

A.F. FERGUSON & CO
CHARTERED ACCOUNTANTS
State Life Building No.1-C,
I.I. Chundrigar Road,
Karachi

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS
Sheikh Sultan Trust
Building No. 2, Beaumont Road,
Karachi

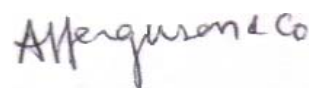
AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of United Bank Limited as at December 31, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for sixty-one branches which have been audited by us and fifteen branches audited by auditors abroad and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.


It is the responsibility of the bank's Board of Directors to establish and maintain a system of internal control and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in the case of loans and advances covered more than sixty percent of the total domestic loans and advances of the bank, we report that:

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the bank and the transactions of the bank which have come to our notice have been within the powers of the bank;
- c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the bank's affairs as at December 31, 2005 and its true balance of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.


A. F. FERGUSON & Co.
Chartered Accountants
A.F. & Co.

Karachi
Dated: February 21, 2006


KPMG TASEER HADI & CO.
Chartered Accountants
KPMGTH

BALANCE SHEET AS AT DECEMBER 31, 2005

	Note	2005 (Rupees in '000)	2004
ASSETS			
Cash and balances with treasury banks	6	34,062,679	23,844,435
Balances with other banks	7	12,729,207	17,699,334
Lendings to financial institutions	8	17,867,552	18,360,633
Investments	9	63,026,944	54,953,728
Advances			
Performing	10	201,152,095	139,669,440
Non-performing	10	3,658,375	4,481,615
		204,810,470	144,151,055
Other assets	11	7,829,770	4,439,580
Fixed assets	12	4,449,324	3,969,006
Deferred tax asset - net	13	2,273,005	5,194,892
		347,048,951	272,612,663
LIABILITIES			
Bills payable	15	4,159,964	3,811,284
Borrowings from financial institutions	16	21,790,480	11,975,684
Deposits and other accounts	17	289,226,299	230,256,627
Sub-ordinated loans	18	3,999,192	3,500,000
Liabilities against assets subject to finance lease		-	288
Other liabilities	19	6,204,746	5,704,749
		325,380,681	255,248,632
NET ASSETS			
		21,668,270	17,364,031
REPRESENTED BY:			
Share capital	20	5,180,000	5,180,000
Reserves		6,225,461	5,915,928
Unappropriated profit		7,350,813	3,274,439
		18,756,274	14,370,367
Surplus on revaluation of assets	21	2,911,996	2,993,664
		21,668,270	17,364,031
CONTINGENCIES AND COMMITMENTS			
	22		

The annexed notes 1 to 48 and annexures form an integral part of these financial statements.

Atif R Bokhari

Atif R. Bokhari
President and
Chief Executive Officer

Ahmad Waqar
Director

Sir Mohammed Anwar Pervez, OBE, HPK
Deputy Chairman

Nahayan Mabarak Al Nahayan
Chairman

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005	2004
		(Rupees in '000)	
Mark-up / return / interest earned	23	20,158,860	9,233,881
Mark-up / return / interest expensed	24	6,045,948	1,732,760
Net mark-up / interest income		<u>14,112,912</u>	<u>7,501,121</u>
Provision against loans and advances - net	10.3	1,277,002	435,414
Provision / (reversal) for diminution in value of investments - net	9.3	112,666	(100,381)
Bad debts written off directly	10.4	38,140	3,841
		<u>1,427,808</u>	<u>338,874</u>
Net mark-up / return / interest income after provisions		<u>12,685,104</u>	<u>7,162,247</u>
Non mark-up / interest income			
Fee, commission and brokerage income		2,543,739	1,654,475
Dividend income / gain on sale of investments	25	583,982	1,102,510
Income from dealing in foreign currencies		675,109	668,085
Other income	26	1,210,202	1,072,756
Total non mark-up / return / interest income		<u>5,013,032</u>	<u>4,497,826</u>
		<u>17,698,136</u>	<u>11,660,073</u>
Non mark-up / interest expenses			
Administrative expenses	27	7,874,013	6,794,311
Other provisions / write offs / (reversals)	28	335,409	(34,422)
Other charges	29	7,066	10,456
Total non mark-up / interest expenses		<u>8,216,488</u>	<u>6,770,345</u>
Extraordinary items		-	-
Profit before taxation		<u>9,481,648</u>	<u>4,889,728</u>
Taxation - Current - for the year	30	498,748	283,083
- for prior years	30	78,614	285,201
- Deferred	30	2,955,254	619,900
		<u>3,532,616</u>	<u>1,188,184</u>
Profit after taxation		<u>5,949,032</u>	<u>3,701,544</u>
Unappropriated profit brought forward		<u>3,274,439</u>	<u>1,384,490</u>
		<u>9,223,471</u>	<u>5,086,034</u>
Transfer from surplus on revaluation of fixed assets - net of tax	21.1	94,148	94,214
Profit before appropriations		<u>9,317,619</u>	<u>5,180,248</u>
Appropriations			
Transfer to:			
Statutory reserve		(1,189,806)	(740,309)
Capital reserve		-	-
Revenue reserve		-	-
Final cash dividend for the years ended December 31, 2004 (Rs.1.50 per share) and 2003 (Rs.2.25 per share) declared subsequent to the year end		<u>(777,000)</u>	<u>(1,165,500)</u>
		<u>(1,966,806)</u>	<u>(1,905,809)</u>
Unappropriated profit carried forward		<u>7,350,813</u>	<u>3,274,439</u>
		<u><u>7,350,813</u></u>	<u><u>3,274,439</u></u>
		(Rupees)	
Basic and diluted earnings per share	31	11.48	7.15

The annexed notes 1 to 48 and annexures form an integral part of these financial statements.


Аннотация

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Atif R. Bokhari
President and
Chief Executive Officer

Ad Wagon

Ahmad Waqar
Director



Sir Mohammed Anwar Pervez, OBE, HPk
Deputy Chairman

Nahayan Mabarak Al Nahayan
Chairman

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005 (Rupees in '000)	2004 (Rupees in '000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		9,481,648	4,889,728
Less: Dividend income		(202,343)	(154,565)
		<u>9,279,305</u>	<u>4,735,163</u>
Adjustments for non-cash charges			
Depreciation		412,541	103,484
Amortisation		23,381	304,140
Provision for retirement benefits		117,772	660,275
Provision against loans and advances		1,277,002	435,414
Provision / (reversals) for diminution in the value of investments		112,666	(100,381)
Provision against off balance sheet items		238,712	-
Gain on sale of fixed assets		(12,771)	(11,797)
Finance charges on leased assets		3	2,903
Bad debts written-off directly		38,140	3,841
Unrealised (gain) / deficit on revaluation of held for trading investment portfolio		1,824	-
Provision / (reversals) against other assets		87,998	(34,422)
		<u>2,297,268</u>	<u>1,363,457</u>
		<u>11,576,573</u>	<u>6,098,620</u>
(Increase) / decrease in operating assets			
Lendings to financial institutions		493,081	6,833,524
Held for trading securities		995,309	5,988,861
Advances - net		(61,974,557)	(50,563,261)
Others assets (excluding advance tax)		(3,523,015)	(1,004,375)
		<u>(64,009,182)</u>	<u>(38,745,251)</u>
Increase / (decrease) in operating liabilities			
Bills payable		348,680	835,374
Borrowings from financial institutions		9,814,796	4,265,309
Deposits and other accounts		58,969,672	45,185,125
Other liabilities		(37,510)	(1,028,135)
		<u>69,095,638</u>	<u>49,257,673</u>
		<u>16,663,029</u>	<u>16,611,042</u>
Staff retirement benefits paid		(110,323)	(268,509)
Income tax paid		(328,751)	(330,841)
Net cash flows from operating activities		<u>16,223,955</u>	<u>16,011,692</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in securities		(9,203,902)	(5,373,071)
Dividend received		289,905	65,658
Investments in operating fixed assets		(925,175)	(625,818)
Proceeds from sale of fixed assets		21,706	15,221
Net cash flows from investing activities		<u>(9,817,466)</u>	<u>(5,918,010)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of sub-ordinated loan		500,000	3,500,000
Repayment of principal of sub-ordinated loan		(808)	-
Dividend paid		(777,000)	(1,165,500)
Payment of lease obligations		(291)	(42,610)
Net cash flows from financing activities		<u>(278,099)</u>	<u>2,291,890</u>
Exchange differences on translation of net investment in foreign branches		(880,273)	497,302
Increase in cash and cash equivalents during the year		<u>5,248,117</u>	<u>12,882,874</u>
Cash and cash equivalents at beginning of the year		41,753,119	28,099,656
Effects of exchange rate changes on cash and cash equivalents		(209,350)	561,239
		<u>41,543,769</u>	<u>28,660,895</u>
Cash and cash equivalents at end of the year	32	<u>46,791,886</u>	<u>41,543,769</u>

The annexed notes 1 to 48 and annexures form an integral part of these financial statements.

Atif R. Bokhari

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Nahayan Mabarak Al Nahayan
Chairman

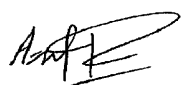
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2005

	Share Capital	Statutory Reserve	Exchange Translation Reserve	Unappro- priated Profit	Total
(Rupees in '000)					
Balance as at December 31, 2003	5,180,000	3,205,472	1,472,845	1,384,490	11,242,807
Final dividend for the year ended December 31, 2003	-	-	-	(1,165,500)	(1,165,500)
Profit after taxation for the year ended December 31, 2004	-	-	-	3,701,544	3,701,544
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	94,214	94,214
Exchange differences on translation of net investment in foreign branches	-	-	497,302	-	497,302
Transfer to statutory reserve	-	740,309	-	(740,309)	-
Balance as at December 31, 2004	<u>5,180,000</u>	<u>3,945,781</u>	<u>1,970,147</u>	<u>3,274,439</u>	<u>14,370,367</u>
Final dividend for the year ended December 31, 2004	-	-	-	(777,000)	(777,000)
Profit after taxation for the year ended December 31, 2005	-	-	-	5,949,032	5,949,032
Transfer from surplus on revaluation of fixed assets to unappropriated profit - net of tax	-	-	-	94,148	94,148
Exchange differences on translation of net investment in foreign branches	-	-	(880,273)	-	(880,273)
Transfer to statutory reserve	-	1,189,806	-	(1,189,806)	-
Balance as at December 31, 2005	<u>5,180,000</u>	<u>5,135,587</u>	<u>1,089,874</u>	<u>7,350,813</u>	<u>18,756,274</u>

Appropriations made by the directors subsequent to the year ended December 31, 2005 are disclosed in note 46 of these financial statements.

The annexed notes 1 to 48 and annexures form an integral part of these financial statements.

Atif R Bokhari




Atif R. Bokhari
President and
Chief Executive Officer



Ahmad Waqar
Director



Sir Mohammed Anwar Pervez, OBE, HPK
Deputy Chairman



Nahayan Mabarak Al Nahayan
Chairman

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

1. STATUS AND NATURE OF BUSINESS

United Bank Limited is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The bank is listed on all three Stock Exchanges in Pakistan. The bank's registered office and principal office is situated at State Life Building No. 1, I. I. Chundrigar Road, Karachi. The bank operates 1,043 (2004: 1,057) branches inside Pakistan including the Karachi Export Processing Zone Branch (KEPZ) and 15 (2004: 15) branches outside Pakistan.

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing 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 utilized and the appropriate portion of mark-up thereon.

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 comprises of such International Accounting Standards (IAS) 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.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under historical cost convention except that certain assets have been stated at revalued amounts, certain investments have been stated at market value, derivative financial instruments have been marked to market, assets and liabilities of foreign branches have been translated at year-end rates of exchange and certain staff retirement benefits have been carried at present value.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

Significant accounting estimates and areas where judgements were made by the management in the application of accounting policies are disclosed in note 5.14 to these financial statements.

