<u>1,400,032</u>
Tax at the applicable tax rate of 35% (2005: 38%)		507,115	532,012
Effect of change in tax rate		-	19,225
Income chargeable to tax at reduced rates		(9,362)	(10,102)
Income exempt from tax		(39,549)	(12,590)
Deferred tax charge in respect of allowances relating to prior years		1,034	4,722
Reversal of deferred tax asset recognised in prior years		80,000	-
Tax effect due to prior year charge - current		(83,544)	(55,900)
Tax effect on permanent differences		2,725	3,490
Others		5,184	(1,058)
		<u>463,603</u>	<u>479,799</u>
Taxation - Current		448,000	495,000
- Prior years		(83,544)	(55,900)
Deferred taxation - Current		19,147	40,699
- Prior years		80,000	-
		<u>99,147</u>	<u>40,699</u>
		<u>463,603</u>	<u>479,799</u>
30 BASIC / DILUTED EARNINGS PER SHARE			
Profit for the year after taxation		<u>985,298</u>	<u>920,233</u>
		Number of shares	
Weighted average number of ordinary shares		<u>299,861,053</u>	<u>298,786,283</u>
		(Rupees)	
Basic earnings per share		<u>3.29</u>	<u>3.08</u>
		2006	2005
		(Rupees in '000)	
31 CASH AND CASH EQUIVALENTS			
Cash and balance with treasury banks	6	5,551,302	4,352,608
Balances with other banks	7	6,603,003	2,453,628
		<u>12,154,305</u>	<u>6,806,236</u>

	2006	2005
	(Numbers of employees)	
32 STAFF STRENGTH		
Permanent	1,171	1,043
Temporary / on contractual basis etc.	170	147
Bank's own staff strength at end of the year	<u>1,341</u>	<u>1,190</u>
Outsourced	89	67
Total staff strength at end of the year	<u><u>1,430</u></u>	<u><u>1,257</u></u>

33 DEFINED BENEFIT PLAN

33.1 General description

As mentioned in note 5.10 the bank operates funded gratuity scheme for all its permanent employees. The benefits under the gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service, in lump sum. The benefit is equal to one month's last drawn salary for each year of eligible service or part thereof, subject to a minimum of five years of service.

33.2 Principal actuarial assumptions

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

	2006	2005
- Discount rate	10%	9%
- Expected rate of increase in salaries	10%	9%
- Expected rate of return on investments	10%	9%
- Withdrawal rate before normal retirement age	"moderate"	"moderate"

33.3 Reconciliation of payable to defined benefit plan

	2006	2005
	(Rupees in '000)	
Present value of defined benefit obligations	85,375	66,360
Fair value of any plan assets	(67,609)	(61,796)
Net actuarial gains or losses not recognised	<u>(17,766)</u>	<u>(4,564)</u>
	<u><u>-</u></u>	<u><u>-</u></u>

The gratuity plan assets include a deposit maintained with the bank amounting to Rs.7.933 million (2005:Rs.7.799 million)

33.4 Movement in defined benefit obligation

	Gratuity Fund	
	2006	2005
	(Rupees in '000)	
Obligation at the beginning of the year	66,360	53,054
Current service cost	8,062	6,400
Interest cost	5,501	3,937
Benefits paid by the fund	(8,518)	(2,989)
Benefits paid by the bank	-	-
Actuarial (gain)/ loss on obligation	13,971	5,958
Obligation at the end of the year	<u><u>85,376</u></u>	<u><u>66,360</u></u>

33.5 Movement in fair value of plan assets

Fair value at the beginning of the year	61,796	50,864
Expected return on plan assets	5,108	3,597
Contribution by the bank	8,455	6,740
Contribution by the employees	-	(2,989)
Amount paid by the fund to the bank	-	-
Benefits paid by the fund	(8,518)	3,584
Actuarial gain/ (loss) on plan assets	768	-
Fair value at the end of the year	<u><u>67,609</u></u>	<u><u>61,796</u></u>

	Note	2006 (Rupees in '000)	2005
33.6 Movement in payable to defined benefit plan			
Opening balance		-	-
Charge for the year	33.7	8,455	6,740
Bank's contribution to the fund made during the year		<u>(8,455)</u>	<u>(6,740)</u>
Closing balance		<u>-</u>	<u>-</u>
33.7 Charge for defined benefit plan			
Current service cost		8,062	6,400
Interest cost		5,501	3,937
Expected return on plan assets		<u>(5,108)</u>	<u>(3,597)</u>
	27	<u>8,455</u>	<u>6,740</u>
33.8 Actual return on plan assets		<u>5,876</u>	<u>7,181</u>
33.9 Five year data on surplus/ deficit of the plan and experience adjustments			

