

In the Name Of Allah
The Most Gracious,
The Most Merciful

Contents

Corporate Information	2
Notice of the 14th Annual General Meeting.....	3
Directors' Report to the Shareholders	5
Statement of Compliance with the Best Practices of Corporate Governance to the Members.....	9
Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance	11
Statement of Internal Controls	12
Auditors' Report to the Members	13
Balance Sheet.....	14
Profit and Loss Account	15
Cash Flow Statement	16
Statement of Changes in Equity	17
Notes to the Financial Statements	18
Consolidated Annual Accounts of Bank and its Subsidiary Companies.....	57
Pattern of Shareholding	103
Branch Network	107
Form of Proxy	

Corporate Information

Board of Directors

H.E. Sheikh Hamdan Bin Mubarak Al Nahayan	Chairman
Mr. Abdulla Khalil Al Mutawa	Director
Mr. Abdulla Nasser Hawaileel Al-Mansoori	Director
Mr. Khalid Mana Saeed Al Otaiba	Director
Mr. Ikram Ul-Majeed Sehgal	Director
Mr. Nadeem Iqbal Sheikh	Director
Mr. Mohammad Saleem Akhtar	Chief Executive Officer

Board Advisory Committee

Mr. Abdulla Khalil Al Mutawa	Director
Mr. Khalid Mana Saeed Al Otaiba	Director
Mr. Bashir A. Tahir	Member
Mr. Ganpat Singhvi	Member
Mr. M. Ifikhar Shabbir	Secretary

Board Audit Committee

Mr. Abdulla Khalil Al Mutawa	Director
Mr. Khalid Mana Saeed Al Otaiba	Director
Mr. Bashir A. Tahir	Member
Mr. Ganpat Singhvi	Member
Mr. M. Iqbal Saifi	Secretary

Central Management Committee

Mr. Mohammad Saleem Akhtar	Chairman
Mr. Parvez A. Shahid	Deputy Chairman
Mr. Sirajuddin Aziz	Member
Mr. Mohammad Yousuf	Member
Mr. Shakil Sadiq	Member
Mr. Shahid M. Murtaza	Member
Mr. Nadeemul Haq	Member
Mr. Bakhtiar Khawaja	Member
Mr. Adil Rashid	Member
Mr. Ijaz Farooq	Member
Mr. Arfa Waheed Malik	Member
Mr. Adnan Anwar Khan	Member

Company Secretary

Mr. Hamid Ashraf

Chief Financial Officer

Mr. Zahid Ali H. Jamall

Auditors

KPMG Taseer Hadi & Co.,
Chartered Accountants

Registered / Head Office

B. A. Building
I. I. Chundrigar Road
Karachi.

Website

www.bankalfalah.com

Notice of the 14th Annual General Meeting

NOTICE is hereby given that the 14th Annual General Meeting of Bank Alfalah Limited will be held on Wednesday, March 29, 2006 at 12:30 PM at Hotel Marriott, 9 Abdullah Haroon Road, Karachi, to transact the following business:

ORDINARY BUSINESS

1. To confirm the Minutes of the 13th Annual General Meeting held on April 19, 2005 at Karachi.
2. To receive, consider and adopt the audited Annual Accounts and Consolidated Accounts of the Bank for the year ended December 31, 2005 together with the Directors' Report and Auditors' Report thereon.
3. To appoint Auditors of the Bank for the year 2006 and fix their remuneration.

SPECIAL BUSINESS

4. To approve as recommended by the Board of Directors, issue of bonus shares in the ratio of one (1) share for every three (3) shares held, i.e. 33.33%, and to pass the following resolution as an Ordinary Resolution:

“RESOLVED that as recommended by the Board of Directors an amount of Rs 1,000 Million (Rupees one thousand million) be transferred to Reserve for issue of Bonus Shares by appropriation of Rs 500 Million from unappropriated profit and further transfer of Rs 500 Million from Share Premium Account, and that the paid-up capital of the Bank be increased by issue of 100 million fully paid shares of Rs 10/- each in the ratio of one (1) share for every three (3) shares held, i.e. 33.33% to the shareholders whose names appear on the Register of Members as at close of business on March 21, 2006. These Bonus Shares shall rank pari passu in all respect with the existing shares of the Bank.

RESOLVED FURTHER that the Company Secretary be

and is hereby authorized to consolidate all fractions of bonus shares and sell the same in the Stock Market and the proceeds of sale (less expenses) when realised be distributed to the entitled shareholders.

RESOLVED FURTHER that for the purpose of giving effect to the above Resolutions, the Chief Executive Officer and the Company Secretary of the Bank be and are hereby authorized singly to take all actions, and do all acts, deeds and things as may be necessary in the matter.”

5. To consider and pass the following resolution as a Special Resolution:

“RESOLVED that the authorized Capital of the Bank be and is hereby increased from Rs. 4,000,000,000/- (Rupees Four Billion) to Rs.8,000,000,000 (Rupees Eight Billion).

RSOLVED FURTHER that the Memorandum and Articles of Association of the Bank be and is hereby amended/alterd by substituting the figures and words “Rs.4,000,000,000/- divided into 400,000,000 shares of Rs. 10/- each” appearing in clause V of the Memorandum of Association and in Article 3 of the Articles of Association with the figures and words “Rs.8,000,000,000/- divided into 800,000,000 shares of Rs.10/- each”.

6. To transact any other business with the permission of the Chair.

Karachi
Dated: March 04, 2006

BY ORDER OF THE BOARD
Company Secretary

NOTES:

1. The Share Transfer Books of the Bank will remain closed from Wednesday, March 22, 2006 to Wednesday, March 29, 2006 (both days inclusive).
2. A member entitled to attend, and vote at the Meeting is entitled to appoint another member as a proxy to attend, speak and vote on his/her behalf. A corporation being a member may appoint as its proxy any of its official or any other person whether a member of the Bank or otherwise.
3. An instrument of proxy and a Power of Attorney or other authority (if any) under which it is signed, or notarized copy of such Power of Attorney must be valid and deposited at the Share Registrar of the Bank, M. Yousuf Adil Saleem & Associates (Pvt) Ltd., 2nd Floor, Suzaka Chamber, Block 7 & 8, KCHSU, Sharea Faisal, Karachi-75350, not less than 48 hours before the time of the Meeting.
4. Those shareholders, whose shares are deposited with Central Depository Company of Pakistan Ltd. (CDC) are requested to bring their original Computerized National Identity Card (CNIC) alongwith participant's ID number and their account/sub-account numbers in CDC to facilitate identification at the time of Annual General Meeting. In case of Proxy, attested copies of proxy's CNIC or passport, Account and Participant's I.D. numbers must be deposited alongwith the Form of Proxy with our Share Registrar as per paragraph No. 3 above. In case of Proxy for corporate members, the Board of Directors' Resolution/Power of Attorney with specimen signature of the nominee shall be produced at the time of the meeting (unless it has been provided earlier to the Share Registrar).
5. Shareholders are requested to notify change in their address, if any, to our Share Registrar, M. Yousuf Adil Saleem & Associates (Pvt) Ltd.

Statement of Material Facts under Section 160(1)(b) of the Companies Ordinance, 1984 relating to said Special Businesses:

This statement sets out the material facts concerning the Special Businesses (given at agenda items No: 4 and 5) to be transacted at the 14th Annual General Meeting of the members of Bank Alfalah Limited to be held on March 29, 2006.

Issue of Bonus Shares:

The Bank's free reserves retained after the proposed issue of bonus shares are more than 25% of the enhanced paid-up capital.

Increase in Authorized Capital:

The present authorized capital of the Bank is Rs 4,000,000,000 and by issuance of 100 Million Bonus Shares of Rs 10/- each the paid-up capital will reach Rs 4,000,000,000. The Directors of the Bank are of the view that this leaves no room for induction of additional capital. It is, therefore, proposed that the authorized Capital of the Bank be increased to Rs 8,000,000,000 (Rupees Eight Billion) so that additional capital induction may be undertaken in future for strengthening the Bank's competitive ability within Pakistan and helping the Bank in establishing its presence in other locations outside Pakistan. The increase in authorized capital will also enable the Bank to meet SBP's future requirement of capital adequacy.

The Directors are not interested in the above Special Businesses except as shareholders of the Bank.

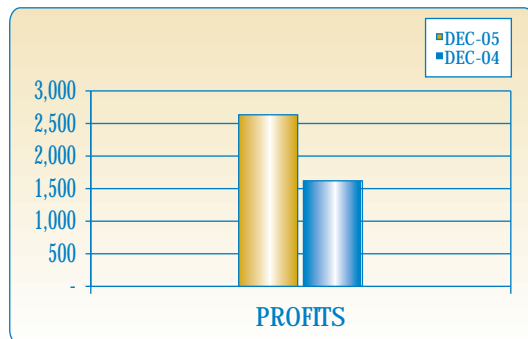
Directors' Report to the Shareholders

The Board of Directors is pleased to present the audited financial statements of the Bank for the year 2005.

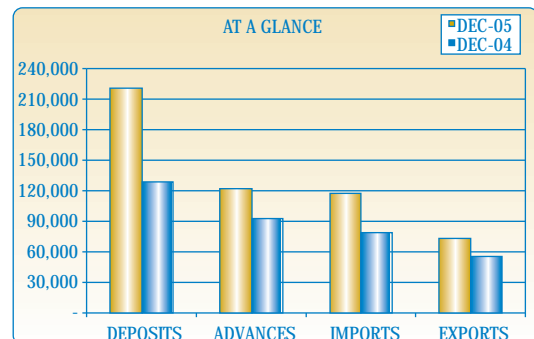
	2005	2004
	Rupees in '000	
Profit before provision and Taxation	2,942,425	2,026,107
Provisions	(379,135)	(372,373)
Profit before Taxation	2,563,290	1,653,734
Taxation	(861,196)	(561,745)
Profit After Taxation	1,702,094	1,091,989
Unappropriated profit brought forward	860,300	463,042
Effect of Change in accounting policy with respect to dividend declared after the balance sheet date	-	500,000
	860,300	963,042
Transfer from Surplus on revaluation of Fixed Assets	24,870	23,667
Profit available for appropriations	2,587,264	2,078,698
Appropriations		
- Transfer to statutory reserve	(340,419)	(218,398)
- Bonus Shares- interim- @ nil (2004: @25 percent)	-	(500,000)
- Final dividend for 2004:@ nil (2003: @25 percent)	-	(500,000)
- Interim dividend @ 12 percent (2004: @ nil)	(360,000)	-
- Transfer to reserve for issue of bonus shares	(500,000)	-
	(1,200,419)	(1,218,398)
Unappropriated profit carried forward	1,386,845	860,300
Earnings per share	Rs. 5.75	Rs. 3.90

Operating Results

Profit Before Tax



Rs. in Million



Bonus Shares

The directors recommend the issue of fully paid bonus shares in the ratio of one share for every three shares held i.e. 33.33% subject to approval of the Shareholders. For the purpose an amount of Rs.1,000 million is proposed to be transferred to reserve for issue of bonus shares by appropriation of Rs.500 million from un-appropriated profit and further transfer of Rs.500 million from share premium account.

Operating Results

During the year the bank's profit before provisions and tax stood at Rs. 2,942.425 million compared to Rs. 2,026.107 million the previous year registering an increase of 44%. This increase in profit is primarily attributable to overall increase in business volumes.

The Bank issued a subordinated debt worth Rs. 1.325 billion (Rs. 900million Pre-IPO and Rs. 425 million IPO) to support bank's equity under tier II capital in compliance with SBP's Capital Requirements.

During the year Bank acquired the banking business, undertaking and operations of Shamil Bank of Bahrain B.S.C's Bangladesh operations for US\$ 17.88 million under an agreement dated November 1, 2004.

During the year under review, the Bank increased its strategic stake in Alfalah Securities (Private) Limited, a subsidiary company from 70% to 76%.

We continue to strengthen our presence in the market place and as of year end 2005, we have a nationwide network of 147 branches that includes 15 Islamic Banking branches and four overseas branches three in Bangladesh and one in Afghanistan.