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 institutions

The bank enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

(a) Sale under repurchase agreements

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 from financial institutions. The differential in sale and re-purchase value is accrued over the period of the agreement and recorded as an expense.

(b) Purchase under resale agreements

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

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

5.3 Investments

The bank classifies its investments as follows:

(a) Held for trading

These are securities, which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

(b) Held to maturity

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

(c) Available for sale

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

Investments are initially recognised at cost which includes transaction costs associated with the investment.

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', investments in subsidiaries and investments in associates (which qualify for accounting under International Accounting Standard 28), 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.

Unquoted equity securities excluding investments in subsidiaries and associates 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. Investments classified as 'held to maturity' are carried at amortized cost. Investments in subsidiaries and associates (which qualify for accounting under International Accounting Standard - 28) are carried at cost.

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

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

5.4 Advances

Advances are stated net of specific and general provisions. Specific provision against domestic advances is determined on the basis of Prudential Regulations and other directives issued by the State Bank of Pakistan and charged to the profit and loss account. General provision against consumer loans is made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. General and specific provisions pertaining to overseas advances are made to meet the requirements of monetary agencies and regulatory authorities of respective countries. Advances are written off when there is no realistic prospect of recovery.

5.5 Fixed assets and depreciation

Owned

Property and equipment, other than free hold land which is not depreciated and Capital work-in-progress, are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses (if any). Land is carried at revalued amount. Capital work-in-progress is stated at cost. Cost of property and equipment of foreign branches includes exchange difference arising on currency translation at the year-end rates of exchange.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

Depreciation is calculated so as to write off the assets over their expected economic lives at rates specified in note 12 to these financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any, and methods depending on the nature of the asset and the country of its location. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date. No depreciation is charged on freehold land.

Depreciation on additions is charged from the month the asset is available for use and on disposals upto the month of disposal.

Land and buildings are revalued by professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from their fair value.

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.

Gains and losses on sale of fixed assets are included in income currently, except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to unappropriated profit.

Major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Normal repairs and maintenance are charged to the profit and loss account as and when incurred.

Leased

Assets held under finance lease 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.

Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized from the month, when these assets are available for use, using the straight line method, whereby the cost of the intangible asset is amortized over its estimated useful life over which economic benefits are expected to flow to the bank. The residual value, useful life and amortization method is reviewed and adjusted, if appropriate, at each balance sheet date.

Intangible assets having an indefinite useful life are stated at acquisition cost. Provisions are made for permanent diminution in the value of assets, if any. Gains and losses on disposals, if any are taken to the profit and loss account.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005**5.6 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.

5.7 Taxation**Current**

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned from local as well as foreign operations, as applicable to the respective jurisdictions. The charge for the current tax is calculated using prevailing tax rates or tax rates expected to apply to the profits for the year at enacted rates or minimum tax at the rate of 0.5% of turnover which ever is higher. The charge for the current tax also includes adjustments, where considered necessary relating to prior years, arising from assessments made during the year.

Deferred

Deferred tax is recognized using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. In addition, the bank also records deferred tax asset on available tax losses. Deferred tax is calculated at the rates that are expected to apply to the period when the differences are expected to reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

5.8 Provisions

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

5.9 Staff retirement and other benefits

5.9.1 Staff retirement benefit schemes

- a) The bank operates the following staff retirement schemes for its employees
 - approved funded pension scheme, introduced in 1986 (defined benefit scheme); and
 - approved non-contributory provident fund in lieu of the contributory provident fund.
- b) For new employees and for those who opted for new scheme introduced in 1991, the bank operates
 - approved contributory provident fund (defined contribution scheme); and
 - approved gratuity scheme (defined benefit scheme).

In the year 2001, the bank modified the pension scheme and introduced a conversion option for employees covered under scheme (a) above to scheme (b). This option ceased on December 31, 2003.

The bank also operates a contributory benevolent fund for all its employees (defined benefit scheme).

Annual contributions towards the defined benefit schemes are made on the basis of actuarial advice using the Projected Unit Credit Method.

5.9.2 Other benefits

- a) Employees' compensated absences

The bank makes provisions for compensated vested and non-vested absences accumulated by its employees on the basis of actuarial advice under the Projected Unit Credit Method.

- b) Post retirement medical benefits (defined benefit scheme)

The bank provides post retirement medical benefits to eligible retired employees. Provision is made annually to meet the cost of such medical benefit on the basis of actuarial advice under the Projected Unit Credit Method.

5.10 Revenue Recognition

Mark-up / return on performing advances and investments is recognized on accrual basis. Where debt securities are purchased at premium or discount, those premiums / discounts are amortized through the profit and loss account over the remaining period of maturity.

Interest or mark-up recoverable on non-performing advances and classified investments is recognized on receipt basis. Interest / return / mark-up on rescheduled / restructured loans and advances and investments is recognized as permitted by the regulations of the State Bank of Pakistan or overseas regulatory authorities of countries where the branches operate, except where in the opinion of the management, it would not be prudent to do so.

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

Fees, brokerage and commission on letters of credit / guarantee and others are recognized on accrual basis.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

5.11 Derivative financial instruments

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

5.12 Foreign Currencies

a) *Foreign currency transactions*

Transactions in foreign currencies are translated to rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date except that certain deposits, which are covered by forward foreign exchange contracts, are translated at contracted rates. Forward foreign exchange contracts are valued at forward rates applicable to their respective maturities.

b) *Foreign operations*

The assets and liabilities of foreign operations are translated to rupees at exchange rates prevailing at the balance sheet date. The results of foreign operations are translated at the average rate of exchange for the year.

c) *Translation gains and losses*

Translation gains and losses are included in the profit and loss account, except those arising on the translation of net investment in foreign branches which are taken to capital reserve (Exchange Translation Reserve).

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 transaction.

5.13 Off setting

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

5.14 Accounting estimates and judgements

The preparation of financial statements in conformity with 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 5.7, 30 and 19.1)
- iv) staff retirement benefits (note 34)
- v) fair value of derivatives (note 19.3)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005 (Rupees in '000)	2004 (Rupees in '000)
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		4,606,016	3,785,931
Foreign currency		1,107,634	956,948
		5,713,650	4,742,879
With State Bank of Pakistan in			
Local currency current account		13,032,322	12,153,975
Local currency deposit account	6.1	3,864	3,864
Foreign currency deposit account	6.1	2,556,535	1,625,303
		15,592,721	13,783,142
With other central banks in foreign currency current account	6.2	9,142,105	3,590,239
With National Bank of Pakistan in local currency current account		3,571,650	1,681,685
National Prize Bonds		42,553	46,490
		<u>34,062,679</u>	<u>23,844,435</u>

6.1 Deposits with State Bank of Pakistan are maintained to comply with the statutory requirements issued from time to time.

6.2 Deposits with other central banks are maintained to meet the minimum cash reserves and capital requirements pertaining to the foreign branches of the Bank.

	Note	2005 (Rupees in '000)	2004 (Rupees in '000)
7. BALANCES WITH OTHER BANKS			
Outside Pakistan			
In current accounts		4,862,208	1,815,012
In deposit accounts		7,866,999	15,884,322
		<u>12,729,207</u>	<u>17,699,334</u>

8. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	8.1	1,199,534	1,876,465
Repurchase agreement lendings	8.2	11,769,693	8,011,490
Lendings to banks / financial institutions		4,898,325	8,472,678
		<u>17,867,552</u>	<u>18,360,633</u>

8.1 These carry mark-up at rates ranging from 1% to 12.75% per annum (2004: 2.5% to 6.1% per annum).

8.2 Securities held as collateral against lendings to financial institutions

	2005			2004		
	Held by Bank	Further given as collateral / sold	Total	Held by Bank	Further given as collateral / sold	Total
	(Rupees in '000)			(Rupees in '000)		
Market Treasury Bills	8,019,693	-	8,019,693	2,936,904	491,586	3,428,490
Pakistan Investment Bonds	2,180,000	1,570,000	3,750,000	4,583,000	-	4,583,000
	<u>10,199,693</u>	<u>1,570,000</u>	<u>11,769,693</u>	<u>7,519,904</u>	<u>491,586</u>	<u>8,011,490</u>

These carry mark-up at rates ranging from 3.5% to 8.75% per annum (2004: 1.25% to 6.5% per annum).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005
9. INVESTMENTS
Note
2005
2004
9.1 Investments by types

	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
(Rupees in '000)						
Held for trading						
Market Treasury Bills	600,734	460,807	1,061,541	1,340,956	1,045,006	2,385,962
Ordinary shares of listed companies	453,033	-	453,033	-	-	-
Term Finance Certificates	-	-	-	122,950	-	122,950
Pakistan Investment Bonds	-	-	-	971	-	971
	1,053,767	460,807	1,514,574	1,464,877	1,045,006	2,509,883
Available for sale						
Market Treasury Bills	16,004,567	3,898,511	19,903,078	13,893,796	1,097,647	14,991,443
Ordinary shares of listed companies	1,675,518	-	1,675,518	752,602	-	752,602
Pakistan Investment Bonds	1,317,980	205,469	1,523,449	4,072,246	-	4,072,246
Government of Pakistan Islamic Bonds	833,386	-	833,386	-	-	-
Term Finance Certificates	749,170	-	749,170	341,960	-	341,960
Foreign currency bonds	593,782	-	593,782	-	-	-
Ordinary shares of unlisted companies	432,680	-	432,680	303,392	-	303,392
Euro Bonds	279,575	-	279,575	1,403,469	-	1,403,469
Units of mutual fund	550,000	-	550,000	350,000	-	350,000
	22,436,658	4,103,980	26,540,638	21,117,465	1,097,647	22,215,112
Held to maturity						
Term Finance Certificates	8,661,187	-	8,661,187	8,297,548	-	8,297,548
Market Treasury Bills	4,830,400	3,595,482	8,425,882	-	-	-
Pakistan Investment Bonds	5,331,699	335,502	5,667,201	3,837,791	2,091,533	5,929,324
CIRC Bonds	4,054,883	-	4,054,883	4,054,883	-	4,054,883
Government of Pakistan - Guaranteed Bonds	4,039,971	-	4,039,971	5,699,540	-	5,699,540
Foreign currency bonds	1,694,788	-	1,694,788	2,024,073	-	2,024,073
Foreign securities	492,795	-	492,795	1,542,249	-	1,542,249
Debentures	169,351	-	169,351	176,277	-	176,277
Participation Term Certificates	70,087	-	70,087	77,267	-	77,267
CDC SAARC Fund	65,501	-	65,501	124,144	-	124,144
Federal Investment Bonds	32,725	-	32,725	45,026	-	45,026
Provincial Government Securities	1,207	-	1,207	1,207	-	1,207
	29,444,594	3,930,984	33,375,578	25,880,005	2,091,533	27,971,538
Associates						
United Growth and Income Fund	250,000	-	250,000	-	-	-
Oman United Exchange Company, Muscat *	6,981	-	6,981	15,436	-	15,436
	256,981	-	256,981	15,436	-	15,436
Subsidiaries						
United National Bank, UK *	1,482,011	-	1,482,011	1,889,313	-	1,889,313
Domestic subsidiaries	92,600	-	92,600	32,600	-	32,600
United Bank AG Zurich, Switzerland *	86,237	-	86,237	525,209	-	525,209
	1,660,848	-	1,660,848	2,447,122	-	2,447,122
	54,852,848	8,495,771	63,348,619	50,924,905	4,234,186	55,159,091
Provision for diminution in value of investments	9.3	(634,003)	(634,003)	(540,402)	-	(540,402)
Surplus / (deficit) on revaluation of available for sale investments	21.2	312,372	736	334,626	(631)	333,995
(Deficit) / surplus on revaluation of held for trading investments		(1,070)	290	1,069	(25)	1,044
Investments (net of provisions)		54,530,147	8,496,797	50,720,198	4,233,530	54,953,728