	Gratuity Fund				
	2006	2005	2004	2003	2002
	(Rupees in '000)				
Present value of defined benefit obligation	85,375	66,360	53,054	42,087	35,304
Fair value of plan assets	67,609	61,796	50,864	42,141	33,552
Surplus / (Deficit)	(17,766)	(4,564)	(2,190)	54	(1,752)
Experience adjustments on plan liabilities [loss / (gain)]	13,971	5,958	6,125	248	4,930
Experience adjustments on plan assets [loss / (gain)]	(2,849)	(3,584)	(3,881)	(2,054)	(1,478)

	Gratuity Fund			
	2006 (Rupees in '000)	%	2005 (Rupees in '000)	%
33.10 Components of plan assets as a percentage of total plan assets				
Government securities	54,912	81.22%	46,033	74.49%
Units of mutual funds	3,942	5.83%	6,319	10.23%
Equity securities	-	0.00%	2,069	3.35%
Others (including bank balances)	8,755	12.95%	7,375	11.93%
	<u>67,609</u>	<u>100.00%</u>	<u>61,796</u>	<u>100.00%</u>

As per the actuarial recommendations the expected return on plan assets was taken as 10% per annum. The expected return on plan assets was determined by considering the expected returns on the assets underlying the current investment policy.

33.11 The expected gratuity expense for the next year commencing January 01, 2007 works out to Rs 12.774 million.

34 DEFINED CONTRIBUTION PLAN

The bank operates an approved provident fund scheme for all its permanent employees. Equal monthly contributions are made, both by the bank and its employees, to the fund at the rate of 8.33 percent of basic salaries of the employees. The minimum qualifying period of service for the purpose of bank's contribution is five years. The contribution made by the bank and its employees during the year amounted to Rs 8.857 million each (2005: Rs 7.331 million each). The number of employees as at December 31, 2006 were 830.

35 COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		*Executives	
	2006	2005	2006	2005	2006	2005
	----- (Rupees in '000) -----					
Fees	-	-	150	135	-	-
Managerial remuneration	4,654	4,231	-	-	18,505	10,860
Charge for defined benefit plan	582	529	-	-	1,227	929
Contribution to defined contribution plan	388	352	-	-	1,379	995
Rent and house maintenance	2,244	1,834	-	-	7,402	4,264
Utilities	109	155	-	-	1,851	1,086
Medical	-	-	-	-	954	320
Bonus, leave encashment and others	1,323	1,354	-	-	11,879	6,610
	<u>9,300</u>	<u>8,455</u>	<u>150</u>	<u>135</u>	<u>43,197</u>	<u>25,064</u>
Number of persons	<u>1</u>	<u>1</u>	<u>4</u>	<u>4</u>	<u>22</u>	<u>13</u>

The bank also provides free use of bank's maintained cars to the chief executive and executives.

* Executives mean employees, other than the chief executive and directors, whose basic salary exceed five hundred thousand rupees in a financial year.

The aggregate amount charged to income for fee to directors and remuneration to key personnel were Rs. 0.150 million and Rs. 52.497 million (2005: Rs. 0.135 million and Rs. 33.519 million) respectively.

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.

36.1 The fair value of traded investments is based on quoted market prices, except for tradable securities classified by banks as 'held to maturity'. These securities are being carried at amortised cost in order to comply with the requirements of BSD Circular No.14 dated September 24, 2004. The fair value of these investments amounts to Rs 16.448 million (2005: Rs 16.157 million).

Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the bank's accounting policy as stated in note 5.4 to these financial statements.

The repricing profile, effective rates and maturity are stated in notes 41.2.4, 41.3.1 and 41.3.2.

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

	2006		2005	
	Book value	Fair value	Book value	Fair value
	----- (Rupees in '000) -----			
36.2 Off-balance sheet financial instruments				
Forward purchase of foreign exchange	<u>12,130,467</u>	<u>12,231,455</u>	<u>10,996,501</u>	<u>11,017,325</u>
Forward sale of foreign exchange	<u>12,900,291</u>	<u>12,902,635</u>	<u>10,830,428</u>	<u>10,770,500</u>