Economic Overview

Country after achieving the growth rate of 8.4 %, in FY05, the highest ever, is constantly striving to maintain a target oriented growth. However FY06 presents a mixed picture. Real GDP growth is likely to remain well above 6 %. Nevertheless, spurred by political stability and the continued implementation of sagacious economic policy reforms, growth in all sectors should continue on an impressive track leading the economy on a path of sound macroeconomic fundamentals, enhanced private investments, and significant expansion in the public sector development program

Credit Rating

PACRA, a premier rating agency of the country, has rated the Bank 'AA' (double A), Entity Rating for Long Term and A1+ (A one plus) for the Short Term. These ratings denote a very low expectation of credit risk, strong capacity for timely payment of financial commitments in the long term and by highest capacity for timely repayment in the short term, respectively. Further, the unsecured subordinated debt (Term Finance Certificates) of the Bank has been awarded a credit rating of AA- (double A minus).

Corporate Governance

1. The Bank has implemented the requirements of the Code of Corporate Governance relevant for the year ended December 31, 2005. A prescribed statement by the management together with the Auditors' Review Report thereon is annexed.
2. Statement under clause XIX of the Code:
 - a) The financial statements prepared by the management of the Bank, present fairly, the state of affairs, the result of its operations, cash flows and changes in equity.
 - b) Proper books of accounts of the bank have been maintained.
 - c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
 - d) International Accounting Standards, as applicable to banks in Pakistan, have been followed in preparation of financial statements.
 - e) The system of internal control is sound in design and has been effectively implemented and monitored.
 - f) There are no doubts about the Bank's ability to continue as a going concern.
 - g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations duly adopted by the State Bank of Pakistan vide BSD Circular No. 5 dated June 13, 2002.
 - h) Summarized key operating and financial data of last eight years is annexed to the audited accounts.

- i) Book value of investments by Staff Provident Fund and Staff Gratuity Fund as at December 31, 2005 is:

Staff Provident Fund	Rs.490.900 million
Staff Gratuity Fund	Rs.106.122 million

- j) The number of Board meetings held during 2005 were 5 and attended by directors as under:

	No. of Meetings attended
1. H. E. Hamdan Bin Mubarak Al Nahayan	4
2. Mr. Abdulla Nasser Hawaileel Al Mansoori	4
3. Mr. Abdulla Khalil Al Mutawa	5
4. Mr. Khalid Mana Saeed Al Otaiba	5
5. Mr. Mohammad Saleem Akhtar	5
6. Mr. Nadeem Iqbal Sheikh	5
7. Mr. Ikram Ul-Majeed Sehgal	4

- k) The pattern of shareholding is attached with this report.

Risk Management

In compliance with the requirements of the State Bank of Pakistan, we have focused on strengthening risk management. Consequently the Board of Directors has approved the Risk Management and Internal Control Policy and Procedure manual and a dedicated Risk Management Division (RMD) has been created with the country Head RMD reporting directly to the Chief Executive Officer and Board of Directors. Risk Management Division has been structured to address Credit, Market and Operational risk and a team of suitable personnel have been hired.

We are at an advanced stage of selecting management consultants to assist in proper implementation of Basel II requirements in our bank.

We are committed to embracing Risk Management and Basel II implementation at our bank not just as a regulatory compliance exercise but as means to adopt best international practice to enhance stakeholders' value.

Corporate Responsibility

The bank as a corporate citizen endeavors to fulfill its social obligations through effective contribution towards well being

of society as a whole. The massive earthquake in the Northern Pakistan in October 2005 affected the very core of the country's fabric. The bank recognizing the need of the hour made contribution of Rs.100 million to alleviate the suffering of those affected by the earthquake.

Subsidiary Companies

Bank Alfalah Limited has effective shareholding in the following two entities:

Alfalah Securities (Private) Limited	76%
Alfalah GHP Investment Management Limited	56%

Future Plans

In 2006, we plan to open 90 more branches all over Pakistan which includes 15 Islamic Banking branches. We are also in process of initiating a second branch setup in Herat, Afghanistan to add to the already operational branch in Kabul. We continue to pursue our application for presence in Bahrain and Sri Lanka

Acknowledgement

The Board would like to acknowledge the support of State Bank of Pakistan, Ministry of Finance and other regulatory authorities for their invaluable support, which greatly facilitated our work. The Board would also like to record its appreciation for devotion, hard work and professionalism of the senior management, officers and staff of the Bank.

MOHAMMAD SALEEM AKHTAR
Director & Chief Executive Officer
February 25, 2006
Abu Dhabi

EIGHT YEAR FINANCIAL SUMMARY

		1998	1999	2000	2001	2002	2003	2004	2005
Restated									
Rupees in Million									
OPERATIONAL RESULTS									
Total Income		1,814	2,096	2,531	3,700	5,246	7,425	7,140	14,492
Operating Expenses		337	403	511	744	1,184	1,803	2,679	4,344
Profit before Income Tax and Provision		162	218	304	510	948	3,593	2,026	2,942
Profit before Income Tax		68	354	400	524	895	3,506	1,654	2,563
Profit after Taxation		145	157	215	311	446	2,123	1,092	1,702
BALANCE SHEET									
Shareholders' Equity		859	895	901	1,362	1,616	3,753	4,369	6,738
Total Assets		14,321	21,019	28,855	40,098	65,167	98,952	154,835	248,314
Advances - net of provision		7,758	10,327	15,242	19,131	28,319	49,216	88,931	118,864
Investments - net of provision		3,407	4,993	4,875	11,397	24,470	28,904	35,503	57,426
Deposits and other accounts		11,878	15,821	20,482	30,207	51,685	76,698	129,715	222,345
OTHERS									
Imports		4,709	5,909	13,858	26,658	33,879	46,807	78,472	116,210
Exports		6,787	10,020	16,756	25,261	33,057	44,273	57,317	71,847
RATIOS									
Capital Adequacy	%	13.08	13.52	8.35	9.56	8.70	8.45	8.16	8.65*
Profit before Tax ratio (PBT/Gross mark up income)	%	4.17	18.60	17.70	15.45	19.67	86.92	29.43	20.93
Gross spread ratio (Net mark up income/gross mark up income)	%	19.19	22.64	23.78	25.85	31.62	49.71	56.69	41.17
Income/Expense ratio	Times	5.38	5.20	4.95	5.07	4.43	4.12	2.67	3.34
Return on Average Equity (ROE)	%	18.45	17.90	23.94	27.49	29.95	79.08	26.89	30.65
Return on Average Assets (ROA)	%	1.17	0.89	0.89	0.90	0.85	2.59	0.86	0.84
Advances/Deposits Ratio	%	65.31	65.27	74.42	63.33	54.79	64.17	68.56	53.46
Cash Dividends	%	-	20	35	-	25	25	-	12
Stock Dividend	%	-	-	-	-	33.33	100.00	25.00	33.33
Book value per share excluding revaluation of Assets	Rs.	14.31	14.92	15.01	18.15	16.16	18.77	17.48	22.46
Book value per share including revaluation of Assets	Rs.	14.31	30.44	28.64	28.80	36.53	23.79	21.05	24.88
Basic Earnings per share	Rs.	2.42	2.61	3.59	3.65	2.23	8.49	3.90	5.75
Number of Employees	No.	488	564	695	959	1,504	2,133	3,352	5,218

*Not yet certified

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CORPORATE GOVERNANCE TO THE MEMBERS

The Code of Corporate Governance issued by the Securities & Exchange Commission of Pakistan to manage a company in compliance with best practices, has been made applicable on banks by the State Bank of Pakistan in June 2002.

The Board of Directors has adopted the Code of Corporate Governance and necessary actions have been initiated for compliance with all applicable and relevant clauses. The bank applies the principles contained in the Code in the following manner:

- i) Except for the Chief Executive Officer, all the other directors are non-executive directors.
- ii) None of the directors of the bank are serving as a director in ten or more listed companies.
- iii) The resident Directors of the bank are registered as Tax payers and to the best of our knowledge, none of the Directors have defaulted in payment of any loan to a banking company, a development financial institution (DFI) or a non banking financial institution (NBFI) or being a member of Stock Exchange, has been declared as a defaulter by that Stock Exchange.
- iv) None of the Directors or their spouses is engaged in the business of Stock Exchange.
- v) "Statement of Ethics and Business Practices" are signed by the directors and employees of the bank.
- vi) The Board has already adopted its vision/mission statement, overall corporate strategy and significant policies.
- vii) All powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer are approved by the Board.
- viii) The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. The Board of Directors have met five times in the year and written notices on the Board meeting, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated to all concerned.
- ix) Directors are aware of the relevant laws applicable to the bank, its policies and procedures and provisions of the Memorandum and Articles of Association to manage the affairs of the bank on behalf of the shareholders. Further, orientation of Directors was conducted to appraise them of their duties and responsibilities.
- x) There was no new appointment of CFO, Company Secretary or Head of Internal Audit after the implementation of Corporate Governance.
- xi) An effective internal audit department has already been established.
- xii) The Directors' Report for this year has been prepared keeping in view the requirements of the Code and fully describes the salient matters required to be disclosed.
- xiii) The financial statements of the bank have been duly endorsed by the Chief Executive Officer and the Chief Financial Officer.
- xiv) The bank has complied with all the applicable corporate and financial reporting requirements.

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CORPORATE GOVERNANCE TO THE MEMBERS

- xv) The Directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
- xvi) The Board has formed an audit committee. It comprises four members, two of which are non-executive directors of the bank.
- xvii) Audit Committee met five times during the year 2005.
- xviii) The statutory auditors of the bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
- xix) The Statement of Compliance with best practices of corporate governance is being published and circulated along with the annual report of the bank.

For and on behalf of the Board

Mohammad Saleem Akhtar
Director & Chief Executive Officer
February 25, 2006
Abu Dhabi

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Bank Alfalah Limited (the Bank) to comply with the Listing Regulations of Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control system sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance.

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi
February 25, 2006

STATEMENT ON INTERNAL CONTROLS

This Statement of Internal Controls is based on an ongoing process designed to identify the significant risks in achieving the bank's policies, aims and objectives and to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been continuously in place for the year ended December 31, 2005.

It is the responsibility of the bank's management to establish and maintain an adequate and effective system of internal control and every endeavour is made to implement sound control procedures and to maintain a suitable control environment. In this connection the bank has a systems and procedures manual in place which documents policies, procedures and controls for each area of the bank's business, including financial reporting. The Board of Directors have also instituted an effective Internal Audit Division which not only monitors compliance with these policies, procedures and controls and reports significant deviations regularly to the Board Audit Committee but also regularly reviews the adequacy of the internal control system. The observations and weaknesses pointed out by the external auditors are also addressed promptly and necessary steps are taken by the management to eliminate such weaknesses.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the bank's business strategies and policies. It can therefore only provide reasonable and not absolute assurance against material misstatement or loss. In the view of the management, the bank's system of internal control is considered adequate and sound in design and is being effectively implemented and monitored.

For and on behalf of the Board

Mohammad Saleem Akhtar
Director & Chief Executive Officer
February 25, 2006
Abu Dhabi

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Bank Alfalah Limited as at 31 December 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 twenty six branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the 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 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 case of loans and advances covered more than 60% of the total loans and advances of the bank, we report that:

- (a) in our opinion, proper books of accounts 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 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 the 31 December 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.