* During the year, the bank has reversed exchange translation reserve recognised on revaluation of bank's investment in overseas subsidiaries and associate in prior years amounting to Rs. 854.729 million. This reversal is in accordance with the requirements of International Accounting Standard -21, 'The effect of changes in foreign exchange rates'. There was no impact on profit or loss for the current or prior period as the revaluation was taken directly to equity in the year in which it arose.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005 (Rupees in '000)	2004
9.2 Investments by segments			
Federal Government Securities			
Market Treasury Bills		29,193,297	17,377,405
Pakistan Investment Bonds		7,190,650	10,002,541
Foreign currency bonds		1,694,788	2,024,073
Government of Pakistan Islamic Bonds		833,386	-
Government of Pakistan - US Dollar / Euro Bonds		279,575	1,403,469
Federal Investment Bonds		32,725	45,026
		39,224,421	30,852,514
Provincial Government Securities		1,207	1,207
Overseas Governments' Securities			
Foreign securities		924,001	1,284,123
Market Treasury Bills		197,204	96,317
		1,121,205	1,380,440
Other Overseas Securities			
Foreign securities		162,576	161,809
CDC SAARC Fund		65,501	124,144
		228,077	285,953
Fully Paid-up Ordinary Shares			
Listed companies		2,128,551	752,602
Unlisted companies		432,680	303,392
		2,561,231	1,055,994
Units of Mutual Fund		550,000	350,000
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates			
Term Finance Certificates			
Unlisted		8,332,720	8,116,726
Listed		1,077,637	645,732
		9,410,357	8,762,458
Bonds		8,094,854	9,754,423
Debentures		169,351	176,277
Participation Term Certificates		70,087	77,267
		17,744,649	18,770,425
Investments in subsidiaries and associates *		1,917,829	2,462,558
		63,348,619	55,159,091
Provision for diminution in value of investments	9.3	(634,003)	(540,402)
Surplus on revaluation of available for sale investments	21.2	313,108	333,995
Deficit / surplus on revaluation of held for trading investments		(780)	1,044
Investments (net of provisions)		63,026,944	54,953,728

* During the year, the bank has reversed exchange translation reserve recognised on revaluation of bank's investment in overseas subsidiaries and associate in prior years amounting to Rs. 854.729 million. This reversal is in accordance with the requirements of International Accounting Standard -21, 'The effect of changes in foreign exchange rates'. There was no impact on profit or loss for the current or prior period as the revaluation was taken directly to equity in the year in which it arose.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

	2005	2004
	(Rupees in '000)	
9.3 Particulars of provision for diminution in value of investments		
Opening balance	540,402	640,229
Exchange adjustment	-	3,970
Charged during the year	112,666	-
Reversed during the year	-	(100,381)
Transfers	4,355	17,011
Written off during the year	(23,420)	(20,427)
Closing balance	<u>634,003</u>	<u>540,402</u>

9.4 Investments include Rs. 282 million (2004: Rs. 282 million) held by the State Bank of Pakistan and National Bank of Pakistan as pledge against demand loan, TT / DD discounting facilities and foreign exchange exposure limit sanctioned to the Bank and Rs. 5 million (2004: Rs. 5 million) held by the Controller of Military Accounts (CMA) under Regimental Fund Arrangements.

9.5 Information relating to investments in shares of listed and unlisted companies, redeemable capital, debentures and bonds, required to be disclosed as part of the financial statements under State Bank of Pakistan's BSD Circular No. 36 dated October 10, 2001, is given in Annexure 'A'.

	Note	Performing		Non-performing	
		2005	2004	2005	2004
		(Rupees in '000)			
10. ADVANCES					
Loans, cash credits, running finances, etc.					
In Pakistan		169,599,106	113,521,983	9,831,330	11,827,862
Outside Pakistan		21,867,208	13,441,801	5,540,208	6,152,872
		191,466,314	126,963,784	15,371,538	17,980,734
Bills discounted and purchased (excluding government treasury bills)					
Payable in Pakistan		2,686,883	3,871,559	417,400	286,514
Payable outside Pakistan		7,067,883	7,767,493	1,171,427	1,836,085
		9,754,766	11,639,052	1,588,827	2,122,599
		201,221,080	138,602,836	16,960,365	20,103,333
Financing in respect of continuous funding system (CFS)					
		1,094,002	1,327,541	-	-
		202,315,082	139,930,377	16,960,365	20,103,333
Provision against advances					
- Specific	10.2	-	-	(13,301,990)	(15,621,718)
- General	10.3	(1,162,987)	(260,937)	-	-
		<u>201,152,095</u>	<u>139,669,440</u>	<u>3,658,375</u>	<u>4,481,615</u>
10.1 Particulars of advances					
10.1.1 In local currency		172,680,571	118,616,693	3,502,704	4,236,710
In foreign currencies		28,471,524	21,052,747	155,671	244,905
		<u>201,152,095</u>	<u>139,669,440</u>	<u>3,658,375</u>	<u>4,481,615</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

	Performing		Non-performing	
	2005	2004	2005	2004
	----- (Rupees in '000) -----			
10.1.2 Short term	130,079,120	88,849,060	-	-
Long term	<u>71,072,975</u>	<u>50,820,380</u>	<u>3,658,375</u>	<u>4,481,615</u>
	<u>201,152,095</u>	<u>139,669,440</u>	<u>3,658,375</u>	<u>4,481,615</u>

- 10.1.3** During the year, the State Bank of Pakistan has revised the basis of classification of non-performing Corporate, Consumer and SME loans and advances vide BSD Circular No. 7 dated November 1, 2005. Under the revised guidelines the category of Other Assets Especially Mentioned (OAEM) has been dispensed with while the categories of substandard, doubtful and loss have been retained. In addition, the basis of classification of loans and advances under these three categories has been redefined whereby all advances overdue by 90, 180 and 365 days are now required to be classified as substandard, doubtful and loss respectively. Previously, short-term and long-term advances were required to be separately assessed and were classified as OAEM, substandard, doubtful or loss based on different prescribed ageing criteria. The revised guidelines specify that provision should be made in the financial statements equal to 25 percent, 50 percent and 100 percent, in respect of overdue advances classified as substandard, doubtful and loss respectively, of the outstanding balance of principal less the amount of liquid assets realisable and adjusted forced sale value of mortgaged / pledged assets. The revised guidelines further specify that the benefit of forced sales valuations will not be available for non-performing financing facilities of less than Rs. 5 million.

In accordance with BSD Circular No. 2 dated January 14, 2006 the SBP has subsequently allowed banks to meet the provisioning requirement of 25 percent against substandard category in a phased manner, i.e. 10 percent from December 31, 2005 and 25 percent from December 31, 2006. However, as a matter of prudence the bank has opted to meet the provisioning requirement of 25 percent against substandard category with effect from December 31, 2005 resulting in an additional provision of Rs. 56.177 million.

Had the provision against non-performing loans and advances been determined in accordance with the previous requirement of the State Bank of Pakistan, the specific provision against non-performing loans and advances would have been lower and consequently profit before taxation and advances (net of provision) as at December 31, 2005 would have been higher by approximately Rs. 395.937 million.

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

Had the provision against agriculture advances been determined in accordance with the Prudential Regulations for Corporate / Commercial banking, the specific provision against non performing agriculture advances would have been higher, and consequently the profit before taxation and advances (net of provision) would have been lower by approximately Rs. 68.961 million.

- 10.1.5** Non-performing advances include

- a) Advances having Gross Book Value of Rs. 298.568 million (2004:Rs. 509.533 million) and Net Book Value of Rs. 284.115 million (2004: Rs. 458.225 million) though restructured and performing have been placed in the non-performing status as required by the revised Prudential Regulations issued by the State Bank of Pakistan, which requires monitoring for at least one year before any upgradation is considered.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

- 10.2** Advances include Rs.16,960 million (2004: Rs. 20,103 million) which have been placed under non-performing status as detailed below:-

Category of Classification

	2005				
	Domestic	Overseas	Total	Specific provision required	Specific provision held
	(Rupees in '000)				
Other Assets Especially Mentioned *	257,812	-	257,812	-	-
Substandard	997,226	50,087	1,047,313	123,552	123,552
Doubtful	687,047	143,913	830,960	167,720	167,720
Loss	8,306,645	6,517,635	14,824,280	13,010,718	13,010,718
	<u>10,248,730</u>	<u>6,711,635</u>	<u>16,960,365</u>	<u>13,301,990</u>	<u>13,301,990</u>

* The Other Assets Especially Mentioned category pertains to agricultural finance only.

Category of Classification

	2004				
	Domestic	Overseas	Total	Specific provision required	Specific provision held
	(Rupees in '000)				
Other Assets Especially Mentioned	1,365,330	120,072	1,485,402	-	-
Substandard	303,643	29,417	333,060	23,804	23,804
Doubtful	386,312	10,422	396,734	19,871	19,871
Loss	10,533,320	7,354,817	17,888,137	15,578,043	15,578,043
	<u>12,588,605</u>	<u>7,514,728</u>	<u>20,103,333</u>	<u>15,621,718</u>	<u>15,621,718</u>

10.3 Particulars of provision against advances

	Note	2005			2004		
		Specific	General	Total	Specific	General	Total
		(Rupees in '000)					
Opening balance		15,621,718	260,937	15,882,655	15,305,058	118,977	15,424,035
Exchange adjustments		12,331	861	13,192	291,675	3,485	295,160
Charge for the year		904,940	652,017	1,556,957	537,153	139,467	676,620
Reversal		(279,955)	-	(279,955)	(240,214)	(992)	(241,206)
		624,985	652,017	1,277,002	296,939	138,475	435,414
Transfers		(295,036)	272,958	(22,078)	259,695	-	259,695
Written off during the year	10.4	(2,662,008)	(23,786)	(2,685,794)	(531,649)	-	(531,649)
Closing balance		<u>13,301,990</u>	<u>1,162,987</u>	<u>14,464,977</u>	<u>15,621,718</u>	<u>260,937</u>	<u>15,882,655</u>

- 10.3.1** General provision represents provision amounting to Rs. 699.420 million (2004: Rs. 104.390 million) against consumer finance portfolio as required by the revised Prudential Regulations issued by State Bank of Pakistan and Rs. 463.567 million (2004: Rs. 156.547 million) pertaining to overseas advances to meet the requirements of monetary agencies and regulatory authorities of the respective countries.

	Note	2005 (Rupees in '000)	2004 (Rupees in '000)
10.4 Particulars of write-offs			
Against provisions	10.3	2,685,794	531,649
Directly charged to profit and loss account		38,140	3,841
		<u>2,723,934</u>	<u>535,490</u>
Write-offs of Rs. 500,000 and above	10.5	1,233,732	311,706
Write-offs of below Rs. 500,000		1,490,202	223,784
		<u>2,723,934</u>	<u>535,490</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005
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 during the year ended December 31, 2005 is given in Annexure-B to these financial statements. These loans are written off as a book entry without prejudice to the bank's right of recovery against the customers.