37 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Total
	(Rupees in '000)				
December 31, 2006					
Total income	163,605	423,356	568,751	5,135,263	6,290,975
Total expenses	126,635	262,432	444,156	4,008,851	4,842,074
Net income	36,970	160,924	124,595	1,126,412	1,448,901
Segment assets (Gross)	1,558,509	3,396,147	9,901,223	56,299,207	71,155,086
Segment non performing loans	-	-	198,546	153,164	351,710
Segment provision required *	-	-	228,047	197,365	425,412
Segment liabilities	1,864,701	4,063,372	11,846,468	47,343,230	65,117,771
Segment return on net assets (ROA) (%)	(12)	(24)	(6)	13	26
Segment cost of funds (%)	6	5	3	7	6
December 31, 2005					
Total income	85,611	324,074	438,385	3,443,661	4,291,731
Total expenses	57,010	173,502	299,127	2,362,060	2,891,699
Net income	28,601	150,572	139,258	1,081,601	1,400,032
Segment assets (Gross)	1,438,313	5,206,317	3,654,024	53,449,381	63,748,035
Segment non performing loans	-	-	198,136	152,188	350,324
Segment provision required *	-	-	184,622	140,032	324,654
Segment liabilities	1,805,789	6,536,485	4,331,949	46,281,198	58,955,421
Segment return on net assets (ROA) (%)	(8)	(11)	(16)	15	31
Segment cost of funds (%)	2	2	5	4	4

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

37.1 The above analysis includes allocation of items as per the approved mapping policy of the bank.

38 TRUST ACTIVITIES

The bank is currently not engaged in any trust activities.

39 RELATED PARTY TRANSACTIONS

The related parties of the bank comprise related group companies, directors and their close family members, staff retirement funds and key management personnel (including their associates).

Usual transactions with related parties other than executives includes deposits, advances, acceptances and provision of other banking services. Transactions with executives are undertaken at terms in accordance with employment agreements and services rules and includes provision of advances on terms softer than those offered to the customers of the bank. Contribution to and accruals in respect of staff retirement benefit plan are made in accordance with the actuarial valuation / terms of the benefit plan as disclosed in notes 33 and 34. Remuneration to the key management personnel is disclosed in note 35 to these financial statements.

The details of transactions with related parties during the year are as follows:

	Key management personnel				Other related parties					
	Bank's Chief Executive / Executives		Directors & their close family members		Related group companies		Major Shareholders		Staff Retirement Funds	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	(Rupees in ' 000)									
Deposits										
At 1 January	4,947	4,764	280,870	309,857	480,217	1,208,455	347,461	192,493	24,679	9,281
Received during the year	87,452	49,527	117,822	535,118	14,263,805	14,260,655	261,645	328,265	47,650	47,404
Withdrawn during the year	(84,667)	(49,344)	(171,912)	(564,105)	#####	(14,988,893)	(452,095)	(173,297)	(45,488)	(32,006)
At 31 December	7,732	4,947	226,780	280,870	409,074	480,217	157,011	347,461	26,841	24,679
Profit / interest expense on deposits	474	99	25,553	47,459	55,316	18,726	36,526	25,158	1,047	1,686

Particulars of loans and advances to directors, associated companies, etc.

Debts due by key management personnel of the bank or any of them either severally or jointly with any other persons

	2006	2005
	(Rupees in '000)	
Advances		
Balance at beginning of the year	11,875	6,067
Loans granted during the year	1,448	9,153
Repayments	(1,457)	(3,345)
Balance at end of the year	11,866	11,875

The total loans and advances outstanding against key management personnel as at December 31, 2006 amounted to Rs.11.866 million (2005: Rs.11.875 million). These loans were given as per the terms of their employment.