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi
February 25, 2006

BALANCE SHEET

AS AT DECEMBER 31, 2005

	Note	2005	2004
Rupees in '000			
ASSETS			
Cash and balances with treasury banks	7	24,788,625	19,708,518
Balances with other banks	8	9,713,369	3,183,957
Lendings to financial institutions	9	27,050,493	-
Investments	10	57,425,700	35,503,196
Advances	11	118,864,010	88,931,400
Other assets	12	3,851,529	3,226,959
Operating fixed assets	13	6,620,067	4,280,504
Deferred tax assets		-	-
		248,313,793	154,834,534
LIABILITIES			
Bills payable	14	3,733,124	2,233,671
Borrowings from financial institutions	15	5,844,389	12,723,830
Deposits and other accounts	16	222,345,067	129,714,891
Sub -ordinated loans	17	3,223,355	1,899,480
Liabilities against assets subject to finance lease		-	-
Other liabilities	18	5,219,666	2,725,344
Deferred tax liabilities	19	484,066	275,834
		240,849,667	149,573,050
NET ASSETS		7,464,126	5,261,484
REPRESENTED BY			
Share capital	20	3,000,000	2,500,000
Reserves		2,351,218	1,008,772
Unappropriated profit		1,386,845	860,300
		6,738,063	4,369,072
Surplus on revaluation of assets	21	726,063	892,412
		7,464,126	5,261,484
CONTINGENCIES AND COMMITMENTS	22		

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

Chief Executive Officer

Director

Director

Chairman

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005	2004
Rupees in '000			
Mark-up / return / interest earned	23	12,246,811	5,620,203
Mark-up / return / interest expensed	24	7,204,992	2,434,459
Net mark-up / interest income		5,041,819	3,185,744
Provision against non-performing loans and advances - net	11.4	(402,298)	(370,208)
Gain / (loss) on remeasurement of held for trading investments		23,163	(2,165)
Bad debts written off directly		(512)	(351)
Net mark-up / interest income after provisions		4,662,172	2,813,020
NON MARK-UP/INTEREST INCOME			
Fee, commission and brokerage income		1,158,747	675,868
Dividend income		52,014	52,539
Income from dealing in foreign currencies		290,091	218,820
Other income	25	744,518	572,822
Total non-markup / interest income		2,245,370	1,520,049
		6,907,542	4,333,069
NON MARK-UP/INTEREST EXPENSES			
Administrative expenses	26	4,313,023	2,677,635
Other provisions / write-offs		10,125	-
Other charges	27	21,104	1,700
Total non-markup / interest expenses		4,344,252	2,679,335
		2,563,290	1,653,734
Extraordinary / unusual items		-	-
PROFIT BEFORE TAXATION		2,563,290	1,653,734
Taxation			
For the year - Current		592,635	586,159
- Deferred		267,524	(3,663)
For prior years - Current		(7,000)	(30,000)
- Deferred		8,037	9,249
	28	861,196	561,745
PROFIT AFTER TAXATION		1,702,094	1,091,989
Unappropriated profit brought forward		860,300	963,042
Transferred from general reserve		-	-
Transferred from surplus on revaluation of fixed assets - net of tax		24,870	23,667
Profit available for appropriation		2,587,264	2,078,698
APPROPRIATIONS			
Transferred to statutory reserve		(340,419)	(218,398)
Bonus shares - interim @ nil (2004: @ 25 percent)		-	(500,000)
Final dividend for 2004: @ nil (2003: @ 25 percent)		-	(500,000)
Interim dividend @ 12 percent (2004: @ nil)		(360,000)	-
Transfer to reserve for issue of bonus shares		(500,000)	-
		(1,200,419)	(1,218,398)
Unappropriated profit carried forward		1,386,845	860,300
Basic / diluted earnings per share	29	5.75	3.90

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

Chief Executive Officer

Director

Director

Chairman

CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005	2004
Rupees in '000			
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		2,563,290	1,653,734
Dividend income		(52,014)	(52,539)
		<u>2,511,276</u>	<u>1,601,195</u>
Adjustments for non-cash charges			
Depreciation		468,973	294,446
Amortization - intangible assets		14,397	11,886
Provision against non-performing advances		402,298	370,208
(Gain) / loss on remeasurement of held for trading investments		(23,163)	2,165
Provision against other assets		452	-
Bad debts written-off directly		512	351
Gain on sale of operating fixed assets		(4,309)	(4,297)
Provision for gratuity		46,637	27,531
		<u>905,797</u>	<u>702,290</u>
		3,417,073	2,303,485
(Increase) / decrease in operating assets			
Lendings to financial institutions		(26,260,493)	6,787,733
Net investment in held for trading securities		(430,538)	(283,065)
Advances		(30,335,420)	(40,085,839)
Other assets - net of provision against other assets		(481,695)	(1,675,903)
		<u>(57,508,146)</u>	<u>(35,257,074)</u>
Increase / (decrease) in operating liabilities			
Bills payable		1,499,453	1,025,000
Borrowings from financial institutions		(6,879,441)	(403,924)
Deposits		92,630,176	53,016,569
Other liabilities		2,572,780	1,328,383
		<u>89,822,968</u>	<u>54,966,028</u>
		35,731,895	22,012,439
Gratuity paid		(46,637)	(27,531)
Income tax paid		(807,373)	(1,345,952)
Net cash flow from operating activities		<u>34,877,885</u>	<u>20,638,956</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investment in available for sale securities		(3,660,288)	22,464,569
Net investment in held to maturity securities		(17,172,695)	(27,753,009)
Investment in subsidiary company		(34,000)	(33,600)
Investment in associated companies		(810,628)	(1,138,176)
Dividend received		52,367	54,629
Investment in operating fixed assets		(2,827,988)	(1,798,145)
Sale proceeds of property and equipment disposed-off		9,364	7,195
Net cash flow from investing activities		<u>(24,443,868)</u>	<u>(8,196,537)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of share capital		999,600	-
Issue of sub-ordinated loans		1,324,615	1,250,000
Redemption of sub-ordinated loans		(740)	(260)
Dividend paid		(360,000)	(500,000)
Net cash flow from financing activities		<u>1,963,475</u>	<u>749,740</u>
Adjustment of exchange translation reserve		2,027	-
Increase in cash and cash equivalents		<u>12,399,519</u>	<u>13,192,159</u>
Cash and cash equivalents at beginning of the year		22,892,475	9,700,316
Cash and cash equivalents at end of the year	30	<u>35,291,994</u>	<u>22,892,475</u>

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

Chief Executive Officer

Director

Director

Chairman

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2005

	Share capital	Share premium	Statutory reserve	Reserve for issue of Bonus shares	Exchange translation reserve	Unappropriated profit	Total
	----- (Rupees in ' 000) -----						
Balance at January 1, 2004 as previously reported	2,000,000	-	790,374	-	-	463,042	3,253,416
Effect of change in accounting policy with respect to dividend declared after the balance sheet date	-	-	-	-	-	500,000	500,000
Balance at January 1, 2004 as restated	2,000,000	-	790,374	-	-	963,042	3,753,416
<i>Changes in equity for 2004</i>							
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	23,667	23,667
Profit for the year	-	-	-	-	-	1,091,989	1,091,989
Total recognized income and expense for the year	-	-	-	-	-	1,115,656	1,115,656
Transfer to statutory reserve	-	-	218,398	-	-	(218,398)	-
Issue of bonus shares	500,000	-	-	-	-	(500,000)	-
Final dividend of 2003 @ 25 percent - paid	-	-	-	-	-	(500,000)	(500,000)
Balance at December 31, 2004	2,500,000	-	1,008,772	-	-	860,300	4,369,072
<i>Changes in equity for 2005</i>							
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	24,870	24,870
Profit for the year	-	-	-	-	-	1,702,094	1,702,094
Total recognized income and expense for the year	-	-	-	-	-	1,726,964	1,726,964
Transfer to statutory reserve	-	-	340,419	-	-	(340,419)	-
Issue of rights shares	500,000	500,000	-	-	-	-	1,000,000
Effect of foreign currency translation	-	-	-	-	2,027	-	2,027
Interim dividend @ 12 percent	-	-	-	-	-	(360,000)	(360,000)
Transfer to reserve for issue of bonus shares 1 share for every 3 shares held (2004: nil)	-	(500,000)	-	1,000,000	-	(500,000)	-
Balance at December 31, 2005	3,000,000	-	1,349,191	1,000,000	2,027	1,386,845	6,738,063

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

Chief Executive Officer

Director

Director

Chairman

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

1. STATUS AND NATURE OF BUSINESS

Bank Alfalah Limited was incorporated on June 21, 1992 as a public limited company under the Companies Ordinance, 1984. It commenced banking operations from November 1, 1992. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962 and is operating through 128 conventional banking (2004: 79) branches, 15 Islamic banking (2004: 11) branches and 4 overseas (2004: Nil) branches, with the registered office at B.A. Building, I. I. Chundrigar Road, Karachi. The Bank is listed on Karachi and Lahore Stock Exchanges.

2. BASIS OF PRESENTATION

In accordance with the Islamic Banking System, trade related mode of financing include purchase of goods by the Bank from its customer and simultaneous re-sale 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

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

The Securities and Exchange Commission of Pakistan (SECP) has approved and notified the adoption of International Accounting Standard 39, Financial Instruments: Recognition and Measurement and International Accounting Standard 40, Investment Property. The requirements of these standards have not been followed in preparation of these financial statements as the State Bank of Pakistan has deferred the implementation of these standards for the banks in Pakistan till further instructions. However, investments have been classified in accordance with the requirements prescribed by the State Bank of Pakistan for financial statements.

4. DISCONTINUING OPERATION

On October 28, 2005 the Board of Directors of the Bank approved a plan to segregate its business of Islamic Banking into a separate entity. The segregation reflects Bank's plan to remain competitive with ever increasing competition in the local market and become the premier Islamic bank. Resultantly, in order to achieve this objective the Board feels that the Islamic Banking Division should be converted into a wholly owned subsidiary of the Bank. As of December 31, 2005 the Islamic Banking Division's assets were Rs. 15,320 million and its liabilities were Rs. 13,999 million. During 2005, Islamic Banking Division earned revenue of Rs. 622.368 million, incurred expenses of Rs. 579.576 million and earned a pre-tax profit of Rs. 42.792 million with a related tax expense (including current and deferred tax) of Rs. 14.38 million. During 2005, Islamic Banking Division's cash inflow from operating activities was Rs. 1,153.442 million, cash outflow from investing activities was Rs. 189.473 million, and cash inflow from financing activities was Rs. 700 million.

5. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in Market Treasury Bills, Pakistan Investment Bonds, Federal Investment Bonds and listed securities and in conformity with the accepted accounting practices of banking institutions in Pakistan.

NOTES TO THE FINANCIAL STATEMENTS

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

Judgements made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 38.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Cash and cash equivalents

Cash and cash equivalents comprises cash and balances with treasury bank, balances with other banks and call lendings.

6.2 Revenue recognition

Mark-up income and expense and profit on murabaha and musharika financing are recognised on a time proportion basis taking into account effective yield on the instrument. Fee, commission and brokerage except income from guarantees are accounted for on receipt basis. Mark-up / return on non-performing advances are suspended, where necessary and recognized on receipt basis.

Dividend income is recognized at the time when the bank's right to receive has been established.

Financing method is used in accounting for income from lease and ijarah financing. Under this method, the unrealised lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.

Unrealised lease income is suspended, where necessary, in accordance with the requirements of the Prudential Regulations of the State Bank of Pakistan and recognised on receipt basis. Gains / losses on termination of lease contracts, documentation charges, front end fee and other lease income are recognized as income on receipt basis.

6.3 Advances

Loans and advances including financing under murabaha and musharika and net investment in finance lease / ijarah are stated net of provisions against non-performing advances. Specific and general provisions are made against advances in accordance with the guidance in the Prudential Regulations issued by the State Bank of Pakistan from time to time. The net provision made / reversed during the year is charged to profit and loss account and accumulated provision is netted off against advances. Advances are written off when there are no realistic prospects of recovery.

Leases / ijarah financing where the bank transfers substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. A receivable is recognised at an amount equal to the present value of the lease payments, including any guaranteed residual value.

6.4 Investments

Investments are classified into 'held to maturity', 'held for trading' or 'available for sale' categories in accordance with the requirements of BSD Circular No. 10 dated July 13, 2004 as amended vide BSD Circular No. 11 dated August 4, 2004 and BSD Circular No.14 dated September 24, 2004.

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

NOTES TO THE FINANCIAL STATEMENTS

Securities held for trading

These are investments acquired principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin.

Securities held to maturity

These are investments with fixed or determinable payments and fixed maturity and the bank has the positive intent and ability to hold them till maturity.

Available for sale

These are investments which do not fall under the held for trading and held to maturity categories.

Quoted securities where ready quotes are available on Reuters Page (PKRV) or Stock Exchange, other than investments classified as held to maturity and investments in subsidiaries, are valued at market value. Investments classified as held to maturity are carried at amortised cost.