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

Balance as at
December 31,
2005 Maximum amount
of advances
granted during the
year

(Rupees in '000)

Debts due by directors or executives of the Bank or any of them either severally or jointly with any other persons	471,621	595,772
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members	1,818,141	4,406,861

Note 2005 2004
(Rupees in '000)

11. OTHER ASSETS

Income / mark-up accrued in local currency	7,621,653	6,995,168
Income / mark-up accrued in foreign currency	2,793,121	3,054,158
	10,414,774	10,049,326
Suspense accounts	449,455	432,319
Hajj refund	826,068	132,901
Stationery and stamps on hand	79,524	62,240
Advances, deposits, advance rent and other prepayments	687,736	471,772
Receivable from staff retirement funds	844,360	755,897
Due from other banks against telegraphic and demand drafts	95,468	81,288
Unrealized gain on forward foreign exchange contracts	120,538	62,998
Unrealized gain on sale of securities not yet purchased	41,726	-
Taxes recoverable	-	45,728
Others	792,421	352,516
	14,352,070	12,446,985
Provision held against other assets	11.1 (2,280,212)	(3,052,803)
Unrealized mark-up held in suspense account	(4,242,088)	(4,954,602)
	7,829,770	4,439,580

11.1 Provision against other assets

Opening balance	3,052,803	3,299,708
Exchange adjustments	230	4,415
Charge for the year	87,998	14,196
Reversals	-	(61,700)
	28 87,998	(47,504)
Transfers	49,028	19,881
Amounts written off	(909,847)	(223,697)
Closing balance	2,280,212	3,052,803

12. FIXED ASSETS

Property and equipment	12.1 3,949,865	3,686,954
Intangible assets	12.2 112,607	37,649
Capital work-in-progress	12.8 386,852	244,403
	4,449,324	3,969,006

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

12.1 Property and equipment

2005											
	COST					ACCUMULATED DEPRECIATION				Net book value at December 31, 2005	Annual rate of depreciation
	At January 1, 2005	Additions/ (deletions)	Revaluation adjustment/ revaluation surplus/ (deficit)	Other adjustments*	At December 31, 2005	At January 1, 2005	Charge for the year/ (depreciation on deletions)	Reversal due to revaluation / other adjustments*	At December 31, 2005		
(Rupees in '000)											
Owned											
Freehold land	408,194	-	-	-	408,194	-	-	-	-	408,194	-
Leasehold land	2,285,608	-	-	(11,601)	2,274,007	151,210	90,082	(48,903)	192,389	2,081,618	1 - 3.33%
Buildings on freehold land	57,956	6,233	-	-	64,189	2,898	3,210	-	6,108	58,081	5
Buildings on leasehold land	460,737	104,420	-	223	565,380	72,042	33,709	(9,595)	96,156	469,224	5
Furniture and fixtures	517,163	62,507 (6,694)	-	(28,390)	544,586	458,307	27,849 (5,645)	(75,972)	404,539	140,047	10
Electrical, office and computer equipment	1,292,192	322,195 (13,245)	-	(53,709)	1,547,433	775,490	228,044 (13,120)	(51,184)	939,230	608,203	20-25
Vehicles	326,279	119,358 (31,362)	-	(33,572)	380,703	202,117	29,647 (23,601)	(11,958)	196,205	184,498	20
Assets held under finance lease											
Vehicles	2,215	-	-	(2,215)	-	1,326	-	(1,326)	-	-	20
2005	5,350,344	614,713 (51,301)	-	(129,264)	5,784,492	1,663,390	412,541 (42,366)	(198,938)	1,834,627	3,949,865	

2004											
	COST					ACCUMULATED DEPRECIATION				Net book value at December 31, 2004	Annual rate of depreciation
	At January 1, 2004	Additions/ (deletions)	Revaluation adjustment/ revaluation surplus/ (deficit)	Other adjustments*	At December 31, 2004	At January 1, 2004	Charge for the year/ (depreciation on deletions)	Reversal due to revaluation / other adjustments*	At December 31, 2004		
(Rupees in '000)											
Owned											
Freehold land	404,384	-	-	3,810	408,194	-	-	-	-	408,194	-
Leasehold land	2,266,357	10,456	-	8,795	2,285,608	-	90,496	60,714	151,210	2,134,398	1 - 3.33%
Buildings on freehold land	57,956	-	-	-	57,956	-	2,898	-	2,898	55,058	5
Buildings on leasehold land	386,771	9,466	-	64,500	460,737	4,536	31,964	35,542	72,042	388,695	5
Furniture and fixtures	587,118	26,958 (2,240)	-	(94,673)	517,163	516,010	34,244 (1,484)	(90,463)	458,307	58,856	10
Electrical, office and computer equipment	972,252	350,489 (7,860)	-	(22,689)	1,292,192	661,693	191,091 (6,888)	(70,406)	775,490	516,702	20-25
Vehicles	224,615	37,218 (8,253)	-	72,699	326,279	128,636	46,487 (6,557)	33,551	202,117	124,162	20
Assets held under finance lease											
Vehicles	118,026	-	-	(115,811)	2,215	65,468	5,613	(69,755)	1,326	889	20
2004	5,017,479	434,587 (18,353)	-	(83,369)	5,350,344	1,376,343	402,793 (14,929)	(100,817)	1,663,390	3,686,954	

* This represents write - off / reclassification of fixed assets based on an exercise being carried out by the management to reconcile their subsidiary records of fixed assets with the ledger balances. This exercise is expected to be completed shortly

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

12.2 Intangible assets

----- 2005 -----										
Cost				Accumulated Amortisation				Net book value at December 31, 2005	Annual rate of amortisation	
At January 1, 2005	Additions/ (deletions)	Other adjust-ments*	At December 31, 2005	At January 1, 2005	Charge for the year/ (amorti-sation on deletion)	Other adjust-ments	At December 31, 2005			
----- (Rupees in '000) -----										
Software	46,871	98,339	-	145,210	9,222	23,381	-	32,603	112,607	25
----- 2004 -----										
Cost				Accumulated Amortisation				Net book value at December 31, 2004	Annual rate of amortisation	
At January 1, 2004	Additions/ (deletions)	Other adjust-ments*	At December 31, 2004	At January 1, 2004	Charge for the year/ (amorti-sation on deletion)	Other adjust-ments	At December 31, 2004			
----- (Rupees in '000) -----										
Software	7,498	39,373	-	46,871	4,391	4,831	-	9,222	37,649	25

12.3 Revaluation of domestic properties

The properties of the Bank were last revalued by independent professional valuers as at December 31, 2003. The last revaluation was carried out by M/s. Pirsons Chemicals Engineering (Private) Limited and M/s. Consultancy Support Services on the basis of professional assessment of present market values and resulted in a surplus of Rs. 991 million. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

	Rupees in '000
Freehold land	4,454
Leasehold land	25,510
Buildings on leasehold land	330,114
Buildings on freehold land	13,569

12.4 Carrying amount of temporarily idle property. 19,931

12.5 The gross carrying amount of fully depreciated assets that are still in use

Furniture & fixtures	7,135
Electrical, office and computer equipment	116,060
Vehicles	38,118

12.6 International Accounting Standard (IAS) 16, "Property, Plant and Equipment (revised 2003)" is applicable to financial statements covering annual periods beginning on or after January 1, 2005 and requires a review of residual value of assets, useful lives and depreciation method at each financial year end. Accordingly, based on a review of the above, the management has revised their estimate in respect of residual value of vehicles to 20% of cost. Previously, residual value was considered as nil for vehicles.

The above revision has been accounted for as a change in accounting estimates in accordance with the requirements of International Accounting Standard 8, "Accounting Policies, Changes in Accounting Estimates and Errors". Accordingly, the effect of this change in accounting estimate has been recognised prospectively in the profit and loss account of the current year. Had there been no change in accounting estimate, the profit before taxation for the year and net book value of operating fixed assets as at year end would have been lower by Rs 23.094 million.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005
12.7 Disposal of fixed assets during the year

	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of Buyers
----- (Rupees in '000) -----						
Furniture and fixtures						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	6,694	5,645	1,049	1,072	Auction	Various
Electrical, office and computer equipment						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	13,245	13,120	125	454	Auction	Various
Vehicles						
Toyota Corolla	689	688	1	68	Retirement benefit	Miss Nighat Saeed (SVP)
Suzuki Khyber	279	278	1	-	Retirement benefit	M.Hamidullah (SVP)
Toyota Corolla	594	593	1	59	Retirement benefit	Masood Pervaiz (SVP)
Toyota Corolla	680	679	1	67	Retirement benefit	Qazi Nuzair ul Haq (SVP)
Toyota Corolla	610	609	1	-	Retirement benefit	Nasrullah Khokhar (SEVP)
Nissan Sunny	579	578	1	-	Retirement benefit	Rafiq Khatak (EVP)
Toyota Corolla	594	593	1	-	Retirement benefit	Azizullah Memon (SEVP)
Toyota Corolla	600	599	1	59	Retirement benefit	Fawzi Khawaja (EVP)
Toyota Corolla	629	628	1	66	Retirement benefit	Abdul Ghafar (SVP)
Items having book value of more than Rs. 250,000 and cost of more than Rs. 1,000,000						
Honda Civic	1,042	72	970	1,042	Negotiation	Zeeshan Sanwar
Honda Civic	1,245	625	620	950	Insurance claim	Adamjee Insurance Company
Honda Civic	1,399	118	1,281	1,282	Insurance claim	Adamjee Insurance Company
Honda Civic	1,245	416	829	850	Employee benefit	Mansoor Khan (SEVP)
Honda Civic	1,120	338	782	783	Retirement benefit	Miss Rukhsana (SEVP)
Items having book value of less than Rs. 250,000 and cost of less than Rs. 1,000,000	20,057	16,787	3,270	14,954		
	31,362	23,601	7,761	20,180		
Total	51,301	42,366	8,935	21,706		

12.8 Capital work-in-progress essentially comprises civil works and advances to suppliers and contractors.

	Note	2005 (Rupees in '000)	2004
13. DEFERRED TAX ASSET			
Deferred tax - net	13.1	2,273,005	5,194,892

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

	2005	2004
	(Rupees in '000)	
13.1 The balances of deferred taxation comprises:		
Deductible temporary differences on		
recognized tax losses	1,511,888	4,599,000
other deductible differences	805,699	677,717
	<u>2,317,587</u>	<u>5,276,717</u>
Taxable temporary differences on		
surplus on revaluation of fixed assets	(64,267)	(68,143)
surplus on revaluation of investments	19,685	(13,682)
	<u>(44,582)</u>	<u>(81,825)</u>
	<u>2,273,005</u>	<u>5,194,892</u>

The Bank is allowed to carry forward its tax losses incurred during the financial years ended December 31, 1994 to December 31, 1999 for ten years in terms of Section 57 (2A) the Income Tax Ordinance, 2001. The bank has assessed brought forward losses to the extent of Rs 14,625 million available upto tax year 2005.

	Note	2005	2004
		(Rupees in '000)	
14. CONTINGENT ASSETS			
There were no contingent assets as at the balance sheet date.			
15. BILLS PAYABLE			
In Pakistan		4,080,008	3,682,779
Outside Pakistan		79,956	128,505
		<u>4,159,964</u>	<u>3,811,284</u>
16. BORROWINGS FROM FINANCIAL INSTITUTIONS			
In Pakistan		21,676,489	11,877,856
Outside Pakistan		113,991	97,828
		<u>21,790,480</u>	<u>11,975,684</u>
16.1 Particulars of borrowings from financial institutions			
In local currency		21,676,489	11,877,856
In foreign currencies		113,991	97,828
		<u>21,790,480</u>	<u>11,975,684</u>
16.2 Details of borrowings from financial institutions			
Secured			
Borrowings from the State Bank of Pakistan under			
Export refinance scheme	16.3	7,453,261	5,988,377
Long-term financing under export oriented projects		303,410	-
Locally manufactured machinery refinance scheme		5,195	9,872
		<u>7,761,866</u>	<u>5,998,249</u>
Borrowings from financial institutions		-	17,830
Repurchase agreement borrowings	16.4	8,434,771	4,629,607
		<u>16,196,637</u>	<u>10,645,686</u>
Unsecured			
Call Borrowings	16.5	4,000,000	500,000
Overdrawn nostro accounts		113,991	79,998
Trading liabilities		1,479,852	750,000
		<u>5,593,843</u>	<u>1,329,998</u>
		<u>21,790,480</u>	<u>11,975,684</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

16.3 The bank has entered into agreements with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the terms of the agreement, the bank has granted SBP the right to recover the outstanding amount from the bank at the date of maturity of finances by directly debiting the current account maintained by the bank with SBP.