40 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						
Tier I Capital						
	Shareholders' capital		3,116,835		1,653,495	
	Reserves		1,676,602		1,394,542	
	Unappropriated profits (net of losses)		400,853		753,877	
			5,194,290		3,801,914	
	Less: Adjustments		(87,238)		(86,942)	
	Total Tier I Capital		<u>5,107,052</u>		<u>3,714,972</u>	
Tier II Capital						
	Subordinated debt (upto 50% of total Tier I Capital)		1,199,280		1,199,760	
	General provision subject to 1.25% of total risk weighted assets		69,546		50,000	
	Revaluation reserve (upto 50%)		237,159		322,129	
	Total Tier II Capital		<u>1,505,985</u>		<u>1,571,889</u>	
Eligible Tier III Capital						
			-		-	
	Total Regulatory Capital	(a)	<u>6,613,037</u>		<u>5,286,861</u>	
Risk-Weighted Exposures						
			2006		2005	
	Note		Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
------(Rupees in '000)-----						
Credit Risk						
Balance sheet items:-						
	Cash and other liquid assets		12,154,305	1,350,334	6,806,236	525,879
	Money at call		3,193,405	1,793,405	4,845,574	1,618,815
	Investments		16,724,253	3,595,991	16,390,624	4,167,186
	Loans and advances	40.1	33,804,738	30,795,856	30,167,884	27,395,299
	Fixed assets		1,858,859	1,858,859	1,718,948	1,718,948
	Other assets		1,386,604	1,273,927	1,531,154	918,931
			<u>69,122,164</u>	<u>40,668,372</u>	<u>61,460,420</u>	<u>36,345,058</u>
Off-balance sheet items: -						
	Loan repayment guarantees	40.2	3,346,004	3,346,004	3,940,247	3,697,992
	Purchase and resale agreements		-	-	-	-
	Performance bonds etc.	40.2	1,534,756	741,281	909,486	453,811
	Revolving underwriting commitments		-	-	-	-
	Stand by letters of credit	40.2	8,427,203	4,213,602	9,826,059	2,765,600
	Outstanding foreign exchange contracts	40.3	-	-	-	-
	-Purchase		12,069,144	109,654	8,268,530	85,389
	-Sale		12,297,152	61,254	8,719,916	38,121
			<u>37,674,259</u>	<u>8,471,795</u>	<u>31,664,238</u>	<u>7,040,913</u>
	Credit risk-weighted exposures			<u>49,140,167</u>		<u>43,385,971</u>
Market Risk						
	General market risk			250,777		419,850
	Specific market Risk			-		265,450
	Market risk-weighted exposures			<u>250,777</u>		<u>685,300</u>
	Total Risk-Weighted exposures	(b)		<u>49,390,944</u>		<u>44,071,271</u>
	Capital Adequacy Ratio [(a) / (b) x 100]			<u>13.39</u>		<u>12.00</u>

40.1 These are stated gross of general reserve amounting to Rs 69,546 thousand (2005:Rs.50,000 thousand). This reserve has been added to supplementary capital. Further, the amount of Cash Margins, Deposits and Government Securities deducted is Rs. 1,677,056 thousand (2005:Rs. 1,934,660 thousand).

40.2 Amount of Cash Margins and Government Securities deducted is Rs 720,534 thousand (2005: Rs 611,017 thousand).

40.3 Contracts having original maturities of 14 days or less have been excluded.

41 RISK MANAGEMENT

The main focus of the risk management activities is to provide assistance to the Board of Directors and senior management in protecting and enhancing the reputation and standing of the bank by aligning risk management activities with the corporate strategy, objectives and mission of the bank.

The bank's risk management framework comprises of Board of Directors, Risk Management Committee (RMC), ALCO, Risk Management Division (RMD), Credit Risk Management Department (CRMD), Operational Risk Management Department (ORMD), Senior Managers and Line Managers.

The Board of Directors establishes the strategic risk philosophy and policies of the bank based on recommendations of RMC.

The Risk Management Committee of the Board of Directors is responsible for overall management and supervision of Credit, Market, Liquidity and Operational Risk and is supported by ALCO and Risk Management Division (RMD).

ALCO is senior management committee, constituted by personnel from all departments of the bank and is broadly responsible for monitoring of credit, market and liquidity risks in line with the risk strategies and policies approved by the Board of Directors, funding and capital adequacy requirements.

RMD is responsible for development of policies and procedures for risk management under the supervision of RMC. RMD helps management in understanding and effectively managing risk as well as to develop various risk assessment tools, procedures and risk reports for the information of senior management, RMC and Board of Directors. RMD manages credit, market, liquidity and operational risk through Credit Risk Management Department (CRMD), Middle Office and Operational Risk Management Department (ORMD).

41.1 Credit Risk

Credit risk is the possibility of a loss arising from a credit event such as deterioration in the financial condition of a borrower, that causes an asset to lose value or become worthless.

The State Bank of Pakistan has adopted a cautious approach for its lending activities that has assisted in maintaining the asset quality and restricting credit risk to a prudent level. The lending activities are supported by sound credit principles that facilitates the identification, measurement, monitoring and control of credit risk.

To effectively manage the credit portfolio, the bank recognises that every extension of credit poses risks, assesses the credit risk posed by each borrower based on borrower type, industry and business conditions, credit worthiness, financial condition, cash flow, product and collateral types etc.

Moving forward, the bank is in the process of developing internal rating model for rating corporate and retail customers in line with the requirements of Basel II.

Credit risk is monitored at every stage of loan cycle i.e. approval, disbursement, collateral management, repayment and delinquency through well defined policies and procedures laid down in credit manual.

Board of Directors provides strategic guidance through Credit Committee of the Board, which assist the Board in formulating credit policy, credit limit and other strategic functions.

Credit approval authority has been assigned to Executive Finance Committee (EFC) and Regional Finance Committee (RFC) empowered to grant credit based on credit limits delegated by the Board of Directors.