The surplus / deficit arising as a result of revaluation at market value on 'held for trading' portfolio is taken to income and that relating to the 'available for sale' portfolio is kept in a separate account and shown below equity.

Investment in associates and subsidiaries are carried at cost less impairment loss, if any.

Unquoted securities are stated at cost less provision for impairment loss.

The difference between the face value and purchase price is amortised over the remaining life of the security using the effective yield method.

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

Gains or losses on disposals during the year are taken to profit and loss account.

Sale and repurchase agreements

The Bank enters into purchase / (sale) of investment under agreements to resale / (repurchase) at a certain date in the future at a fixed price.

Investments purchased subject to commitment to resale them at the future dates are not recognized. The amounts paid are recognized in lending to financial institutions. The receivables are shown as collateralised by the underlying security.

Investments sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for investments. The proceeds from the sale of the investments are reported in borrowings from financial institutions.

The difference between the purchase / (sale) and resale / (repurchase) consideration is recognised on a time proportion basis over the period of the transaction and is included in mark-up / return / interest earned or expensed.

6.5 Operating fixed assets

Tangible

Office premises are shown at cost / revalued amount less accumulated depreciation. All other assets are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is charged to income applying the straight-line method using the rates specified in note 13.3 to the financial statements.

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

Gains and losses on disposal of fixed assets are taken to profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

The surplus on revaluation of fixed assets (net of deferred taxation) to the extent of the incremental depreciation charged on the revalued assets is transferred to retained earnings.

Intangible assets

Intangible assets with definite useful lives are stated at cost less accumulated amortization and impairment losses, if any by taking into consideration the estimated useful life.

6.6 Capital work in progress

Capital work in progress is stated at cost less impairment losses, if any.

6.7 Taxation

Current

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences arising between the carrying amounts of assets and liabilities for the financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

6.8 Staff retirement benefits

Defined Benefit Plan

The bank operates an approved funded gratuity scheme covering eligible employees whose period of employment with the Bank is five years or more. Contributions to the fund are made on the basis of actuarial recommendations. Projected Unit Credit Method has been used for the actuarial valuation. The results of current valuation are summarised in Note 32. Actuarial gains / losses in excess of 10 percent of actuarial liabilities or plan assets are recognised over the average lives of employees.

Defined Contribution Plan

The bank operates a recognised Provident Fund Scheme for all its permanent employees to which equal monthly contributions are made both by the bank and employees at the rate of 8.33 percent of basic salary.

6.9 Foreign operations and Foreign Currencies

Foreign Operations

Initial recognition

The assets and liabilities of foreign branches taken over are initially recognized at cost. Any resulting goodwill is immediately written off.

Subsequent measurement

Assets and liabilities of foreign operations are translated into rupees at the exchange rate prevailing at the balance sheet date. Profit and loss account is translated at the average rate of conversion for the period. Gains and losses arising on the transactions are taken to Exchange Translation Reserve.

Foreign Currencies

Assets and liabilities in foreign currencies are translated into Pak Rupee at the rates of exchange prevailing at the balance sheet date. Foreign currency transactions are converted at the rates prevailing on the transaction date.

NOTES TO THE FINANCIAL STATEMENTS

Forward contracts other than contracts with SBP relating to foreign currency deposits are valued at forward rates applicable to the respective maturities of the relevant foreign exchange contract.

Forward purchase contracts with SBP relating to foreign currency deposits are valued at the spot rate prevailing on the balance sheet date. The forward cover fee payable on such contracts is amortized over the term of the contracts.

Exchange gains and losses are included in income currently.

6.10 Provisions

Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists for the bank to settle the obligation. Expected recoveries are recognized by debiting customer's account. Charge to profit and loss account is stated net-off expected recoveries.

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

6.11 Acceptances

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

6.12 Off-setting

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

6.13 Impairment

The carrying amount of Bank's assets other than the deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

	Note	2005	2004
Rupees in '000			
7. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency (including in transit Rs. 66.689 million)		3,542,352	2,971,777
Foreign currency (including in transit Rs. 67.952 million)		897,695	497,893
With State Bank of Pakistan in			
Local currency current account	7.1	14,334,985	13,132,499
Foreign currency current account	7.2	939,111	655,193
Foreign currency deposit account	7.3	2,365,555	1,793,320
With other central banks in			
Foreign currency current account	7.4	285,085	-
Foreign currency deposit account	7.5	1,091,149	-
With National Bank of Pakistan in			
Local currency current account		1,332,693	657,836
		<u>24,788,625</u>	<u>19,708,518</u>

NOTES TO THE FINANCIAL STATEMENTS

- 7.1 This account is maintained under the requirement of section 22 of the Banking Companies Ordinance, 1962.
- 7.2 This account is maintained under the requirement of BSD Circular No.18 dated March 31, 2001.
- 7.3 This account is maintained under the requirement of BSD Circular No.18 dated March 31, 2001. Profit rates on these deposits are fixed by SBP on monthly basis. Profit ranging between 1.40% to 3.29% was paid during the year.
- 7.4 This represents an amount of USD 4.774 million equivalent to Rs. 285.085 million placed with Da Afghan Bank of Afghanistan to comply with the regulatory capital requirement.
- 7.5 This represents an amount of USD 18.270 million (Taka 1.21 billion) placed with Central Bank of Bangladesh to meet the minimum capital requirement for Bangladesh operations.
- 7.6 This includes balances with Islamic Banking Division amounting to Rs. 2,502.913 million (2004: Rs. 2,719.238 million).

	Note	2005	2004
Rupees in '000			
8. BALANCES WITH OTHER BANKS			
In Pakistan			
On current account		134,125	127,174
On deposit account		1,205,005	50,000
Outside Pakistan			
On current account		1,864,632	1,861,578
On deposit account	8.1	6,509,607	1,145,205
		<u>9,713,369</u>	<u>3,183,957</u>

- 8.1 This represents placements of funds generated through foreign currency deposits scheme (FE-25), at interest rates ranging from 2.0% to 4.83% per annum with maturities upto December 2006.
- 8.2 This includes balances with Islamic Banking Division amounting to Rs. 2,007.817 million (2004: Rs. 127.523 million).

	Note	2005	2004
Rupees in '000			
9. LENDINGS TO FINANCIAL INSTITUTIONS			
Call Money Lendings		790,000	-
Repurchase Agreement Lendings (Reverse Repo)	9.1	26,260,493	-
		<u>27,050,493</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

9.1 Securities held as collateral against lendings to financial institutions

	2005			2004		
	Held by the Bank	Further given as collateral	Total	Held by the Bank	Further given as collateral	Total
	----- (Rupees in '000) -----					
Treasury Bills	18,361,493	-	18,361,493	-	-	-
Pakistan Investment Bonds	7,899,000	-	7,899,000	-	-	-
	<u>26,260,493</u>	<u>-</u>	<u>26,260,493</u>	<u>-</u>	<u>-</u>	<u>-</u>

10. INVESTMENTS

10.1 Investment by type

	2005			2004		
	Held by the Bank	Given as collateral	Total	Held by the Bank	Given as collateral	Total
	----- (Rupees in '000) -----					
Available for sale securities						
Treasury Bills	5,534,534	-	5,534,534	-	-	-
Pakistan Investment Bonds	2,151,343	-	2,151,343	3,328,439	877,420	4,205,859
Federal Investment Bonds	-	-	-	15,598	-	15,598
Fully paid up ordinary shares / units - Listed	597,738	-	597,738	512,034	-	512,034
Fully paid up ordinary shares / units - Un-listed	76,979	-	76,979	6,356	-	6,356
Term Finance Certificates	496,345	-	496,345	362,043	-	362,043
Certificates of Investment	105,259	-	105,259	205,168	-	205,168
Prize Bonds	9,445	-	9,445	4,297	-	4,297
	<u>8,971,643</u>	<u>-</u>	<u>8,971,643</u>	<u>4,433,935</u>	<u>877,420</u>	<u>5,311,355</u>
Held to maturity securities						
Government Bonds	85,341	-	85,341	85,341	-	85,341
Pakistan Investment Bonds	9,635,243	255,327	9,890,570	8,534,837	1,598,129	10,132,966
Treasury Bills	33,967,529	-	33,967,529	13,918,840	3,259,769	17,178,609
Term Finance Certificates	1,767,600	-	1,767,600	1,141,429	-	1,141,429
	<u>45,455,713</u>	<u>255,327</u>	<u>45,711,040</u>	<u>23,680,447</u>	<u>4,857,898</u>	<u>28,538,345</u>
Held for Trading						
Treasury Bills	276,775	-	276,775	-	-	-
Fully paid up ordinary shares / units - Listed	436,828	-	436,828	283,065	-	283,065
	<u>713,603</u>	<u>-</u>	<u>713,603</u>	<u>283,065</u>	<u>-</u>	<u>283,065</u>
Associates						
Warid Telecom (Private) Limited	1,848,804	-	1,848,804	1,138,176	-	1,138,176
Alfalsh GHP Value Fund	100,000	-	100,000	-	-	-
	<u>1,948,804</u>	<u>-</u>	<u>1,948,804</u>	<u>1,138,176</u>	<u>-</u>	<u>1,138,176</u>
Subsidiaries						
Alfalsh Securities (Private) Limited	76,000	-	76,000	42,000	-	42,000
Alfalsh GHP Investment Management Limited	33,600	-	33,600	33,600	-	33,600
	<u>109,600</u>	<u>-</u>	<u>109,600</u>	<u>75,600</u>	<u>-</u>	<u>75,600</u>
	<u>57,199,363</u>	<u>255,327</u>	<u>57,454,690</u>	<u>29,611,223</u>	<u>5,735,318</u>	<u>35,346,541</u>
Gain / (loss) on remeasurement of 'held for trading' investments	20,998	-	20,998	(2,165)	-	(2,165)
Surplus / (deficit) on revaluation of 'available for sale' securities (net) 21.2	(49,988)	-	(49,988)	138,471	20,349	158,820
	<u>(28,990)</u>	<u>-</u>	<u>(28,990)</u>	<u>136,306</u>	<u>20,349</u>	<u>156,655</u>
	<u>57,170,373</u>	<u>255,327</u>	<u>57,425,700</u>	<u>29,747,529</u>	<u>5,755,667</u>	<u>35,503,196</u>

10.1.1 This includes investment of Islamic Banking Division amounting to Rs. 97.973 million (2004: Rs.124.587 million).

NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
Rupees in '000			
10.2 Investment by segment			
Federal Government Securities			
- Treasury Bills	10.2.1	39,778,838	17,178,609
- Pakistan Investment Bonds	10.2.2	12,041,913	14,338,825
- Federal Investment Bonds		-	15,598
- Government Bonds	10.2.3	85,341	85,341
- Prize Bonds		9,445	4,297
		51,915,537	31,622,670
Fully Paid up Ordinary Shares			
- Listed Companies	10.2.4	1,034,566	795,099
- Unlisted Companies	10.2.5	76,979	6,356
		1,111,545	801,455
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates			
- Term Finance Certificates - quoted	10.2.6	496,345	362,043
- Term Finance Certificates - unquoted	10.2.7	1,767,600	1,141,429
		2,263,945	1,503,472
Investments in subsidiary companies	10.2.8	109,600	75,600
Investments in associated companies	10.2.9	1,948,804	1,138,176
Other Investments			
Certificates of Investment	10.2.10	105,259	205,168
		57,454,690	35,346,541
Gain / (loss) on remeasurement of held for trading investments		20,998	(2,165)
Surplus / (deficit) on revaluation of available for sale securities (net)	21.2	(49,988)	158,820
		(28,990)	156,655
		57,425,700	35,503,196

10.2.1 Treasury bills are for the periods of six months and one year. The effective rates of profit on treasury bills range between 5.514% to 8.471% per annum with maturities upto December 2006.

10.2.2 Pakistan Investment Bonds are for periods of three, five, ten and fifteen years. The rates of profit range from 6% to 14% per annum with maturities from January 2006 to June 2019. These also include PIBs having face value of Rs. 35 million (2004: Rs. 35 million) pledged with the National Bank of Pakistan as security to facilitate Telegraphic Transfer discounting facility.