16.4 These carry mark-up at rates ranging from 6.50% to 8.45% per annum (2004: 3.5% to 5.35% per annum).

16.5 These carry mark-up at rates ranging from 1% to 9.25% per annum (2004: 2.25% to 5.2% per annum).

2005 **2004**
(Rupees in '000)

17. DEPOSITS AND OTHER ACCOUNTS
Customers

Fixed deposits	79,841,687	42,971,478
Savings deposits	122,662,484	118,243,902
Sundry deposits	4,148,275	3,161,327
Margin deposits	2,214,877	1,218,963
Current accounts - remunerative	1,886,548	393,760
Current accounts - non-remunerative	78,324,614	64,150,773
	<u>289,078,485</u>	<u>230,140,203</u>

Financial Institutions

Remunerative deposits	-	-
Non-remunerative deposits	147,814	116,424
	<u>147,814</u>	<u>116,424</u>
	<u>289,226,299</u>	<u>230,256,627</u>

17.1 Particulars of deposits and other accounts

In local currency	235,708,482	190,334,868
In foreign currencies	53,517,817	39,921,759
	<u>289,226,299</u>	<u>230,256,627</u>

18. SUB-ORDINATED LOANS -UNSECURED

	Note	Issue Date	Tenor	Rate	Maturity	Frequency	2005	2004
							(Rupees in '000)	
Term Finance Certificates - I	18.1	Aug-04	8 years	8.45%	2012 Aug	Semi Annual	1,999,232	2,000,000
Term Finance Certificates - II	18.1	Feb-05	8 years	9.49%	2013 Feb	Semi Annual	1,999,960	1,500,000
							3,999,192	3,500,000

18.1 These represent listed Term Finance Certificates (TFCs) issued by the bank in the year 2004 and 2005 having tenor of eight years. The liability of the bank is subordinated as to the payment of principal and profit to all other indebtedness of the bank (including deposits) and is not redeemable before maturity without approval of the State Bank of Pakistan.

Note **2005** **2004**
(Rupees in '000)

19. OTHER LIABILITIES

Mark-up / return / interest payable in local currency		1,775,186	818,789
Mark-up / return / interest payable in foreign currency		132,657	49,573
Accrued expenses		752,355	595,643
Branch adjustment account		38,015	1,459,558
Payable under severance scheme		37,060	47,222
Unearned commission		21,149	40,821
Provision for taxation - net	19.1	202,883	-
Provision against off-balance sheet obligations	19.2	612,480	370,544
Unrealized loss on derivative financial instruments - net	19.3	160,574	13,077
Deferred liabilities	19.4	2,287,092	2,191,180
Others		185,295	118,342
		<u>6,204,746</u>	<u>5,704,749</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

19.1 The income tax assessments of the bank for domestic branches have been finalised under normal law upto the assessment year 2002-2003 and tax year 2003 to 2005 under the provisions of section 120(1) of the Income Tax Ordinance, 2001. The case of the tax year 2003 was selected for audit under section 177 of the Income Tax Ordinance, 2001 and the proceedings are pending before the taxation officer. In respect of Azad Kashmir Branches, assessment for the tax year 2003 and 2004 have been finalised in the light of agreement reached between the banks and Azad Kashmir Council in May 2005. The return for the tax year 2005 has also been filed as per the terms of the said agreement. Refunds determined as the result of the deemed assessment for the tax year 2004 amounting to Rs. 301.139 million were received during the year.

	Note	2005 (Rupees in '000)	2004 (Rupees in '000)
19.2 Provision against off balance sheet obligations			
Opening balance		370,544	749,825
Charge / (reversal) during the year	28	238,712	-
Transfers during the year		3,224	(379,281)
		<u>612,480</u>	<u>370,544</u>

	2005		2004	
	Contract/ Notional amount	Fair values	Contract/ Notional amount	Fair values
	----- (Rupees in '000) -----			
19.3 Derivative financial instruments				
Unrealised loss on:				
Interest rate swaps	7,826,415	156,272	2,840,000	6,546
Forward rate agreements	-	-	115,000	51
Equity futures	43,765	(2,125)	122,864	6,480
Forward purchase contracts of government securities	598,194	6,427	-	-
	<u>8,468,374</u>	<u>160,574</u>	<u>3,077,864</u>	<u>13,077</u>

	2005 (Rupees in '000)	2004 (Rupees in '000)
19.4 Deferred liabilities		
Provision for post retirement medical benefit	1,154,400	1,076,874
Provision for gratuity - overseas	95,192	78,306
Provision for compensated absences	1,037,500	1,036,000
	<u>2,287,092</u>	<u>2,191,180</u>

20. SHARE CAPITAL
20.1 Authorised Capital

2005	2004	
Number of shares	Number of shares	
<u>1,030,000,000</u>	<u>1,030,000,000</u>	Ordinary shares of Rs 10 each
		<u>10,300,000</u> <u>10,300,000</u>

20.2 Issued, subscribed and paid-up capital

Fully paid-up ordinary shares of Rs 10 each

2005	2004	
Number of shares	Number of shares	
<u>518,000,000</u>	<u>518,000,000</u>	Issued for cash
		<u>5,180,000</u> <u>5,180,000</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005
20.3 Major shareholders (holding more than 5% of total paid-up capital)

Name of shareholder	2005	
	Number of shares held	Percentage of shareholding
State Bank of Pakistan	230,326,923	44.46%
Abu Dhabi Group	132,090,000	25.50%
Best Way Group	132,090,000	25.50%
	<u>494,506,923</u>	<u>95.46%</u>

21. SURPLUS ON REVALUATION OF ASSETS

Surplus arising on revaluation of assets - net of tax :

Fixed assets

Securities

Note	2005	2004
	(Rupees in '000)	
21.1	2,579,203	2,673,351
21.2	332,793	320,313
	<u>2,911,996</u>	<u>2,993,664</u>

21.1 Surplus on revaluation of fixed assets

Surplus on revaluation of fixed assets at January 1,

Transferred to unappropriated profit in respect of incremental depreciation charged during the year

Related deferred tax liability of incremental depreciation charged during the year

Less: Related deferred tax liability on:

Revaluation as on January 1

Incremental depreciation charged on related assets

2,741,494	2,839,890
(94,148)	(94,214)
(3,876)	(4,182)
<u>2,643,470</u>	<u>2,741,494</u>
68,143	72,325
(3,876)	(4,182)
64,267	68,143
<u>2,579,203</u>	<u>2,673,351</u>

21.2 Surplus on revaluation of securities

Market Treasury Bills

Pakistan Investment Bonds

Quoted securities

Related deferred tax liability

(11,405)	(10,837)
(60,063)	60,512
384,576	284,320
313,108	333,995
19,685	(13,682)
<u>332,793</u>	<u>320,313</u>

22. CONTINGENCIES AND COMMITMENTS
22.1 Direct credit substitutes

Contingent liabilities in respect of guarantees given favoring

Government

Banking companies and other financial institutions

Others

1,683,912	856,437
769,256	1,428,103
2,325,041	1,726,278
<u>4,778,209</u>	<u>4,010,818</u>

22.2 Transaction-related contingent liabilities

Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favoring

Government

Banking companies and other financial institutions

Others

14,640,161	7,477,242
785,981	201,946
5,287,560	4,051,297
<u>20,713,702</u>	<u>11,730,485</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

	2005	2004
	(Rupees in '000)	
22.3 Trade-related contingent liabilities		
Contingent liabilities in respect of letters of credit opened favoring		
Government	1,485,183	185,994
Banking companies and other financial institutions	291,841	216,960
Others	70,827,123	55,713,984
	<u>72,604,147</u>	<u>56,116,938</u>
22.4 Other contingencies		
Claims against the Bank not acknowledged as debts	<u>6,054,243</u>	<u>6,115,838</u>
22.5 Commitments in respect of forward lending		
Commitments to extend credit	<u>16,803,900</u>	<u>1,651,359</u>
22.6 Commitments in respect of forward foreign exchange contracts		
Sale	<u>38,202,754</u>	<u>24,618,916</u>
Purchase	<u>34,338,394</u>	<u>21,452,980</u>
22.7 Other commitments		
Forward purchase contracts of government securities	<u>598,194</u>	<u>-</u>
Interest rate swaps	<u>7,826,415</u>	<u>2,840,000</u>
Equity futures	<u>43,765</u>	<u>122,864</u>
Forward rate agreements	<u>-</u>	<u>115,000</u>
Sale of securities not yet purchased	<u>1,479,279</u>	<u>750,000</u>
Commitments in respect of capital expenditure	<u>217,112</u>	<u>229,050</u>
23. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances		
- Customers	14,434,808	5,901,811
- Financial institutions	604,879	180,439
	15,039,687	6,082,250
On investments in		
- Available for sale securities	2,554,113	1,349,958
- Held to maturity securities	1,262,153	1,426,193
- Associates	28,790	18,345
	3,845,056	2,794,496
On deposits with financial institutions	159,977	40,350
On securities purchased under resale agreements	1,103,566	311,628
Discount income	10,574	5,157
	<u>20,158,860</u>	<u>9,233,881</u>
24. MARK-UP / RETURN / INTEREST EXPENSED		
On deposits	4,995,752	1,443,821
On securities sold under repurchase agreements	295,952	107,041
On other short - term borrowings	699,716	141,848
On long - term borrowings	24,088	52
Discount expense	30,440	39,998
	<u>6,045,948</u>	<u>1,732,760</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005 (Rupees in '000)	2004
25. DIVIDEND INCOME / GAIN ON SALE OF INVESTMENTS			
Dividend income		202,343	154,565
Gain on sale of investments		381,639	947,945
		<u>583,982</u>	<u>1,102,510</u>
26. OTHER INCOME			
Charges recovered from customers		1,083,091	983,908
Rent on properties		89,340	77,051
Liabilities no longer required written back		25,000	-
Net gain on sale of fixed assets		12,771	11,797
		<u>1,210,202</u>	<u>1,072,756</u>
27. ADMINISTRATIVE EXPENSES			
Personnel Cost			
Salaries, allowances etc.		3,798,545	3,314,264
Charge for compensated absences		129,628	546,216
Medical expenses		233,003	218,566
Contribution to defined contribution plan		89,423	74,463
(Reversal) / charge for defined benefit obligations		(101,279)	39,596
		<u>4,149,320</u>	<u>4,193,105</u>
Premises Cost			
Rent, taxes, insurance, electricity etc.		684,835	586,983
Depreciation	12.1	127,000	123,724
Repairs and maintenance		29,899	29,899
		<u>841,734</u>	<u>740,606</u>
Other Operating Cost			
Outsourced service charges including sales commission		621,217	141,408
Communications		387,739	304,140
Advertisement and publicity		343,331	223,212
Depreciation	12.1	285,541	279,069
Stationery and printing		194,599	120,233
Banking service charge		150,399	80,821
Legal and professional charges		134,522	100,597
Cash transportation charges		116,980	74,323
Travelling		85,520	80,188
Repairs and maintenance		75,958	51,398
Donations	27.1	63,361	-
Vehicle expenses		56,305	31,665
Office running expenses		49,036	37,082
Entertainment		46,234	33,445
Cartage, freight and conveyance		36,174	28,476
Training and seminar		35,509	18,945
Auditors' remuneration	27.2	25,708	23,135
Amortization	12.2	23,381	4,831
Subscriptions		16,568	12,737
Brokerage expenses		14,865	14,579
Computer expenses		13,872	14,557
Sub-ordinated debt issuance costs		1,909	62,509
Non-executive directors' fee and allowances		40	5
Finance charges on leased assets		3	2,903
Miscellaneous expenses		104,188	120,342
		<u>2,882,959</u>	<u>1,860,600</u>
		<u>7,874,013</u>	<u>6,794,311</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

27.1 During the year, the bank has contributed Rs 63.361 million towards the President's Relief Fund for earthquake victims. Donations were not made to any donee in which the bank or a director or his spouse had any interest.