The Board of Directors gains assurance regarding the quality of credit portfolio through Risk Management Committee of the Board, which is responsible to provide assistance to the board in formulating credit risk management policies and procedures and maintenance of risk profile of the bank. The Board also gains assurance of quality of credit portfolio through Audit Committee which is responsible for the independent validation of credit portfolio through Internal Audit reviews.

41.1.1 Segmental information

41.1.1.1 Segments by class of business	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)
Agriculture, Forestry, Hunting and Fishing	557,022	1.55%	1,700,266	3.21%	481,576	1.19%
Mining and Quarrying	-	0.00%	-	0.00%	-	0.00%
Textile	13,891,815	38.77%	2,008,086	3.79%	4,554,496	11.23%
Chemical and Pharmaceuticals	1,520,068	4.24%	344,959	0.65%	1,364,588	3.37%
Cement	359,515	1.00%	274,276	0.52%	14,846	0.04%
Sugar	412,900	1.15%	48,881	0.09%	39,870	0.10%
Footwear and Leather garments	656,516	1.83%	215,847	0.41%	51,606	0.12%
Automobile and transportation equipment	502,174	1.40%	276,789	0.52%	399,353	0.99%
Electronics and electrical appliances	1,102,266	3.08%	650,429	1.23%	983,277	2.42%
Construction	118,040	0.33%	292,949	0.55%	40,727	0.10%
Power (electricity), Gas, Water, Sanitary	246,563	0.70%	354,514	0.67%	20,169	0.05%
Wholesale and Retail Trade	304,661	0.85%	883,245	1.67%	80,601	0.20%
Exports/Imports	279,129	0.78%	155,104	0.29%	7,219	0.02%
Transport, Storage and Communication	275,497	0.77%	2,694,216	5.08%	907,380	2.24%
Financial	391,113	1.09%	3,816,491	7.20%	31,341	65.47%
Insurance	2,829	0.01%	431,248	0.81%	-	0.00%
Services	-	0.00%	-	0.00%	20,241	0.05%
Individuals	1,857,643	5.19%	17,874,372	33.73%	77,518	0.19%
Others*	13,350,608	37.26%	20,978,975	39.58%	4,953,689	12.22%
	35,828,359	100.00%	53,000,647	100.00%	14,028,497	100.00%

	2005					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)
Textile	13,054,781	40.73%	-	0.00%	5,626,695	36.81%
Production and Transmission of energy	-	0.00%	5,523,720	11.60%	-	0.00%
Individuals	-	0.00%	18,466,432	38.79%	-	0.00%
Others*	18,997,763	59.27%	23,615,356	49.61%	9,660,114	63.19%
	32,052,544	100.00%	47,605,508	100.00%	15,286,809	100.00%

* All other business classes are less than ten percent of the total exposure.

The comparative information in respect of this disclosure has been presented based on the requirements which were applicable to the prior year financial statements.

41.1.1.2 Segment by sector

	2006					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)
Public / Government	-	0.00%	15,533,779	29.31%	2,677	0.02%
Private	35,828,359	100.00%	37,466,868	70.69%	14,025,820	99.98%
	35,828,359	100.00%	53,000,647	100.00%	14,028,497	100.00%

	2005					
	Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)	(Rupees in '000)	(Percent)
Public / Government	-	0.00%	12,062,320	25.34%	26,978	0.18%
Private	32,052,544	100.00%	35,543,188	74.66%	15,259,831	99.82%
	32,052,544	100.00%	47,605,508	100.00%	15,286,809	100.00%

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

	2006		2005	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
------(Rupees in '000)-----				
Agriculture, Forestry, Hunting and Fishing	808	92	-	-
Mining and Quarrying	-	-	-	-
Textile	25,787	25,787	-	-
Chemical and Pharmaceuticals	2,994	2,994	20,275	8,577
Cement	-	-	-	-
Sugar	-	-	-	-
Footwear and Leather garments	1,994	1,994	2,084	2,084
Automobile and transportation equipment	-	-	-	-
Electronics and electrical appliances	-	-	-	-
Construction	1,465	1,465	3,724	3,724
Power (electricity), Gas, Water, Sanitary	-	-	-	-
Wholesale and Retail Trade	11,408	11,408	14,208	4,307
Exports/Imports	239,008	239,008	253,507	253,049
Transport, Storage and Communication	-	-	-	-
Financial	-	-	-	-
Insurance	-	-	-	-
Services	-	-	-	-
Individuals	9,570	7,658	4,604	4,398
Others	58,676	56,159	51,922	48,515
	351,710	346,565	350,324	324,654

41.1.1.4 Details of non-performing advances and specific provision by sector

	2006		2005	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
------(Rupees in '000)-----				
Public / Government	-	-	-	-
Private	351,710	346,565	350,324	324,654
	351,710	346,565	350,324	324,654