10.2.3 This represents bonds issued by the Federal Government to settle the dues of Heavy Mechanical Complex at the rate of 6% per annum redeemable on maturity in March 2009.

NOTES TO THE FINANCIAL STATEMENTS

10.2.4 Investments in listed companies / funds include the following:

The par value of these shares / certificates/units is Rs. 10 except where stated.

2005	2004		2005	2004
No. of shares			Rupees in '000	
certificates/units				
		MUTUAL FUNDS		
-	50,000	Atlas Income Fund**	-	25,000
1,090,000	-	AKD Index Tracker Fund	10,900	-
369,500	-	Pakistan Capital Market Fund	4,881	-
1,898,500	-	Pakistan Premier Fund	25,728	-
4,495,290	8,095,790	ABAMCO Composite Fund	44,953	80,898
2,500,000	2,500,000	Meezan Balanced Fund	25,000	25,000
400,000	2,319,500	Pakistan Strategic Allocation Fund	4,000	23,190
		** The par value of these units is Rs. 500		
		INVESTMENT COMPANIES & BANKS		
500,000	2,635,000	Askari Commercial Bank Limited	27,256	188,788
925,000	-	Faysal Bank Limited	69,109	-
-	150,000	National Bank of Pakistan	-	12,129
150,000	-	Pakistan Industrial Credit and Investment Corporation	10,827	-
-	399,000	Bank of Punjab	-	26,616
200,000	275,000	MCB Bank Limited	33,950	16,447
690,000	-	Union Bank Limited	43,234	-
350,000	-	United Bank Limited	32,851	-
		CEMENT		
695,000	698,000	D.G.Khan Cement Limited (Preference Shares)	7,660	7,696
700,000	-	D.G.Khan Cement Limited	76,969	-
-	300,000	Pioneer Cement Limited	-	6,086
900,000	-	Lucky Cement Limited	71,336	-
		FUEL, ENERGY & OIL & GAS		
1,414,000	2,887,000	Hub Power Company Limited	50,935	98,939
15,000	-	Pakistan State Oil	6,437	-
142,700	-	Pakistan Oilfields Limited	59,347	-
25,000	-	Pakistan Petroleum Limited	5,284	-
4,855,500	-	Southern Electric Power Company Limited	49,801	-
1,275,000	-	Kot Addu Power Company Limited	59,652	-
3,802,500	5,342,000	Kohinoor Energy Limited	120,548	166,790
-	250,000	Sui Northern Gas Pipelines Limited	-	15,358
-	475,000	Sui Southern Gas Company Limited	-	12,580
-	150,000	Japan Power Generation Limited	-	1,080
		AUTOMOBILE ASSEMBLERS		
1,558,500	-	Dewan Farooque Motors	49,721	-
		TEXTILE COMPOSITE		
625,000	-	Nishat Mills Limited	67,850	-
87,000	-	Azgard Nine Limited	3,615	-

NOTES TO THE FINANCIAL STATEMENTS

2005	2004		2005	2004
No. of shares certificates/units			Rupees in '000	
		TECHNOLOGY & COMMUNICATION		
-	1,000,000	Pakistan Telecommunication Company Limited	-	44,250
-	1,534,500	Call Mate Telips Telecom Limited	-	24,972
-	1,400,000	Southern Networks Limited	-	14,000
		CHEMICALS & FERTILIZERS		
338,100	-	ICI Pakistan	47,623	-
3,200,000	400,000	Pakistan PTA Limited	25,099	5,280
			<u>1,034,566</u>	<u>795,099</u>

10.2.5 Investment in unlisted companies

2005	2004		2005	2004
No. of shares certificates/units				
		Pakistan Export Finance Guarantee Agency Limited		
572,531	572,531	Chief Executive : Mr. S. M. Zaem	5,725	5,725
8	5	Shares of SWIFT	1,254	631
7,000,000	-	Al-Hamra Hills (Private) Limited	70,000	-
		Chief Executive : Mr. Habib Ahmed		
		Break-up value: Rs. 10 each share.		
			<u>76,979</u>	<u>6,356</u>

10.2.6 Term Finance Certificates - Quoted, Secured

Dewan Salman Fibre Limited NIL (2004: 11,800) certificates of Rs.5,000 each Mark up: 16 percent per annum Redemption : Eight equal quarterly installments commencing September 2003 Maturity: June 2005		-	14,726
Gulistan Textile Mills Limited 6,000 (2004: 6,000) certificates of Rs.5,000 each Mark up: 2 percent above SBP discount rate with a floor of 14 percent per annum and a ceiling of 17.5 percent per annum Redemption : Six equal semi-annual installments commencing March 2004 Maturity: September 2006		9,982	19,984
Askari Commercial Bank Limited (2nd Issue) 20,000 (2004: Nil) units of Rs.5,000 each Mark up: 6 Months KIBOR (Ask Side) + 150 basis points per annum (no floor no cap) Redemption: Bullet at maturity Maturity: 8 years from date of disbursement i.e October 31, 2013		100,000	-

NOTES TO THE FINANCIAL STATEMENTS

Note	2005	2004
	Rupees in '000	
<p>Union Bank Limited (3rd Issue) 10,000 (2004: Nil) units of Rs.5,000 each Mark up: 6 Months KIBOR + 200 basis points prevailing one working day prior to the beginning of each semi annual period. Redemption: A nominal amount i.e. 0.16 percent of the Issue Amount will be re-paid equally in each of the redemption periods during the first 4 years. Maturity: 7 years from the date of issue.</p>	50,000	-
<p>Bank Al Habib Limited 9,350 (2004: 9,350) certificates of Rs.5,000 each Mark up: The average 6 month KIBOR + 1.50 percent per annum with a floor of 3.50 percent and a cap of 10.00 percent per annum Redemption: The TFC is structured to redeem 0.25 percent of principal semi-annually in the first 78 months and the remaining principal in three semi-annual installments of 33.25 percent respectively starting from the 84th month. Maturity: June 2012</p>	46,731	46,750
<p>Prime Commercial Bank Limited 6,578 (2004: Nil) units of Rs.5,000 each Mark up: 6 month KIBOR (Ask Side) + 190 basis points (no floor no cap) Redemption: Redemption after a grace period of 54 months in 4 equal installments Maturity: 8 years from the date of disbursement i.e February 2012.</p>	32,884	-
<p>Trust Leasing Corporation Limited 11,136* (2004: 11,136) certificates of Rs.5,000 each Mark up: 3.00 percent + KIBOR (6 months ask side) with a floor of 6.00 percent per annum and a cap of 10.00 percent per annum Redemption: Principal repayment in 10 equal semi-annual installments; profit payable on semi-annual basis Maturity: July 2009 * 8,000 in pre IPO Participation, 3,136 in IPO</p>	44,544	55,680
<p>Crescent Leasing Corporation Limited 10,000 (2004: 10,000) certificates of Rs.5,000 each Mark up: Six months KIBOR (Average, Ask Side) + 1.75 percent per annum Redemption: Ten equal semi-annual installments commencing January 2005; the issuer has a Call Option exercisable at any time from the beginning of the nineteenth month till the end of the sixtieth month from the issue date only on a profit payment date subject to a 30 day notice period Maturity: July 2009</p>	40,000	50,000
<p>First Dawood Investment Bank Limited 6,000 (2004: 6,000) certificates of Rs.5,000 each Mark up: On SBP discount rate + 1.75 percent per annum with a floor of 13.50 percent and a cap of 17.50 percent per annum Redemption: Bullet at maturity; the issuer has a Call Option exercisable in whole for redemption at face value at the end of every 5 years from the date of issue. The investor has a Put Option exercisable in whole for redemption at face value at the end of every 5 years from the date of issue. Maturity: September 2006</p>	31,485	33,615

NOTES TO THE FINANCIAL STATEMENTS

Note	2005	2004
	Rupees in '000	
<p>First Dawood Investment Bank Limited 2,000 (2004: 2,000) certificates of Rs.5,000 each Mark up: On SBP discount rate + 1.75 percent per annum with a floor of 12.25 percent and a cap of 16.25 percent per annum Redemption: Bullet at maturity; the issuer has a Call Option exercisable in whole for redemption at face value at the end of every 5 years from the date of issue. The investor has a Put Option exercisable in whole for redemption at face value at the end of every 5 years from the date of issue. Maturity: September 2007</p>	10,797	11,304
<p>Gulshan Spinning Mills Limited 10,000 (2004: 10,000) certificates of Rs. 5,000 each Mark up: Six months KIBOR (Average, Ask Side) + 1.80 percent per annum with a cap of 15 percent per annum Redemption: Seven equal semi-annual installments commencing June 2006 Maturity: June 2009</p>	49,970	50,000
<p>Paramount Spinning Mills Limited 16,000 (2004: 16,000) certificates of Rs.5,000 each Mark up: Six months KIBOR (Average, Ask Side) + 1.80 percent per annum with a cap of 15 percent per annum Redemption: Seven equal semi-annual installments commencing June 2006 Maturity: September 2009</p>	79,952	79,984
	496,345	362,043
10.2.7 Term Finance Certificates - Unquoted, Secured		
<p>Pakistan International Airlines Corporation 100,000 (2004: 100,000) certificates of Rs.5,000 each Mark up: SBP discount rate + 0.5 percent per annum with a floor of 8 percent per annum and a cap of 12.50 percent per annum Redemption: First four equal semi-annual installments commencing August 2003 amounting to Rs.5,000 each. Next six equal semi-annual installments commencing August 2005 amounting to Rs.12,499,500 each, subsequent six equal semi-annual installments commencing August 2008 amounting to Rs.70,830,500 each; the issuer has a Call Option exercisable any time at 24th, 48th and 72nd month to redeem in full or part with a premium. Maturity: February 2011</p>	487,481	499,985
<p>Al-Abbas Sugar Mills (Private) Limited 10,000 (2004: 10,000) certificates of Rs.5,000 each Mark up: Cut-off yield of the last successful SBP auction of the 3 month Treasury Bills + 3.25 percent per annum with a floor of 6 percent per annum and a cap of 13 percent per annum. Redemption: Nineteen equal quarterly installments commencing January 2004; the issuer has a Call Option exercisable any time after 2 years to repay in whole or in part on a coupon date at a three months notice and with a premium. Maturity: July 2008</p>	28,720	39,474

NOTES TO THE FINANCIAL STATEMENTS

Note	2005	2004
	Rupees in '000	
<p>Pakistan Mobile Communication (Private) Limited 30,000 (2004: 30,000) certificates of Rs.5,000 each Mark up: Six month KIBOR (Average, Ask Side) + 1.60 percent per annum with a floor of 4.95 percent per annum and a cap of 12.00 percent per annum Redemption: Five equal semi-annual installments commencing September 2006; the issuer has a Call Option exercisable any time from the 36th month to 54th month on a coupon date subject to 30 days notice period to repay in whole or in part Maturity: September 2009</p>	150,000	150,000
<p>Pakistan Mobile Communication (Private) Limited 50,000 (2004: 50,000) certificates of Rs.5,000 each Mark up: Simple average of last three 6 - month Treasury Bills cut-off rate + 2.25 percent per annum with a floor of 6.00 percent per annum and a cap of 12.00 percent per annum Redemption: Five equal semi-annual installments commencing September 2006; the issuer has a call option exercisable any time from the first principal repayment date (i.e. starting from the 36th month) onwards on a coupon date subject to 30 days notice period to repay in whole or in part. Maturity: September 2008</p>	251,439	251,970
<p>Pakistan Mobile Communication (Private) Limited 50 (2004: Nil) units of Rs.5,000,000 each Mark up: 6 Months KIBOR (Ask Side) + 270 basis points per annum Redemption: Bullet payment at maturity Maturity: 6 months i.e March 2006.</p>	250,000	-
<p>Azgard Nine Limited 500 (2004: 500) certificates of Rs.100,000 each Mark up: Six month KIBOR + 1.75 percent per annum Redemption: Eight equal semi-annual installments commencing from eighteenth month of the issue date; the issuer has a Call Option exercisable at profit payment date to redeem in full or in part the outstanding issue amount of the TFCs Maturity: August 2009</p>	50,000	50,000
<p>Bosicor Pakistan Limited 20,000 (2004: 20,000) certificates of Rs.5,000 each Mark up: Six month KIBOR (average ask side) + 5.5 percent per annum with a floor of 9.00 percent per annum and a cap of 13.00 percent per annum payable semi-annually Redemption: Seven equal semi-annual installments commencing August 2006; the issuer has a Call Option exercisable at any time from the 1st principal repayment date (i.e. starting from the 24th month) onwards on a coupon date subject to a 60 days notice period to repay in whole or in part. Maturity: August 2009</p>	100,000	100,000