27.2 Auditors' remuneration

	2005		
	A. F. Ferguson & Co.	KPMG Taseer Hadi & Co.	Total
	(Rupees in '000)		
Audit fee	4,730	4,730	9,460
Fee for audit of EPZ branch	56	-	56
Special certifications and sundry advisory services	725	725	1,450
Fee for audit of overseas branches	-	-	11,389
Out of pocket expenses	1,677	1,676	3,353
	<u>7,188</u>	<u>7,131</u>	<u>25,708</u>

	2004		
	A. F. Ferguson & Co.	KPMG Taseer Hadi & Co.	Total
	(Rupees in '000)		
Audit fee	4,300	4,300	8,600
Fee for audit of EPZ branch	56	-	56
Special certifications and sundry advisory services	574	630	1,204
Fee for audit of overseas branches	-	-	11,265
Out of pocket expenses	1,005	1,005	2,010
	<u>5,935</u>	<u>5,935</u>	<u>23,135</u>

	Note	2005 (Rupees in '000)	2004 (Rupees in '000)
28. OTHER PROVISIONS / WRITE OFFS			
Provision / (Reversal) against other assets - net	11.1	87,998	(47,504)
Provision against off balance sheet obligations	19.2	238,712	-
Other provisions/write offs		8,699	13,082
		<u>335,409</u>	<u>(34,422)</u>

29. OTHER CHARGES

Penalties	<u>7,066</u>	<u>10,456</u>
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30. TAXATION

	2005			
	Overseas	Azad Kashmir	Domestic	Total
	(Rupees in '000)			
Current tax	255,948	223,366	19,434	498,748
Prior year tax	7,589	71,025	-	78,614
Deferred taxation	617,100	188,634	2,149,520	2,955,254
	<u>880,637</u>	<u>483,025</u>	<u>2,168,954</u>	<u>3,532,616</u>

	2004			
	Overseas	Azad Kashmir	Domestic	Total
	(Rupees in '000)			
Current tax	185,511	46,547	51,025	283,083
Prior year tax	28,850	256,351	-	285,201
Deferred taxation	152,197	16,051	451,652	619,900
	<u>366,558</u>	<u>318,949</u>	<u>502,677</u>	<u>1,188,184</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

	2005	2004
	(Rupees in '000)	
30.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	9,481,648	4,889,728
Tax on income @ 38% (2004: 41%)	3,603,023	2,004,788
Tax effect of items that are not included in determining taxable profit	54,798	(78,205)
Deferred tax asset recognized on assessed losses / temporary differences net of reversal	(679,258)	(1,237,134)
Reversal of deferred tax liability on incremental depreciation	(3,876)	(4,182)
Tax charge of overseas branches	479,315	217,716
Prior year tax charge	78,614	285,201
Tax charge	<u>3,532,616</u>	<u>1,188,184</u>

31. BASIC / DILUTED EARNINGS PER SHARE

Profit after taxation for the year	5,949,032	3,701,544
	(Number of shares)	
Weighted average number of ordinary shares	518,000,000	518,000,000
	(Rupees)	
Basic / diluted earnings per share	11.48	7.15

	2005	2004
	(Rupees in '000)	
32. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks	34,062,679	23,844,435
Balances with other banks	12,729,207	17,699,334
	<u>46,791,886</u>	<u>41,543,769</u>

	(Number)	
33. STAFF STRENGTH		
Total number of employees at the end of the year	9,354	9,206

34. EMPLOYEE BENEFITS
34.1 Defined Benefit Plans - General description

The Bank operates a funded pension scheme established in 1986. The Bank also operates a funded gratuity scheme for new employees and those employees who have not opted for the pension scheme. Further, the Bank also operates a contributory benevolent fund scheme and provides post retirement medical to eligible retired employees. The benevolent fund plan and post retirement medical plan cover all the regular employees of the Bank.

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

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

These limits are calculated and applied separately for each defined benefit scheme.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

34.2 Principal actuarial assumptions

The latest actuarial valuation was carried out as at December 31, 2005. Projected unit credit actuarial cost method, using following significant assumptions was used for the valuation of the defined benefit plans:

Discount rate	9%
Expected rate of return on plan assets	9%
Expected rate of salary increase	9%
Expected rate of pension increase	4%

34.3 Reconciliation of (receivable from) / payable to defined benefit plans

	2005				2004			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	(Rupees in '000)				(Rupees in '000)			
Present value of defined benefit obligations	4,184,487	381,983	665,686	1,263,750	4,027,184	292,738	719,317	1,256,633
Fair value of any plan assets	(6,349,249)	(345,484)	(773,365)	-	(6,496,932)	(278,261)	(698,839)	-
Net actuarial gains or (losses) not recognized	1,818,703	(39,872)	98,124	(109,350)	2,084,894	(15,786)	(21,090)	(179,759)
(Receivable) / payable	(346,059)	(3,373)	(9,555)	1,154,400	(384,854)	(1,309)	(612)	1,076,874

34.4 Movement in (receivable) / payable to defined benefit plans

	2005				2004			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	(Rupees in '000)				(Rupees in '000)			
Opening balance	(384,854)	(1,309)	(612)	1,076,874	(150,413)	(47,267)	(1,700)	872,331
Charge/ (reversal) for the year	(309,773)	38,376	9,442	125,269	(278,527)	20,958	30,081	247,663
Contribution to / (refund from) fund made during the year	360,000	(40,440)	(9,929)	-	44,086	25,000	(28,993)	-
Benefits paid	(11,432)	-	(8,456)	(47,743)	-	-	-	(43,120)
Closing balance	(346,059)	(3,373)	(9,555)	1,154,400	(384,854)	(1,309)	(612)	1,076,874

34.5 Charge for defined benefit plans

	2005				2004			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	(Rupees in '000)				(Rupees in '000)			
Current service cost	21,416	40,895	18,345	19,922	39,206	28,173	15,877	17,860
Interest cost	322,175	23,419	57,545	100,531	201,819	16,771	34,962	63,890
Expected return on plan assets	(523,293)	(25,938)	(55,907)	-	(349,266)	(23,145)	(36,440)	-
Actuarial (gains) and losses	(130,071)	-	-	4,816	(170,286)	(841)	-	-
Amortization of transitional obligations	-	-	-	-	-	-	24,882	165,913
Employees' contribution	-	-	(10,541)	-	-	-	(9,200)	-
	(309,773)	38,376	9,442	125,269	(278,527)	20,958	30,081	247,663

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

34.6 Actual return on plan assets

Among the defined benefit plans, currently the pension, gratuity and benevolent fund plans are funded. The actual return earned on the assets during the year 2005 are:

Pension fund	Rs. 329 million
Benevolent fund	Rs. 53 million
Gratuity fund	Rs. 110 million

35. OTHER EMPLOYEE BENEFITS

35.1 Defined contribution plan

The Bank operates a contributory provident fund scheme for 5,294 (2004: 5,294) employees who are not in the pension scheme. The employer and employee both contribute 8.33% of the basic salaries to the funded scheme every month.

35.2 Employee compensated absences

The liability of the bank in respect of long-term employee compensated absences is determined based on actuarial valuation carried out using Projected Unit Credit Method. The liability of the bank as per the latest actuarial valuation carried out as at December 31, 2005 amounted to Rs. 1,037.50 million which has been fully provided by the bank. The charge for the year in respect of these absences amounted to Rs.129.628 million which is shown in note 27 to these financial statements.

36. REMUNERATION OF KEY MANAGEMENT PERSONNEL

	Chief Executive		Directors		Executives	
	2005	2004	2005	2004	2005	2004
	(Rupees in '000)					
Fees	-	-	40	5	-	-
Managerial remuneration	19,604	12,667	-	-	276,608	143,699
Charge for defined benefit plan	524	528	-	-	9,247	5,431
Contribution to defined contribution plan	903	1,056	-	-	15,782	11,025
Rent and house maintenance	1,970	1,266	-	-	85,224	58,655
Utilities	346	664	-	-	18,939	17,157
Medical	33	656	-	-	18,939	13,012
Reimbursement of children's education fees	43	128	-	-	-	-
Vehicle running, maintenance and others	639	471	-	-	12,634	17,569
	<u>24,062</u>	<u>17,436</u>	<u>40</u>	<u>5</u>	<u>437,373</u>	<u>266,548</u>
Number of persons	<u>1</u>	<u>2</u>	<u>3</u>	<u>3</u>	<u>207</u>	<u>158</u>

The Chief Executive and certain executives are provided with free use of the bank's maintained cars and household equipments.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005
37. MATURITIES OF ASSETS AND LIABILITIES - Based on contractual maturity of the assets and liabilities of the bank

	2005				
	Total	Upto three months	Over 3 months to one year	Over one year to five years	Over five Years
(Rupees in '000)					
Assets					
Cash and balances with treasury banks	34,062,679	34,062,679	-	-	-
Balances with other banks	12,729,207	12,412,496	-	-	316,711
Lending to financial institutions	17,867,552	11,936,288	1,330,456	4,600,808	-
Investments	63,026,944	5,707,305	29,334,830	19,438,805	8,546,004
Advances - Performing	201,152,095	89,159,329	40,912,726	48,677,366	22,402,674
- Non Performing	3,658,375	-	-	-	3,658,375
Other assets	7,829,770	7,142,034	-	-	687,736
Fixed assets	4,449,324	146,915	326,942	1,593,355	2,382,112
Deferred tax assets	2,273,005	394,064	1,182,193	193,610	503,138
	<u>347,048,951</u>	<u>160,961,110</u>	<u>73,087,147</u>	<u>74,503,944</u>	<u>38,496,750</u>
Liabilities					
Bills payable	4,159,964	4,159,964	-	-	-
Borrowings from financial institutions	21,790,480	19,350,014	2,440,466	-	-
Deposits and other accounts	289,226,299	252,526,237	15,962,378	10,962,615	9,775,069
Subordinated loan	3,999,192	414	414	3,312	3,995,052
Other liabilities	6,204,746	3,086,775	317,064	460,721	2,340,186
	<u>325,380,681</u>	<u>279,123,404</u>	<u>18,720,322</u>	<u>11,426,648</u>	<u>16,110,307</u>
Net assets	<u>21,668,270</u>	<u>(118,162,294)</u>	<u>54,366,825</u>	<u>63,077,296</u>	<u>22,386,443</u>
Represented by:					
Share capital	5,180,000				
Reserves	6,225,461				
Unappropriated profit	7,350,813				
Surplus on revaluation of assets	2,911,996				
	<u>21,668,270</u>				

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 current and savings deposits as a contractual maturity analysis of deposits alone does not provide information about the conditions expected in normal circumstances. The maturity profile disclosed in note 37.1 that includes maturities of current and savings 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005
37.1 MATURITIES OF ASSETS AND LIABILITIES - Based on working prepared by the Asset and Liability Management Committee (ALCO) of the bank

	2005				
	Total	Upto three months	Over 3 months to one year	Over one year to five years	Over five Years
(Rupees in '000)					
Assets					
Cash and balances with treasury banks	34,062,679	18,881,471	4,474,938	3,539,660	7,166,610
Balances with other banks	12,729,207	12,412,496	-	-	316,711
Lendings to financial institutions	17,867,552	11,936,288	1,330,456	4,600,808	-
Investments	63,026,944	6,544,158	27,691,240	17,489,604	11,301,942
Advances - Performing	201,152,095	89,159,329	40,912,726	48,677,366	22,402,674
- Non Performing	3,658,375	-	-	-	3,658,375
Other assets	7,829,770	2,232,779	4,567,437	-	1,029,554
Fixed assets	4,449,324	-	-	-	4,449,324
Deferred tax assets	2,273,005	-	1,022,852	1,250,153	-
	<u>347,048,951</u>	<u>141,166,521</u>	<u>79,999,649</u>	<u>75,557,591</u>	<u>50,325,190</u>
Liabilities					
Bills payable	4,159,964	4,159,964	-	-	-
Borrowings from financial institutions	21,790,480	19,350,014	2,440,466	-	-
Deposits and other accounts	289,226,299	91,971,760	60,437,068	45,488,566	91,328,905
Subordinated loan	3,999,192	414	414	3,312	3,995,052
Other liabilities	6,204,746	2,333,421	202,884	-	3,668,441
	<u>325,380,681</u>	<u>117,815,573</u>	<u>63,080,832</u>	<u>45,491,878</u>	<u>98,992,398</u>
Net assets	<u><u>21,668,270</u></u>	<u><u>23,350,948</u></u>	<u><u>16,918,817</u></u>	<u><u>30,065,713</u></u>	<u><u>(48,667,208)</u></u>