41.1.1.5 Geographical segment analysis

	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & Commitments
------(Rupees in '000)-----				
Pakistan	1,448,901	70,729,674	5,611,903	40,533,634
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	1,448,901	70,729,674	5,611,903	40,533,634

	2005			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & Commitments
------(Rupees in '000)-----				
Pakistan	1,400,032	63,345,080	4,389,659	15,286,809
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	1,400,032	63,345,080	4,389,659	15,286,809

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

41.2 Market Risk

41.2.1 Market Risk is the possibility that fluctuation in interest rates, foreign exchange or stock prices will change the market value of financial product(s) leading to a loss.

The Asset and Liability Committee (ALCO) comprising of senior management personnel is empowered to manage market and liquidity risk, whereas daily monitoring of market and liquidity risk is being performed by Treasury Back Office and Middle Office.

Middle Office provides periodical reports viz., Gap report, reports on general economic conditions, interest rates, cost and yield analysis, interest rate sensitivity reports, MCR and liquidity reports to ALCO. Moving forward, SBL intends to employ advance techniques viz., VAR, Stress testing and Simulation techniques to manage market risk in line with advanced approach embodied in the Basel II.

41.2.2 Foreign Exchange Risk

Foreign Exchange Risk is the probability 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 currency basis. Hedging strategies 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) -----			
Pakistan rupee	63,294,594	61,356,943	3,667,954	5,605,605
United States dollar	6,557,145	2,901,916	(3,676,675)	(21,446)
Great Britain pound	318,037	454,202	145,541	9,376
Deutsche mark	-	-	-	-
Japanese yen	20,243	649	(18,067)	1,527
Euro	535,121	403,683	(118,753)	12,685
Other currencies	4,534	378	-	4,156
	70,729,674	65,117,771	-	5,611,903

	2005			
	Assets	Liabilities (Restated)	Off-balance sheet items	Net foreign currency exposure
	----- (Rupees in '000) -----			
Pakistan rupee	58,850,063	54,210,583	(246,825)	4,392,655
United States dollar	3,646,587	3,257,743	(396,158)	(7,314)
Great Britain pound	445,166	842,510	399,510	2,166
Japanese yen	3,118	10,134	3,107	(3,909)
Euro	390,940	634,451	243,559	48
Other currencies	9,206	-	(3,193)	6,013
	63,345,080	58,955,421	-	4,389,659

41.2.3 Equity Position Risk

The bank is not exposed to any risk arising from taking long or short positions in equities and other instruments that exhibit market behavior similar to equities as the bank does not maintain any trading books.

41.2.4 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 the value of financial instruments will fluctuate due to changes in the market interest rates. The bank is exposed to yield / interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The bank manages this risk by matching the re-pricing of assets and liabilities and off-balance sheet instruments. The bank's yield / interest rate sensitivity position, based on the earlier of contractual re-pricing or maturity date, is as follows:

2006												
Exposed to yield/ interest rate risk												
Effective yield/ interest rate	Total	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	Non-interest bearing financial instruments	
%		------(Rupees in '000)-----										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.35%	5,551,302	509,376	-	-	-	-	-	-	-	5,041,926	
Balances with other banks	12.03%	6,603,003	1,500,000	1,500,000	1,100,000	-	-	-	-	-	2,503,003	
Lending to financial and other institutions	11.75%	3,193,405	2,593,405	600,000	-	-	-	-	-	-	-	
Investments	9.01%	16,724,253	2,959,172	2,702,206	4,148,747	975,781	739,211	282,577	1,095,206	2,947,057	273,151	601,145
Advances	10.78%	35,412,248	973,627	6,284,571	9,209,729	12,093,739	726,107	526,977	4,570,590	952,664	74,244	-
Other assets	0.00%	954,156	-	-	-	-	-	-	-	-	-	954,156
		68,438,367	8,535,580	11,086,777	14,458,476	13,069,520	1,465,318	809,554	5,665,796	3,899,721	347,395	9,100,230
Liabilities												
Bills payable	0.00%	957,576	-	-	-	-	-	-	-	-	-	957,576
Borrowings	7.03%	8,916,437	7,056,194	800,000	-	-	-	-	642,469	-	-	417,774
Deposits and other accounts	7.85%	53,000,647	4,995,564	6,393,048	14,768,115	3,954,307	348,069	7,286,435	855,442	4,417,898	-	9,981,769
Sub-ordinated loans	12.15%	1,199,280	-	240	-	-	480	-	300,180	897,660	-	-
Other liabilities	0.00%	563,336	-	-	-	-	-	-	-	-	-	563,336
		64,637,276	12,051,758	7,193,048	14,768,355	3,954,547	348,549	7,286,915	1,798,091	5,315,558	-	11,920,455
On-balance sheet gap		3,801,091	(3,516,178)	3,893,729	(309,879)	9,114,973	1,116,769	(6,477,361)	3,867,705	(1,415,837)	347,395	(2,820,225)
Non financial net assets		1,810,812										
Total net assets		5,611,903										
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		12,130,467	5,996,397	4,700,064	1,352,208	69,819	11,979	-	-	-	-	-
Forward sale of foreign exchange		(12,900,291)	(4,074,440)	(3,426,069)	(5,399,782)	-	-	-	-	-	-	-
Off-balance sheet gap		(769,824)	1,921,957	1,273,995	(4,047,574)	69,819	11,979	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(1,594,221)	5,167,724	(4,357,453)	9,184,792	1,128,748	(6,477,361)	3,867,705	(1,415,837)	347,395	(2,820,225)
Cumulative Yield/Interest Risk Sensitivity Gap			(1,594,221)	3,573,503	(783,950)	8,400,842	9,529,590	3,052,229	6,919,934	5,504,097	5,851,492	3,031,267