NOTES TO THE FINANCIAL STATEMENTS

Note	2005	2004
	Rupees in '000	
Security Leasing Corporation Limited 10,000 (2004: 10,000) certificates of Rs.5,000 each Mark up: Six month KIBOR (Average, Ask Side) + 190 basis point per annum. Redemption: Ten equal semi-annual installments commencing January 2005; the issuer has a Call Option exercisable at any time from the beginning of the nineteenth month till the end of the sixtieth month form the issue date only on profit payment date subject to a 30 days notice period. Maturity: April 2008	49,960	50,000
Security Leasing Corporation Limited (2nd Issue) 20,000 (2004: Nil) units of Rs.5,000 each Mark up: 6 Months KIBOR (Ask Side) + 165 basis point per annum (no floor no cap) Redemption: Ten equal quarterly installments commencing from the 9th month of the issue; the issuer has a Call Option exercisable at any mark-up payment date after a period of 12 months from the issue date to redeem in full or in part the issue amount outstanding of the PPTFCs subject to a 90 days notice to the Investors. Maturity: 3 years from date of disbursement i.e. June 2008.	100,000	-
Reliance Exports (Private) Ltd. 30,000 (2004: Nil) units of Rs.10,000 each Mark up: 6 Months KIBOR (Ask Side) + 250 basis point per annum (no floor no cap) Redemption: Redemption after a grace period of one year in stepped-up installments. The issuer has a Call Option exercisable at any mark-up payment date to redeem in full or in part the Issue amount outstanding of the PPTFCs subject to a 60 days notice to the Investors. Maturity: 7 years from the date of disbursement i.e. July 2012.	300,000	-
	<u>1,767,600</u>	<u>1,141,429</u>

10.2.8 This represents investment in 7.60 million (2004: 4.2 million) ordinary shares of Rs.10 each of Alfalah Securities (Private) Limited - Chief Executive Mr. Mohammad Shoib Memon and 3.36 million (2004: 3.36 million) ordinary shares of Rs.10 each in Alfalah GHP Investment Management Limited - Chief Executive Mr. Aziz Anis Dhedhi.

10.2.9 This represents investment in 184.880 million (2004: 113.817 million) ordinary shares of Rs.10 each of Warid Telecom (Private) Limited - Chief Executive Mr. Hamid Farooq and 2 million (2004: Nil) units of Rs. 50 each of Alfalah GHP Value Fund - (Investment Adviser - Alfalah GHP Investment Management Limited).

	Tenor	Profit rate (percent per annum)	2005	2004
			Rupees in '000	
10.2.10 Particulars of Certificate of Investment is as follows:				
Pak Libya Holding Company (Private) Limited	3 years	5.25	<u>105,259</u>	<u>205,168</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
Rupees in '000			
11. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		99,826,193	80,733,210
Outside Pakistan		1,361,725	-
		<u>101,187,918</u>	<u>80,733,210</u>
Net Investment in Finance Lease / Ijarah Financing			
In Pakistan	11.2	12,158,131	6,374,637
Outside Pakistan		-	-
		<u>12,158,131</u>	<u>6,374,637</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		2,222,723	1,647,111
Payable outside Pakistan		4,848,219	1,536,499
		<u>7,070,942</u>	<u>3,183,610</u>
		<u>120,416,991</u>	<u>90,291,457</u>
Provision for non-performing advances	11.4	(1,552,981)	(1,360,057)
		<u>118,864,010</u>	<u>88,931,400</u>
11.1 Particulars of advances			
11.1.1 In local currency		112,384,613	86,892,902
In foreign currencies		6,479,397	2,038,498
		<u>118,864,010</u>	<u>88,931,400</u>
11.1.2 Short term (for upto one year)		70,847,093	57,723,151
Long term (for over one year)		48,016,917	31,208,249
		<u>118,864,010</u>	<u>88,931,400</u>
11.2 Net Investment in Finance Lease / Ijarah Financing			

	2005				2004
	Not later than one year	Later than one year & less than five years	Over five years	Total	Total
----- (Rupees in '000) -----					
Lease rental receivable	2,012,664	9,763,270	55,173	11,831,107	6,248,575
Add: Residual value	202,752	1,999,930	3,997	2,206,679	997,677
Minimum lease payments	2,215,416	11,763,200	59,170	14,037,786	7,246,252
Financial charges for future period	(347,153)	(1,528,649)	(3,853)	(1,879,655)	(871,615)
Present value of minimum lease payments	<u>1,868,263</u>	<u>10,234,551</u>	<u>55,317</u>	<u>12,158,131</u>	<u>6,374,637</u>

NOTES TO THE FINANCIAL STATEMENTS

11.3 Advances include Rs. 1.06 billion (2004: Rs. 2.935 billion) which have been placed under non-performing status as detailed below:

Category of classification	2005						
	Domestic	Overseas	Total	Provision Required		Provision held	
				Specific	General	Specific	General
(Rupees in '000)							
Other Assets Especially							
Mentioned (Agri financing)	22,705	-	22,705	-	-	-	-
Substandard	171,072	-	171,072	6,975	-	6,975	-
Doubtful	48,787	-	48,787	11,006	-	11,006	-
Loss	776,116	41,275	817,391	689,388	-	689,388	-
	<u>1,018,680</u>	<u>41,275</u>	<u>1,059,955</u>	<u>707,369</u>	<u>754,967</u>	<u>707,369</u>	<u>845,612</u>

11.4 Particulars of provision against non-performing advances:

	2005			2004		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	851,119	508,938	1,360,057	1,006,215	149,896	1,156,111
Opening balance of foreign branch acquired during the year	20,787	16,629	37,416	-	-	-
Charge for the year	206,704	320,269	526,973	92,053	359,052	451,105
Reversals	(124,451)	(224)	(124,675)	(80,887)	(10)	(80,897)
	82,253	320,045	402,298	11,166	359,042	370,208
Transferred from interest in suspense	3,637	-	3,637	-	-	-
Amounts written off	11.5.1 (250,427)	-	(250,427)	(166,262)	-	(166,262)
Closing balance	<u>707,369</u>	<u>845,612</u>	<u>1,552,981</u>	<u>851,119</u>	<u>508,938</u>	<u>1,360,057</u>

	Note	2005	2004
		Rupees in '000	
11.5 Particulars of write offs			
11.5.1 Against provisions	11.4	250,427	166,262
Directly charged to profit and loss account		512	351
		<u>250,939</u>	<u>166,613</u>
11.5.2 Write-offs of Rs.500,000 and above	11.6	248,808	159,623
Write-offs of below Rs.500,000		2,131	6,990
		<u>250,939</u>	<u>166,613</u>
11.6 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 persons during the year ended December 31, 2005 is given in Annexure-1.

NOTES TO THE FINANCIAL STATEMENTS

	Balance as at December 31, 2005	Maximum amount of advances including temporary advances granted during the year
11.6.1 Particulars of loans and advances to directors, associated companies, etc.		
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons	153,675	155,475
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.	31,969	34,559
Debts due by subsidiary companies, controlled firms, managed modarabas, and other related parties.	224,565	224,565
11.7 This includes advances of Islamic Banking Division amounting to Rs. 9.934 billion (2004: Rs. 4.063 billion.)		

	Note	2005	2004
Rupees in '000			
12. OTHER ASSETS			
Income / mark-up accrued in local currency		2,423,566	1,330,454
Income / mark-up accrued in foreign currency		107,158	22,325
Advances, deposits, advance rent and other prepayments		1,137,084	752,856
Advance taxation		142,483	-
Dividend receivable		60	413
Branch adjustment account		-	947,883
Unrealised gain on forward foreign exchange contracts		26,095	29,994
Prepaid exchange risk fee		1,628	3,552
Stationary and stamps on hand		49,258	32,032
Short term receivables		1,824	1,328
Receivable against issue of rights	20.3	400	-
Receivable from brokers	12.1	116,289	246,558
		4,005,845	3,367,395
Less: Provision held against other assets	12.4	(10,071)	(9,619)
Mark-up held in suspense account		(144,245)	(130,817)
		3,851,529	3,226,959

12.1 This represents amount receivable from brokers against sale of shares.

12.2 This includes amount of Rs. 19.667 million (2004: Rs. 30.152 million) receivable from related parties.

12.3 This includes other assets of Islamic Banking Division amounting to Rs. 120.601 million (2004: Rs. 145.370 million)

NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
Rupees in '000			
12.4 Provisions against other assets			
Opening balance		9,619	9,619
Charge for the year		452	-
Closing balance		10,071	9,619
13. OPERATING FIXED ASSETS			
Capital work-in-progress	13.2	1,038,875	495,553
Property and equipment	13.3	5,551,517	3,752,322
Intangible assets	13.4	29,675	32,629
		6,620,067	4,280,504

13.1 This includes Capital work-in-progress, property and equipment and intangible assets of Rs. 44.231 million (2004: Rs. 6.969 million), Rs. 608.605 million (2004: Rs. 464.717 million) and Rs. 3.286 million (2004: Nil) respectively of Islamic Banking Division.

	Note	2005	2004
Rupees in '000			
13.2 Capital work-in-progress			
Advance to suppliers and contractors		1,038,875	495,553
13.3 Property and equipment			

Description	Cost / revaluation at January 1, 2005	Additions / (disposals) / *adjustments	Revaluation surplus	Cost / Revaluation as at December 31, 2005	Accumulated depreciation at January 1, 2005	Depreciation for the year / (on disposal) / *adjustments	Accumulated depreciation at December 31, 2005	Net book value at December 31, 2005	Rate of depreciation % per annum
----- (Rupees in '000) -----									
Office premises	1,691,664	1,181,593	-	2,849,274	14,375	34,060	51,330	2,797,944	2.5-5.5
Revaluation	1,138,799	*(23,983)	-	1,138,799	40,113	* 2,895	80,226	1,058,573	2.5-5.5
	2,830,463	1,181,593	-	3,988,073	54,488	74,173	131,556	3,856,517	2.5
		*(23,983)	-	-	-	* 2,895	-	-	
Lease hold improvement	295,292	163,023 (399)	-	481,899	105,960	74,971 (367)	177,669	304,230	20
		* 23,983	-	-	-	* (2,895)	-	-	
Furniture and fixtures	259,610	118,926 (1,991)	-	376,545	74,656	33,408 (795)	107,269	269,276	10-25
Office equipment	887,179	651,844 (4,169)	-	1,534,854	388,813	233,310 (2,607)	619,516	915,338	20-25
Vehicles	212,213	157,837 (8,468)	-	361,582	108,518	53,111 (6,203)	155,426	206,156	25
		-	-	-	-	-	-	-	
2005	4,484,757	2,273,223 (15,027)	-	6,742,953	732,435	468,973 (9,972)	1,191,436	5,551,517	
2004	2,912,844	1,588,606 (15,074) *(1,619)	-	4,484,757	451,747	294,446 (12,176) *(1,582)	732,435	3,752,322	

NOTES TO THE FINANCIAL STATEMENTS

13.3.1 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs. 229.195 million (2004: Rs. 201.192 million).

13.3.2 The fair value of property and equipment as per management estimate is not materially different from the carrying amount.

13.3.3 The above balance of owned operating assets represents the value of assets subsequent to revaluation on December 30, 1999 and December 31, 2003 which had resulted in surplus of Rs. 830.950 million and Rs. 516.802 million respectively and additions thereafter at cost.

13.3.4 As at December 31, 2005, un-depreciated balance of revaluation surplus included in the carrying value of fixed assets, amounted to Rs. 1,058.573 million (2004: Rs. 1,098.686 million).