Represented by:

Share capital	5,180,000
Reserves	6,225,461
Unappropriated profit	7,350,813
Surplus on revaluation of assets	2,911,996
	<u><u>21,668,270</u></u>

Current and savings deposits do not have any contractual maturity therefore, current deposits and savings accounts have been classified between all four maturities. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

	2004				
	Total	Upto three months	Over 3 months to one year	Over one year to five years	Over five Years
(Rupees in '000)					
Assets					
Cash and balances with treasury banks	23,844,435	23,844,435	-	-	-
Balances with other banks	17,699,334	17,699,334	-	-	-
Lending to financial institutions	18,360,633	9,887,955	8,472,678	-	-
Investments	54,953,728	19,143,306	4,781,152	19,134,025	11,895,245
Advances - Performing	139,669,440	31,872,254	56,976,806	23,381,155	27,439,225
- Non Performing	4,481,615	-	-	4,481,615	-
Other assets	4,439,580	3,473,100	966,480	-	-
Fixed assets	3,969,006	101,391	301,508	1,206,546	2,359,561
Deferred tax assets	5,194,892	512,749	1,579,295	2,810,593	292,255
	<u>272,612,663</u>	<u>106,534,524</u>	<u>73,077,919</u>	<u>51,013,934</u>	<u>41,986,286</u>
Liabilities					
Bills payable	3,811,284	3,049,027	762,257	-	-
Borrowings from financial institutions	11,975,684	5,977,435	5,998,249	-	-
Deposits and other accounts	230,256,627	33,284,050	28,051,150	20,767,543	148,153,884
Subordinated loan	3,500,000	-	798	3,312	3,495,890
Liabilities against assets subject to finance lease	288	288	-	-	-
Other liabilities	5,704,749	3,135,537	119,202	897,397	1,552,613
	<u>255,248,632</u>	<u>45,446,337</u>	<u>34,931,656</u>	<u>21,668,252</u>	<u>153,202,387</u>
Net assets	<u>17,364,031</u>	<u>61,088,187</u>	<u>38,146,263</u>	<u>29,345,682</u>	<u>(111,216,101)</u>

Represented by:

Share capital	5,180,000
Reserves	5,915,928
Unappropriated profit	3,274,439
Surplus on revaluation of assets	2,993,664
	<u>17,364,031</u>

Current and savings deposits do not have any contractual maturity therefore, current deposits and savings accounts have been classified between all four maturities. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005
38. YIELD / INTEREST RATE RISK

Yield / Interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.

		2005					
	Effective yield/ Interest rate	Total	Exposed to Yield / Interest risk			Not exposed to yield/ interest risk	
			Upto three months	Over 3 months to one year	Over one year to five years	Over five years	
	%	(Rupees in '000)					
On-balance sheet financial instruments							
Assets							
Cash and balances with treasury banks	2.9%	34,062,679	8,658,736	-	-	-	25,403,943
Balances with other banks	3.8%	12,729,207	7,866,999	-	-	-	4,862,208
Lending to financial institutions	6.5%	17,867,552	11,936,288	1,330,456	4,600,808	-	-
Investments	5.8%	63,026,944	3,430,358	28,248,883	19,666,913	7,533,208	4,147,582
Advances - Performing	8.5%	201,152,095	126,725,819	60,345,628	14,080,648	-	-
- Non Performing	-	3,658,375	-	-	-	-	3,658,375
Other assets	-	6,502,315	-	-	-	-	6,502,315
		338,999,167	158,618,200	89,924,967	38,348,369	7,533,208	44,574,423
Liabilities							
Bills payable	-	4,159,964	-	-	-	-	4,159,964
Borrowings from financial institutions	8.30%	21,790,480	19,350,014	2,440,466	-	-	-
Deposits	2.00%	289,226,299	109,526,249	58,900,207	26,093,546	7,984,169	86,722,128
Subordinated loans	9.10%	3,999,192	414	414	3,312	3,995,052	-
Other liabilities	-	2,713,786	-	-	-	-	2,713,786
		321,889,721	128,876,677	61,341,087	26,096,858	11,979,221	93,595,878
On-balance sheet gap		17,109,446	29,741,523	28,583,880	12,251,511	(4,446,013)	(49,021,455)
Off-balance sheet financial instruments							
Foreign currency forward purchases		34,338,394	29,504,753	4,833,641	-	-	-
Foreign currency forward sales		(38,202,754)	(29,125,523)	(9,077,231)	-	-	-
Interest rate swaps		7,826,415	-	-	7,476,415	350,000	-
Equity futures		(43,765)	-	-	-	-	(43,765)
Off-balance sheet gap		3,918,290	379,230	(4,243,590)	7,476,415	350,000	(43,765)
Total Yield/Interest Risk Sensitivity Gap			30,120,753	24,340,290	19,727,926	(4,096,013)	(49,065,220)
Cumulative Yield/Interest Risk Sensitivity Gap			30,120,753	54,461,043	74,188,969	70,092,956	21,027,736

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

		2004					
On-balance sheet financial instruments	Effective yield/ Interest rate	Total	Exposed to Yield / Interest risk				Not exposed to yield/ interest risk
			Upto three months	Over 3 months to one year	Over one year to five years	Over five years	
	%	(Rupees in '000)					
	Assets						
	Cash and balances with treasury banks	0.01%	23,844,435	1,216,129	-	-	-
Balances with other banks	1.84%	17,699,334	15,884,322	-	-	-	1,815,012
Lending to financial institutions	2.12%	18,360,633	9,887,955	8,472,678	-	-	-
Investments	6.69%	54,953,728	19,143,306	4,781,152	18,249,912	11,872,333	907,025
Advances - Performing	4.63%	139,669,440	31,872,254	56,976,806	23,381,155	27,439,225	-
- Non Performing	-	4,481,615	-	-	-	-	4,481,615
Other assets	-	2,943,023	-	-	-	-	2,943,023
		261,952,208	78,003,966	70,230,636	41,631,067	39,311,558	32,774,981
Liabilities							
Bills payable	-	3,811,284	3,049,027	762,257	-	-	-
Borrowings from financial institutions	1.93%	11,975,684	5,977,435	5,998,249	-	-	-
Deposits	0.76%	230,256,627	32,931,044	26,707,153	18,976,427	86,272,267	65,369,736
Subordinated loans	8.93%	3,500,000	-	798	3,312	3,495,890	-
Liabilities against assets subject to finance lease	12%-13.5%	288	288	-	-	-	-
Other liabilities	-	1,662,812	-	-	-	-	1,662,812
		251,206,695	41,957,794	33,468,457	18,979,739	89,768,157	67,032,548
On-balance sheet gap		10,745,513	36,046,172	36,762,179	22,651,328	(50,456,599)	(34,257,567)
Off-balance sheet financial instruments							
Foreign currency forward purchases		21,452,980	18,726,398	2,726,582	-	-	-
Foreign currency forward sales		(24,618,916)	(16,364,138)	(8,254,778)	-	-	-
Interest rate swaps		2,840,000	-	-	2,840,000	-	-
Equity futures		122,864	-	-	-	-	122,864
Off-balance sheet gap		(203,072)	2,362,260	(5,528,196)	2,840,000	-	122,864
Total Yield/Interest Risk Sensitivity Gap			38,408,432	31,233,983	25,491,328	(50,456,599)	(34,134,703)
Cumulative Yield/Interest Risk Sensitivity Gap			38,408,432	69,642,415	95,133,743	44,677,144	10,542,441

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

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. *AMC 60 KPMG TH*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005
39. CURRENCY RISK

	2005			
	Assets	Liabilities	Off balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	288,001,610	261,217,900	(4,078,046)	22,705,664
US Dollar	20,374,084	25,637,948	3,299,203	(1,964,661)
Pound Sterling	4,491,815	3,421,554	(645,619)	424,642
Euro	1,901,391	1,390,159	514,839	1,026,071
Japanese Yen	465,140	1,952	488,031	951,219
Other Currencies	31,814,911	33,711,168	421,592	(1,474,665)
	<u>347,048,951</u>	<u>325,380,681</u>	<u>-</u>	<u>21,668,270</u>

	2004			
	Assets	Liabilities	Off balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	219,254,067	203,401,587	3,049,541	18,902,021
US Dollar	29,123,044	22,250,409	(2,299,954)	4,572,681
Pound Sterling	3,686,653	1,775,764	(156,808)	1,754,081
Euro	964,347	1,030,029	(13,241)	(78,923)
Japanese Yen	317,841	13	(320,224)	(2,396)
Other Currencies	19,266,711	26,790,830	(259,314)	(7,783,433)
	<u>272,612,663</u>	<u>255,248,632</u>	<u>-</u>	<u>17,364,031</u>

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in the foreign exchange rates. In order to avoid losses arising from adverse movements in the rate of exchange, the management monitors compliance with all external and internal limits (including currency, dealer and counter party limits), review of foreign exchange exposure and regular revaluation of the entire portfolio.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments other than those classified as held to maturity is based on quoted market price. 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 loan, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for 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 of these financial statements.

The maturity and repricing profile and effective rates are stated in notes 37 and 38 respectively.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

41. CONCENTRATION OF CREDIT AND DEPOSITS

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentration of credit risk

Out of the total financial assets of Rs. 338,999 million (2004:Rs. 261,952 million), the financial assets which were subject to credit risk amounted to Rs. 260,066 million (2004:Rs.197,801 million) . The Bank's major credit risk is concentrated in textile sector. To manage credit risk, the Bank applies credit limits to its customers and obtains adequate collaterals. Investments amounting to Rs. 47,320 million (2004: Rs. 40,608 million) are guaranteed by the Government of Pakistan.

Risk management

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

Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The risks are inherent on deposits, liabilities, loans / advances and investments of the Bank.

The Assets and Liabilities Committee of the Bank regularly reviews the total portfolio of the Bank to ensure that risks are minimized and remain within acceptable limits.

Most of the loans and advances comprise of working capital which are repriced on a periodical basis, whereas the majority of deposits are repriced retrospectively on a six monthly basis due to the profit and loss sharing system for determining deposit rates.

Credit risk management

Credit risk management is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk in the Bank's portfolio is monitored, reviewed and analyzed by the Credit Risk Management (CRM).

CRM determines the quality of the credit portfolio and assists in minimizing potential losses. To achieve this objective, CRM formulates appropriate credit policies and procedures for the Bank to ensure building and maintaining quality credits and an efficient credit process.

The Bank's Financial Institution Risk Management Unit (FIRMU) is established to screen out the Banks / Financial Institutions and determine the maximum risk exposure on each of them. FIRMU also assesses, recommends and controls cross border/ country risk.