- The effective interest rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument.
- The effective interest rate has been computed by excluding non-performing advances.
- The effective interest rate has been computed by excluding non-remunerative deposits.

41.3 Liquidity Risk

Liquidity Risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increase in assets as they fall due without incurring unacceptable cost or losses.

The liquidity management encompasses overall supervision by ALCO and daily monitoring of Treasury Back Office and Middle Office to ensure availability of adequate liquidity to meet the regulatory requirements as well as to maintain sufficient funds to pay off the maturing obligations and liabilities. The assessment of short term / long term liquidity requirements are based on careful cash flow projections. Hedging strategies have been adopted in the light of market situation under the guidance of ALCO. Moving forward, SBL plans to implement stress testing and scenario analysis to evaluate probable stress situations based on general / specific market conditions, and to plan its liquidity requirements based on stress portfolio risk.

The above mentioned maturity profile has been prepared in accordance with IAS 30: Disclosures in the financial statements of banks and similar financial institutions based on contractual maturities. The management believes that such a maturity analysis does not reveal the expected maturity of saving deposits as a contractual maturity analysis of deposits alone does not provide information about the conditions expected in normal circumstances. The management believes that the maturity profile disclosed in note 41.3.1 that includes maturities of saving deposits determined by the Asset and Liability Management Committee (ALCO) keeping in view historical withdrawal pattern of these deposits reflects a more meaningful analysis of the liquidity risk of the bank.

41.4 Operational Risk

Operational Risk is the possibility of loss resulting from inadequate or failed internal processes, people and system or from external events.

Operational risk management approach has been founded on a risk based approach to internal controls which are embedded in day to day operations of the bank. In managing operational risk bank follows an integrated approach and all the branch managers and staff have the responsibility to identify, evaluate, report and manage risk based on the operating procedures manuals and instructions.

Internal Audit Division provides assurance regarding compliance with policies of the bank and requirements of the regulatory authorities. Similarly, Compliance department provides assurance to KYC, Anti Money Laundering and other regulatory requirements of the State Bank of Pakistan.

Moving forward, the bank intends to develop operational risk loss data to capture operational loss events to move to advanced approach for the measurement of operational risk under Basel II.

A consolidated Business Continuity Plan is being augmented for the Bank which encompasses roles and responsibilities, recovery strategy, IT and structural back ups, business and impact analysis and testing directives.

42 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

- i) classification of investments (notes 5.3 and 9)
- ii) provision against investments (notes 5.3 and 9) and advances (notes 5.4 and 10.3)
- iii) income taxes (notes 5.8 and 29)
- iv) staff retirement benefits (notes 5.10 and 33)

43 DATE OF AUTHORISATION

These financial statements were authorised for issue on ----- by the Board of Directors of the bank.

44 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on _____ has proposed a cash dividend in respect of 2006 of Rs. ____ per share (2005: cash dividend Rs 2.50 per share). In addition, the directors have also announced a bonus issue of ____ percent. These appropriations will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2006 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending December 31, 2007.

45 GENERAL**45.1 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 February 17, 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 January 1, 2006. The significant changes in the revised format for presentation of financial statements include the introduction of disclosures in respect of segment details with respect of business activities, capital adequacy and expanded disclosures in respect of the Bank's management policies and procedures.

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

45.3 The information in respect of Basel-II disclosures has not been provided in these financial statements as the same will be applicable when Basel-II is finally implemented (i.e. after the completion of trial run) as provided under State Bank of Pakistan letter No. BSD/SU-4/546/101/2007 dated January 13, 2007.