To manage the non performing loans (NPLs), the bank has in place comprehensive remedial management policy which includes a framework of controls to identify weak credits and monitoring of these accounts.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005
42. SEGMENT BY CLASS OF BUSINESS

	2005					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	4,519,197	2.06%	2,068,372	0.72%	1,858,752	0.91%
Agri business	7,267,123	3.31%	16,148,663	5.58%	1,987,455	0.98%
Textile spinning	20,800,926	9.49%	932,308	0.32%	1,541,572	0.76%
Textile weaving	10,129,530	4.62%	431,727	0.15%	240,840	0.12%
Textile composite	15,323,544	6.99%	793,144	0.27%	1,018,389	0.50%
Textile others	9,058,847	4.13%	1,199,851	0.41%	1,706,837	0.84%
Cement	5,605,446	2.56%	1,388,644	0.48%	727,334	0.36%
Sugar	4,926,779	2.25%	1,003,565	0.35%	19,228	0.01%
Shoes and leather garments	2,959,030	1.35%	1,419,547	0.49%	263,216	0.13%
Automobile and transportation equipment	17,190,233	7.84%	2,387,889	0.83%	2,359,732	1.16%
Financial	5,420,870	2.47%	5,756,213	1.99%	91,674,255	45.01%
Insurance	54,447	0.02%	7,949,837	2.75%	32,989	0.02%
Electronics and electrical appliances	2,712,010	1.24%	1,937,391	0.67%	494,506	0.24%
Production and transmission of energy	2,975,521	1.36%	15,389,571	5.32%	4,786,428	2.35%
Paper and allied	1,232,621	0.56%	880,748	0.30%	316,211	0.16%
Surgical and metal	1,976,967	0.90%	342,919	0.12%	342,823	0.17%
Contractors	1,679,640	0.77%	6,400,646	2.21%	3,175,151	1.56%
Wholesale traders	15,375,249	7.01%	15,744,320	5.44%	3,885,616	1.91%
Fertilizer dealers	906,756	0.41%	4,121,160	1.42%	69,540	0.03%
Sports goods	632,811	0.29%	206,891	0.07%	-	0.00%
Food industries	3,723,894	1.70%	1,657,190	0.57%	392,343	0.19%
Airlines	1,373,927	0.63%	1,072,230	0.37%	385	0.00%
Cables	450,100	0.21%	43,088	0.01%	343,944	0.17%
Constructions	13,760,142	6.28%	5,124,897	1.77%	416,141	0.20%
Containers and ports	300,000	0.14%	22,603	0.01%	500	0.00%
Engineering	288,433	0.13%	3,384,066	1.17%	4,954,642	2.43%
Glass and Allied	35,712	0.02%	96,059	0.03%	19,009	0.01%
Hotels	571,470	0.26%	1,071,395	0.37%	2,631,880	1.29%
Infrastructure	-	0.00%	2,175,662	0.75%	38,406	0.02%
Media	458,746	0.21%	658,451	0.23%	90,208	0.04%
Polyester and fibre	-	0.00%	62,952	0.02%	306,152	0.15%
Telecom	5,818,502	2.65%	879,751	0.30%	3,642,497	1.79%
Individuals	22,349,780	10.19%	154,957,725	53.58%	8,378,670	4.11%
Others	39,397,194	17.97%	31,516,824	10.90%	65,944,463	32.38%
	<u>219,275,447</u>	<u>100%</u>	<u>289,226,299</u>	<u>100%</u>	<u>203,660,114</u>	<u>100%</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

	2004					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	4,655,294	2.91%	1,998,122	0.87%	1,802,232	1.39%
Agri business	8,790,381	5.49%	16,306,589	7.08%	2,533,997	1.95%
Textile spinning	16,108,993	10.07%	579,139	0.25%	3,652,603	2.82%
Textile weaving	9,419,083	5.89%	504,250	0.22%	384,352	0.30%
Textile composite	13,054,127	8.16%	890,148	0.39%	1,150,750	0.89%
Textile others	1,305,006	0.82%	470,700	0.20%	895,279	0.69%
Cement	3,278,768	2.05%	763,921	0.33%	1,445,514	1.11%
Sugar	2,951,155	1.84%	778,133	0.34%	11,607	0.01%
Shoes and leather garments	2,226,295	1.39%	1,750,725	0.76%	141,148	0.11%
Automobile and transportation equipment	2,057,949	1.29%	2,651,282	1.15%	2,197,816	1.69%
Financial	8,866,287	5.54%	4,920,543	2.14%	55,017,162	42.40%
Insurance	24,562	0.02%	4,295,716	1.87%	1,131,253	0.87%
Electronics and electrical appliances	2,184,419	1.36%	1,955,847	0.85%	2,894,898	2.23%
Production and transmission of energy	2,158,099	1.35%	7,739,413	3.36%	529,541	0.41%
Contractors	1,297,102	0.81%	2,637,896	1.15%	135,051	0.10%
Wholesale traders	16,577,276	10.36%	15,617,092	6.78%	6,209,347	4.79%
Fertilizer dealers	973,047	0.61%	3,041,862	1.32%	997,977	0.77%
Food industries	2,199,046	1.37%	354,566	0.15%	935,111	0.72%
Airlines	1,127,819	0.70%	2,083,266	0.90%	127,128	0.10%
Constructions	1,230,370	0.77%	1,787,598	0.78%	1,227,788	0.95%
Infrastructure	3,000,000	1.87%	1,031,024	0.45%	2,764	0.00%
Telecom	3,151,371	1.97%	1,229,979	0.53%	3,215,900	2.48%
Individuals	8,676,431	5.42%	127,999,660	55.59%	4,733,989	3.65%
Others	44,720,830	27.94%	28,869,156	12.54%	38,381,041	29.58%
	<u>160,033,710</u>	<u>100.00%</u>	<u>230,256,627</u>	<u>100.00%</u>	<u>129,754,248</u>	<u>100.00%</u>

42.1 Segment by sector

	2005					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/Government	24,344,709	11.10%	43,707,375	15.11%	52,493,676	25.78%
Private	194,930,738	88.90%	245,518,924	84.89%	151,166,438	74.22%
	<u>219,275,447</u>	<u>100%</u>	<u>289,226,299</u>	<u>100%</u>	<u>203,660,114</u>	<u>100%</u>

	2004					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/Government	26,105,942	16.31%	26,393,796	11.46%	8,519,673	6.57%
Private	133,927,768	83.69%	203,862,831	88.54%	121,234,575	93.43%
	<u>160,033,710</u>	<u>100%</u>	<u>230,256,627</u>	<u>100%</u>	<u>129,754,248</u>	<u>100%</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

43. GEOGRAPHICAL SEGMENT ANALYSIS

GEOGRAPHICAL SEGMENT ANALYSIS	2005			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	(Rupees in '000)			
Pakistan				
Domestic Operations	7,557,326	290,806,691	13,090,538	189,967,365
Asia Pacific (including South Asia)	35,099	2,475,089	57,067	125,993
	<u>7,592,425</u>	<u>293,281,780</u>	<u>13,147,605</u>	<u>190,093,358</u>
Overseas				
United States of America	167,893	1,669,054	406,213	91,734
Middle East	1,721,330	52,098,117	8,114,452	13,475,022
	<u>1,889,223</u>	<u>53,767,171</u>	<u>8,520,665</u>	<u>13,566,756</u>
	<u>9,481,648</u>	<u>347,048,951</u>	<u>21,668,270</u>	<u>203,660,114</u>

	2004			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	(Rupees in '000)			
Pakistan				
Domestic Operations	3,699,288	225,063,505	10,752,919	120,476,545
Asia Pacific (including South Asia)	27,659	2,267,291	17,890	43,133
	<u>3,726,947</u>	<u>227,330,796</u>	<u>10,770,809</u>	<u>120,519,678</u>
Overseas				
United States of America	65,428	3,723,753	256,706	31,363
Middle East	1,097,353	41,558,114	6,336,516	9,203,207
	<u>1,162,781</u>	<u>45,281,867</u>	<u>6,593,222</u>	<u>9,234,570</u>
	<u>4,889,728</u>	<u>272,612,663</u>	<u>17,364,031</u>	<u>129,754,248</u>

Total assets employed include intra group items of Rs Nil

44. TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities. However, it acts as security agent for some of the Term Finance Certificates it arranges and distributes on behalf of its customers.

45. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its associated undertakings, subsidiary companies (refer note 9.1), employee benefit plans (refer note 34) and its directors and executive officers (including their associates).

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk. Details of loans and advances to the key management personnel, the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members are given in note 10.6 to these financial statements.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan (refer note 34 to these financial statements for the details of plans). Remuneration to the executives, disclosed in note 36 to these financial statements are determined in accordance with the terms of their appointment. *AMC KPMGTH*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

Details of transactions with related parties are given below:

	2005				2004			
	Key management personnel	Subsidiaries	Associates	Others	Key management personnel	Subsidiaries	Associates	Others
Advances								
At January 01	46,903	-	-	2,542,969	1,547	-	-	3,447,195
Given during the year	31,112	-	-	1,863,892	50,146	-	-	8,753,020
Repaid during the year	(12,127)	-	-	(2,588,720)	(4,790)	-	-	(9,657,246)
At December 31	65,888	-	-	1,818,141	46,903	-	-	2,542,969
Deposits								
At January 01	9,594	39,320	-	3,594,143	5,056	18,972	-	2,268,428
Received during the year	121,382	66,747	-	30,792,517	131,956	135,124	-	30,997,599
Withdrawn during the year	(119,255)	(101,921)	-	(30,064,640)	(127,418)	(114,776)	-	(29,671,884)
At December 31	11,721	4,146	-	4,322,020	9,594	39,320	-	3,594,143
Placements made during the year	-	41,752,807	-	-	-	99,474,467	-	-
Placements settled during the year	-	41,752,807	-	-	-	85,857,768	-	-
Maximum amount of a placement made during the year	-	2,981,500	-	-	-	2,687,400	-	-
Mark-up / return / interest earned	-	13,806	-	70,002	-	15,350	-	49,775
Mark-up / return / interest expensed	-	27	-	28,975	-	182	-	108,703
Reimbursement of liaison office expenses paid to Dubai and Abu Dhabi Group	-	-	-	29,789	-	-	-	31,535
Investment made during year	-	60,000	250,000	180,000	-	-	-	4,600
Payable in respect of acquisition of share:	-	30,000	-	-	-	-	-	-
Distribution commission income	-	2,607	-	-	-	5,162	-	-
Distribution commission receivable	-	1,866	-	-	-	12,325	-	-
Dividend income received	-	55,420	-	-	-	-	-	-
Remuneration paid	66,750	-	-	-	32,652	-	-	-
Post Employment benefits	3,829	-	-	-	2,144	-	-	-

46. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 21, 2006 has proposed a cash dividend in respect of 2005 of Rs. 2.50 per share (2004: cash dividend Rs 1.50 per share). In addition, the directors have also announced a bonus issue of 25% percent. These appropriations will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2005 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ending December 31, 2006.

47. DATE OF AUTHORIZATION

These financial statements were authorised for issue on February 21, 2006 by the Board of Directors of the Bank.

48. GENERAL

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

- International Accounting Standard - 1 Presentation of Financial Statements - Capital Disclosures effective from January 1, 2007
- International Accounting Standard - 19 (Amendments) - Employee Benefits effective from January 1, 2006

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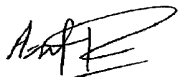
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

48.2 Comparative figures have been reclassified and rearranged as follows:

- 'Short-term lendings to financial institutions' amounting to Rs. 2,089.129 million have been reclassified from 'advances' to 'lending to financial institutions'.
- Charges recovered from customers for faxes and mails amounting to Rs 91.602 million have been reclassified from 'communication' to 'charges recovered from customers'.
- Softwares having net book value of Rs. 37.649 million have been reclassified from 'electric, office and computer equipment' to 'intangible assets'.
- 'Due from other banks against telegraphic and demand drafts', amounting to Rs. 81.288 million has been classified separately in 'other assets'.
- 'Trading liabilities' amounting to Rs. 750 million have been classified separately under the 'borrowing from financial institutions'.
- 'Mark-up / return / interest earned' amounting to Rs 180.439 million has been reclassified from 'mark-up / return / interest earned on deposits with financial institutions' to 'mark-up / return / interest earned on loans and advances'.
- 'Deferred liabilities' amounting to Rs. 2,191.180 million have been re-classified under the caption of 'other liabilities'.
- 'Taxes recoverable' amounting to Rs. 45.728 million have been re-classified under the caption of 'other assets'

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Atif R. Bokhari
President and
Chief Executive Officer



Ahmad Waqar
Director



Sir Mohammed Anwar Pervez, OBE, HPk
Deputy Chairman



Nahayan Mabarak Al Nahayan
Chairman