45.4 Corresponding information has been rearranged, reclassified or additionally incorporated in these financial statements, where necessary to facilitate comparison and to conform with changes in presentation in the current year.

President / Chief Executive

Director

Director

Director

**STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF
OF FIVE HUNDRED THOUSAND RUPEES OR ABOVE PROVIDED
DURING THE YEAR ENDED DECEMBER 31, 2006**

S. No.	Name and address of the borrower	Name of individuals / partners/ directors (with NIC No.)	Father's / Husband's name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written-off	Other fin- ancial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
(Rupees in million)											
1	Aamar Trade Impex Suit No. 16, 2nd Floor, Sadiq Plaza, The Mall , Lahore.	Mr. Hamid Ali Khan NIC No. 273-58-073754	Mr. Manzoor Ali	1.690	1.348	0	3.038	1.690	0	1.348	3.038
2	Apex Fabrics Limited Nabika Square. G-5, Commercial Area, Off Shaheed-e-Millat Road, Karachi.	Mr. Nafees -ur-Rehman NIC No. 601-52-092828 Mr. Iftikhar Ahmed NIC No. 8-86-388664 Mr. Naeem Ahmed NIC No. 601-54-334360 Mr. Mirza Muzaffar Baig Barlas NIC No. 601-61-1854125 Mr. Waseem Ahmed NIC No. 224-59-440475 Mr. Ejaz-ur- Rehman NIC No. 601-49-046356 Mr. Mirza Mubashar Baig Barlas NIC No.601-58-252042 Mrs. Nasreen Mirza NIC No. 521-54-014803	Haji Aziz-ur-Rehman Muhammad Yaseen Muhammad Yaseen Munawar Baig Barlas Muhammad Yaseen Haji Aziz-ur-Rehman Munawar Baig Barlas W/O Mirza Mohd. Mujtaba	6.575	7.95	0	14.525	6.575	0	7.950	14.525
3	M/s Fortune Enterprises 3/18, 1st Floor, Room No. 102, Serai Quarters, Ferrer Road, Karachi.	Mr. Ashiq Ali Agha NIC No. 42201-4393194-1	Raza Hussain Suleman Agha	3.470	2.766	0.015	6.251	3.470	0	2.781	6.251
4	M/s Aal Associates 11, Gulnoor Bungalows, 178, Britto Road, Garden East, Karachi	Mr. Amin Ghulam Hussain NIC No. 511-86-032410	Mr. Ghulam Hussain Lalani	3.084	2.067	0.033	5.184	0.584	0	2.100	2.684
5	M/s Ashish Trading Co. Agha Qadirdad Market, Sukkur	Mr. Mahesh Lal NIC No. 439-92-069309	Mr. Notan Das	2.242	1.531	0.055	3.828	1.497	0	1.531	3.028
TOTAL:				17.061	15.662	0.103	32.826	13.816	0.000	15.710	29.526

ISLAMIC BANKING BUSINESS

The bank is operating two Islamic banking branches at the end of current year as compared to one Islamic banking branch at the end of prior year.

	2006	2005
	(Rupees in '000)	
ASSETS		
Cash and balances with treasury banks	62,446	38,851
Balances with and due from financial institutions	-	-
Investments	25,000	-
Financing and receivables		
-Murahaba	362,021	209,491
-Ijara	260,688	73,578
-Musharaka	-	-
-Diminishing musharaka	-	-
-Salam	-	-
-Other islamic modes	61,356	7,094
Operating fixed assets	28,193	27,140
Other assets	113,020	42,734
Total Assets	912,724	398,888
LIABILITIES		
Bills payable	4,595	3,727
Due to financial institutions	-	-
Deposits and other accounts		
-Current accounts	120,877	57,070
-Saving accounts	236,423	238,215
-Term deposits	18,652	500
-Others	43,687	-
-Deposits from financial institutions -Remunerative	-	13,659
-Deposits from financial institutions-Non-remunerative	-	-
Due to Head Office		32,923
Other liabilities	426,402	1,523
Total Liabilities	850,636	347,617
NET ASSETS	62,088	51,271
REPRESENTED BY		
Islamic Banking Fund	50,000	50,000
Reserves	-	-
Unappropriated profit	12,088	1,271
	62,088	51,271
Surplus/ (Deficit) on revaluation of assets	-	-
	62,088	51,271
Remuneration to Shariah Advisor	678	628
CHARITY FUND		
Opening balance	28	-
Addition during the year	2	28
Payment/utilization during the year	-	-
Closing balance	30	28