13.4 Intangible assets

	COST		AMORTIZATION			Net book value as at December 31, 2005	Rate of amortization % per annum
	As at January 1, 2005	Additions / (deletions)	As at December 31, 2005	As at January 1, 2005	For the year		
------(Rupees in '000)-----							
Computer software	52,859	11,443	64,302	20,230	14,397	34,627	20
Goodwill	15,440	-	15,440	15,440	-	15,440	-
2005	<u>68,299</u>	<u>11,443</u>	<u>79,742</u>	<u>35,670</u>	<u>14,397</u>	<u>50,067</u>	<u>29,675</u>
2004	<u>60,815</u>	<u>7,484</u>	<u>68,299</u>	<u>23,784</u>	<u>11,886</u>	<u>35,670</u>	<u>32,629</u>

13.5 Details of disposal of fixed assets having cost of more than Rs.1,000,000 or net book value of Rs.250,000 or above

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
------(Rupees in '000)-----						
Vehicle	835	60	775	835	Insurance Claim	Adamjee Insurance
Vehicle	555	156	399	474	Insurance Claim	Adamjee Insurance
Vehicle	809	58	751	765	Insurance Claim	Adamjee Insurance
Vehicle	785	493	292	705	Insurance Claim	Adamjee Insurance

2005 2004
Rupees in '000

14. BILLS PAYABLE

In Pakistan	3,458,499	2,233,671
Outside Pakistan	<u>274,625</u>	-
	<u>3,733,124</u>	<u>2,233,671</u>

15. BORROWINGS FROM FINANCIAL INSTITUTIONS

In Pakistan	5,815,915	12,252,275
Outside Pakistan	<u>28,474</u>	<u>471,555</u>
	<u>5,844,389</u>	<u>12,723,830</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
Rupees in '000			
15.1	Particulars of borrowings from financial institutions		
	In local currency	5,815,915	12,252,275
	In foreign currencies	28,474	471,555
		<u>5,844,389</u>	<u>12,723,830</u>
15.2	Details of borrowings from financial institutions		
	Secured		
	Borrowings from State Bank of Pakistan under:		
	- Export refinance scheme	5,585,988	6,677,505
	- Long Term Finance for Export Oriented Projects scheme (LTFEOP)	29,927	-
	Repurchase agreement borrowings	100,000	5,459,770
		5,715,915	12,137,275
	Unsecured		
	Call borrowings	100,000	115,000
	Overdrawn nostro accounts	28,474	471,555
		128,474	586,555
		<u>5,844,389</u>	<u>12,723,830</u>

15.2.1 This facility is secured against demand promissory note executed in favour of the State Bank of Pakistan. The effective markup rate is 7.5 % per annum payable on a quarterly basis.

15.2.2 This facility is secured against demand promissory note executed in favour of the State Bank of Pakistan. The outstanding amount represents a borrower namely Novatex Limited. The effective markup rate is 5 % per annum payable on a quarterly basis.

15.2.3 This represents repurchase agreement borrowings from another bank at a rate of 6.5 % per annum maturing in January 2006.

15.2.4 This represents call borrowing in interbank market at the rate of 8.40 % per annum maturing in January 2006.

	2005	2004
Rupees in '000		
16. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	80,167,779	21,892,081
Savings deposits	81,057,975	65,965,795
Current accounts - Non-remunerative	45,814,316	36,213,567
Margin, call and sundry deposits	3,509,310	2,123,779
	210,549,380	126,195,222
Financial Institutions		
Remunerative deposits	11,760,879	3,503,281
Non-remunerative deposits	34,808	16,388
	11,795,687	3,519,669
	<u>222,345,067</u>	<u>129,714,891</u>

NOTES TO THE FINANCIAL STATEMENTS

	2005	2004
	Rupees in '000	
16.1 Particulars of deposits		
In local currency	202,080,886	117,687,673
In foreign currencies	20,264,181	12,027,218
	<u>222,345,067</u>	<u>129,714,891</u>

16.2 These include deposits of Rs. 12,471.732 million (2004: Rs. 6,548.307 million) [Foreign currency Rs. 1,200.653 million (2004: Rs. 323.768 million)] of Islamic Banking Division.

	2005	2004
	Rupees in '000	
17. SUB-ORDINATED LOANS		
Term Finance Certificates I - Quoted, Unsecured	649,220	649,480
Mark-up	1.33 percent above 5 years PIB yield; floor: 10 percent per annum; cap: 15 percent per annum	
Subordination	The TFCs are subordinated to all other indebtedness of the Bank including deposits.	
Rating	AA-	
Tenor	Six years	
Redemption	2 equal semi-annual installments commencing June 2008.	
Maturity	December 2008	
Term Finance Certificates II - Quoted, Unsecured	1,249,520	1,250,000
Mark-up	Base Rate* + 1.50 percent * Base rate is the simple average of the ask side rate of the six months (KIBOR) prevailing on the first day of the start of each half-yearly period and mark-up due at the end of that period.	
Subordination	The TFCs are subordinated as to the payment of principal and profit. In the case of occurrence of an event of default, the TFC holder will rank below the senior unsecured creditors and depositors and other creditors of the bank.	
Rating	AA-	
Tenor	Eight years	

NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
Rupees in '000			
Redemption	3 equal semi-annual installments commencing 84th month of the issue date.		
Maturity	December 2012		
Term Finance Certificates III - Quoted, Unsecured		1,324,615	-
Mark-up	Base Rate* + 1.50% * Base rate is the simple average of the ask rate of the six months (KIBOR) prevailing on the first day of the start of each half-yearly period and mark-up due at the end of that period.		
Subordination	The TFCs are subordinated as to the payment of principal and profit to all other indebtedness of the bank.		
Rating	AA-		
Tenor	Eight years		
Redemption	3 equal semi-annual installments commencing 84th month of the issue date.		
Maturity	November 2013	3,223,355	1,899,480
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		1,783,284	701,230
Mark-up / return / interest payable in foreign currency		97,558	37,154
Unearned commission and income on bills discounted		118,326	88,495
Accrued expenses		138,381	214,055
Payable against redemption of credit card reward points		102,793	66,161
Branch adjustment account		344,186	-
Taxation		-	79,255
Lease security deposit		2,302,841	997,677
Payable to defined benefit plan		-	-
Exchange difference payable to SBP		13,099	6,693
Payable to brokers	18.1	98,959	384,043
Others		220,239	150,581
		5,219,666	2,725,344

18.1 This represents amounts payable to brokers against purchase of shares.

18.2 These include Rs. 1,269.103 million (2004: Rs. 411.728 million) of Islamic Banking Division.

NOTES TO THE FINANCIAL STATEMENTS

	2005	2004
	Rupees in '000	
19. DEFERRED TAX (LIABILITIES) / ASSETS		
Deferred debits arising in respect of:		
Provision for doubtful debts	883,798	729,330
Excess of Tax WDV over Accounting WDV of operating fixed assets	-	21,720
Deficit on revaluation of securities	18,803	-
License fee charged off	13,475	14,053
	<u>916,076</u>	<u>765,103</u>
Deferred credits arising in respect of:		
Write offs/ reversals of provision for bad debts	(563,178)	(450,401)
Leasing operations	(356,921)	(119,136)
Excess of accounting net book value over tax written down value of fixed assets	(72,414)	-
Surplus on revaluation of operating fixed assets	(407,629)	(422,874)
Surplus on revaluation of securities	-	(48,526)
	<u>(1,400,142)</u>	<u>(1,040,937)</u>
	<u>(484,066)</u>	<u>(275,834)</u>

20. SHARE CAPITAL**20.1 Authorized capital**

2005	2004		2005	2004
<u>400,000,000</u>	<u>400,000,000</u>	Ordinary shares of Rs.10 each	<u>4,000,000</u>	<u>4,000,000</u>

20.2 Issued, subscribed and paid up Ordinary shares of Rs.10 each

2005	2004		2005	2004
75,000,000	75,000,000	Fully paid in cash	750,000	750,000
175,000,000	175,000,000	Bonus shares	1,750,000	1,750,000
50,000,000	-	Right shares issued during the year	500,000	-
<u>300,000,000</u>	<u>250,000,000</u>		<u>3,000,000</u>	<u>2,500,000</u>

20.3 The right shares include 20,000 shares, representing rights relating to applications rejected and missing from the offer for sale of shares. These right shares would be offered to those applicants who would be allotted/ offered shares in accordance with the directives/ guidance of the Securities and Exchange Commission of Pakistan. These shares are entitled to all corporate actions as all other ordinary shares.

	Note	2005	2004
		Rupees in '000	
21. SURPLUS ON REVALUATION OF ASSETS			
Surplus arising on revaluation of:			
- fixed assets	21.1	757,248	782,118
- securities	21.2	(31,185)	110,294
		<u>726,063</u>	<u>892,412</u>

NOTES TO THE FINANCIAL STATEMENTS

	2005	2004
	Rupees in '000	
21.1 Surplus on revaluation of fixed assets		
Surplus on revaluation of fixed assets	1,347,752	1,347,752
Deficit reversed due to disposal	243	243
Less: related deferred tax liability	(468,999)	(468,999)
Transferred to retained earnings relating to incremental depreciation (net of tax)	(121,748)	(96,878)
	<u>757,248</u>	<u>782,118</u>
21.2 Surplus on revaluation of securities		
i) Government securities	(49,481)	105,481
ii) Quoted shares	5,572	40,464
iii) Term Finance Certificates - quoted	(6,079)	12,875
	<u>(49,988)</u>	<u>158,820</u>
Related deferred tax asset/ (liability)	18,803	(48,526)
	<u>(31,185)</u>	<u>110,294</u>
22. CONTINGENCIES AND COMMITMENTS		
22.1 Direct credit substitutes		
Contingent liability in respect of guarantees given favouring:		
i) Government	964,712	636,962
ii) Banking companies and other financial institutions	44,214	72,475
iii) Others	975,229	559,050
	<u>1,984,155</u>	<u>1,268,487</u>
22.2 Transaction-related contingent liabilities		
Contingent liability in respect of performance bonds, bid bonds, shipping guarantees, standby letters of credit etc. favouring:		
i) Government	8,957,823	9,154,516
ii) Banking companies and other financial institutions	662,917	75,037
iii) Others	5,004,954	3,286,554
	<u>14,625,694</u>	<u>12,516,107</u>
22.3 Trade-related contingent liabilities		
Letters of credit	20,490,078	14,698,842
Acceptances	4,814,441	4,510,247
22.4 Other contingencies		
Claims against the bank not acknowledged as debts	540,749	701,200
22.5 Commitments in respect of forward lending		
Commitments to extend credit	2,046,000	866,000

NOTES TO THE FINANCIAL STATEMENTS

	2005	2004
	Rupees in '000	
22.6 Commitments in respect of forward exchange contracts		
Purchase	3,195,895	8,959,825
Sale	4,683,657	5,334,423
22.7 Commitments for the acquisition of operating fixed assets and intangibles	121,522	119,300
22.8 Commitments in respect of repo transactions		
- Repurchase	206,743	5,542,013
- Resale	26,457,918	-
23. MARK-UP / RETURN / INTEREST EARNED		
a) On loans and advances to:		
i) customers	8,779,866	4,152,725
ii) financial institutions	89,513	18,909
b) On investments in:		
i) available for sale securities	574,719	628,338
ii) held to maturity securities	1,888,494	691,503
iii) held for trading	1,401	-
c) On deposits with financial institutions	420,056	81,913
d) On securities purchased under resale agreements	492,762	46,815
	<u>12,246,811</u>	<u>5,620,203</u>

23.1 These include mark-up earned of Rs. 303.466 million (2004: Rs. 96.626 million) of Islamic Banking Division.

	2005	2004
	Rupees in '000	
24. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits (including exchange risk fee)	6,447,085	1,795,093
Securities sold under repurchase agreements	235,177	398,704
Other short term borrowings	314,856	156,290
Term Finance Certificates	207,874	84,372
	<u>7,204,992</u>	<u>2,434,459</u>
25. OTHER INCOME		
Postage, telex, service charges etc.	500,658	319,276
Net profit on sale of property and equipment	4,309	4,297
Gain on sale of shares / certificates / units - net	231,878	246,117
Gain on sale of government securities - net	7,673	3,132
	<u>744,518</u>	<u>572,822</u>

NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
Rupees in '000			
26. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		1,538,299	1,025,856
Charge for defined benefit plan - Gratuity		46,637	27,531
Contribution to defined contribution plan - Provident Fund		53,281	34,014
Brokerage and commissions		320,808	140,039
Rent, taxes, insurance, electricity, etc.		529,956	324,774
Legal and professional charges		48,394	41,977
Communication		209,750	125,968
Repair and maintenance		178,312	110,136
Stationery and printing		115,982	78,272
Advertisement and publicity		283,426	243,643
Donations	26.1	117,600	17,100
Auditor's remuneration	26.2	4,311	2,820
Depreciation	13.3	468,973	294,446
Amortization of intangible assets	13.4	14,397	11,886
Entertainment, vehicle running expenses, travelling and subscription		207,161	127,214
Others		175,736	71,959
		<u>4,313,023</u>	<u>2,677,635</u>
26.1 Donations			
President Relief Fund for Earthquake Victims - 2005		100,000	-
Pakistan Human Development Fund (PHDF)		-	15,900
Rising Sun Institute Lahore		8,000	-
Beautification of I.I. Chundrigar Road		7,500	-
Mr. Mohammad Afzal		-	1,000
M/s Zindagi Trust		700	-
M/s Patients Welfare Association		500	-
Lahore Medical & Dental College		400	-
Shaukat Khanum Memorial Hospital		-	200
The Lahore Hospital Welfare Society		200	-
Pakistan Society for Rehabilitation of the Disabled		100	-
Escort Foundation		100	-
Umeed-e-Noor Center for Challenged Children		100	-
		<u>117,600</u>	<u>17,100</u>
None of the Directors or their spouses had any interest in the donees.			
26.2 Auditor's remuneration			
Audit fee		2,609	1,505
Fee for half yearly review		600	600
Special certifications and sundry advisory services		592	365
Out-of-pocket expenses		510	350
		<u>4,311</u>	<u>2,820</u>

NOTES TO THE FINANCIAL STATEMENTS

	2005	2004
	Rupees in '000	
27. OTHER CHARGES		
Penalties imposed by State Bank of Pakistan	21,104	1,700
28. TAXATION		
For the year		
Current	592,635	586,159
Deferred	267,524	(3,663)
	860,159	582,496
For prior year		
Current	(7,000)	(30,000)
Deferred	8,037	9,249
	1,037	(20,751)
	861,196	561,745

The income tax assessments of the bank have been finalised upto and including tax year 2005. Matters of disagreement exist between the bank and tax authorities for various assessment years and are pending with the Commissioner of Income Tax (Appeals), Income Tax Appellate Tribunal (ITAT) and High Court of Sindh.

The issues mainly relate to addition of mark-up in suspense to income, taxability of profit on government securities, bad debts written off and disallowance relating to profit and loss expenses. However, adequate provision has been made in the financial statements in this respect.

During the year the Bank has been selected for tax audit in respect of Tax Year 2004 and the notice under section 176 of Income Tax Ordinance 2001 has been issued by the Tax Department (LTU). The audit is expected to be finalized in 2006.

Further, during the year, various appeals have also been decided in bank's favour.

	2005	2004
	Rupees in '000	
28.1 Relationship between tax expense and accounting profit		
Profit before tax	2,563,290	1,653,734
Tax at the applicable rate of 38% (2004: 41%)	974,050	678,031
Effect of:		
- Change in tax rate	8,037	9,249
- income chargeable to tax at reduced rates	(17,165)	(18,914)
- income exempt from tax	(88,114)	(96,708)
- other differences	(8,612)	20,087
- prior year provision	(7,000)	(30,000)
Tax expense for the year	861,196	561,745
29. BASIC EARNINGS PER SHARE		
Profit for the year	1,702,094	1,091,989
	Number of Shares in thousand	
Weighted average number of ordinary shares	296,016	280,428
Basic and diluted earnings per share	5.75	3.90

NOTES TO THE FINANCIAL STATEMENTS

	2005	2004
	Rupees in '000	
30. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks	24,788,625	19,708,518
Balances with other banks	9,713,369	3,183,957
Call lendings	790,000	-
	<u>35,291,994</u>	<u>22,892,475</u>
31. STAFF STRENGTH	Number of employees	
Total number of employees at the end of the year	<u>5,218</u>	<u>3,352</u>
32. DEFINED BENEFIT PLAN		
32.1 Principal actuarial assumptions		
Discount factor used (% per annum compounded)	10.00	9.00
Expected yield on investment (% per annum)	10.00	9.00
Salary increase (% per annum)	10.00	9.00
Normal retirement age	60 years	60 years
	2005	2004
	Rupees in '000	
32.2 Reconciliation of payable to defined benefit plan		
Present value of defined benefit obligations	261,191	176,786
Fair value of plan assets	(183,665)	(131,193)
Net actuarial losses not recognized	(71,866)	(45,593)
Unrecognized transitional obligation	(5,660)	-
	<u>-</u>	<u>-</u>
32.3 Movement in payable to defined benefit plan		
Opening balance	-	-
Charge for the year	46,637	27,531
Contribution to fund made during the year	(46,637)	(27,531)
Closing balance	<u>-</u>	<u>-</u>
32.4 Charge for defined benefit plan		
Current service cost	26,908	17,298
Interest cost	15,911	9,482
Expected return on plan assets	(11,807)	(7,897)
Actuarial losses	3,102	5,269
Past service cost	12,523	3,379
	<u>46,637</u>	<u>27,531</u>
32.5 Actual return on plan assets	<u>13,956</u>	<u>6,522</u>

NOTES TO THE FINANCIAL STATEMENTS

	Chief Executive Officer		Executives	
	2005	2004	2005	2004
	Rupees in '000			
33. REMUNERATION OF DIRECTORS AND EXECUTIVES				
Managerial remuneration	5,600	5,100	223,169	126,932
Bonus	5,312	2,950	75,150	37,214
Retirement benefit plan	467	375	23,185	14,432
Rent and house maintenance	2,706	960	69,046	41,628
Utilities	560	240	-	-
Medical	-	-	-	-
Others	-	-	-	-
	<u>14,645</u>	<u>9,625</u>	<u>390,550</u>	<u>220,206</u>
Number of persons	<u>1</u>	<u>1</u>	<u>192</u>	<u>112</u>

The Chief Executive and certain executives have been provided with the free use of cars and household equipments.

	2005				
	Total	Upto three months	Over 3 months to one year	Over one year to five years	Over five years
34. MATURITIES OF ASSETS AND LIABILITIES	----- (Rupees in '000) -----				
ASSETS					
Cash and balances with treasury banks	24,788,625	24,788,625	-	-	-
Balances with other banks	9,713,369	8,177,361	1,536,008	-	-
Lendings to Financial institutions	27,050,493	26,950,493	100,000	-	-
Investments	57,425,700	13,983,358	29,597,761	6,681,470	7,163,111
Advances	118,864,010	16,697,899	54,149,194	39,398,936	8,617,981
Other assets	3,851,529	2,960,860	432,883	280,881	176,905
Operating fixed assets	6,620,067	926,177	1,796,701	1,954,159	1,943,030
	<u>248,313,793</u>	<u>94,484,773</u>	<u>87,612,547</u>	<u>48,315,446</u>	<u>17,901,027</u>
LIABILITIES					
Bills payable	3,733,124	3,733,124	-	-	-
Borrowings from financial institutions	5,844,389	228,474	5,585,988	-	29,927
Deposits and other accounts*	222,345,067	116,828,604	50,163,516	21,475,170	33,877,777
Subordinated loans	3,223,355	370	3,330	645,520	2,574,135
Other liabilities	5,219,666	2,617,276	630,997	1,892,325	79,068
Deferred tax liabilities	484,066	18,803	-	465,263	-
	<u>240,849,667</u>	<u>123,426,651</u>	<u>56,383,831</u>	<u>24,478,278</u>	<u>36,560,907</u>
NET ASSETS	<u>7,464,126</u>	<u>(28,941,878)</u>	<u>31,228,716</u>	<u>23,837,168</u>	<u>(18,659,880)</u>
Share Capital	3,000,000				
Reserves	2,351,218				
Unappropriated profit	1,386,845				
Surplus on revaluation of assets	726,063				
	<u>7,464,126</u>				

NOTES TO THE FINANCIAL STATEMENTS

*20 percent of saving deposits have been classified in each of upto three months, over three months to one year and over one year to five years category with the remaining 40 percent being classified under the over five years category based on management's experience with such class of deposits. However, contractually these deposits are payable on demand.

Liquidity risk is the risk that the bank will not be able to raise funds to meet its commitments. The bank's Asset and Liability Management Committee manages the liquidity position on a continuous basis. The Committee monitors the maintenance of balance sheet liquidity ratios, depositors' concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits and liquidity contingency plans. Moreover, core retail deposits (current accounts and saving accounts) form a considerable part of the bank's overall funding therefore significant importance is attached to the stability and growth of these deposits.

35. YIELD / INTEREST RATE RISK

Effective Yield/ interest rate	2005						
	Total	Upto three months	Over 3 months to one year	Over one year to five years	Over five years	Not expose to yield/ interest rate	
----- (Rupees in '000) -----							
On - balance sheet financial instruments							
ASSETS							
Cash and balances with treasury banks	3.290	24,788,625	2,365,555	-	-	-	22,423,070
Balances with other banks	4.315	9,713,369	6,178,604	1,536,008	-	-	1,998,757
Lendings to Financial institutions	7.921	27,050,493	26,950,493	100,000	-	-	-
Investments	7.665	57,425,700	12,861,358	29,597,761	6,681,470	5,134,707	3,150,404
Advances	8.900	118,864,010	16,697,899	54,149,194	39,398,936	8,617,981	-
Other assets		3,708,046	-	-	-	-	3,708,046
		241,550,243	65,053,909	85,382,963	46,080,406	13,752,688	31,280,277
LIABILITIES							
Bills payable		3,733,124	-	-	-	-	3,733,124
Borrowings from financial institutions	7.511	5,844,389	200,000	5,585,988	-	29,927	28,474
Deposits and other accounts*	4.880	222,345,067	70,979,481	50,163,515	21,475,170	33,877,777	45,849,124
Subordinated loans	9.600	3,223,355	370	3,330	645,520	2,574,135	-
Other Liabilities		4,875,474	-	-	-	-	4,875,474
		240,021,409	71,179,851	55,752,833	22,120,690	36,481,839	54,486,196
On-balance sheet gap		1,528,834	(6,125,942)	29,630,130	23,959,716	(22,729,151)	23,205,919
Cumulative yield / interest risk sensitivity gap			(6,125,942)	23,504,188	47,463,904	24,734,753	(23,205,919)

*20 percent of saving deposits have been classified in each of upto three months, over three months to one year and over one year to five years category with the remaining 40 percent being classified under the over five years category based on management's experience with such class of deposits. However, contractually these deposits are payable on demand.

NOTES TO THE FINANCIAL STATEMENTS

35.1 The interest rate risk arises from the fluctuation in the value of financial instruments consequent to the changes in the market interest rates. The bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or are re-priced in a given period. In order to ensure that this risk is managed within acceptable limits, the bank's Asset and Liability Management Committee monitors the re-pricing of the assets and liabilities on a regular basis.

The bank's interest rate risk is limited since the majority of customer's deposits are retrospectively re-priced on a biannual basis on the profit and loss sharing principles. Hence bank's exposure in three months to one-year time as mentioned above has no impact on bank's results.

2005			
Assets	Liabilities	Off-balance sheet items*	Net foreign currency exposure
Rupees in '000			

36. CURRENCY RISK

Pakistan Rupee	221,010,857	219,356,571	(158,268)	1,496,018
United States Dollar	15,429,334	15,711,542	118,746	(163,462)
Great Britain Pound	1,847,258	1,860,312	19,090	6,036
Japanese Yen	14,496	40	(14,689)	(233)
Euro	1,357,261	1,376,477	49,652	30,436
Other currencies	1,891,037	1,716,467	(14,531)	160,039
	<u>241,550,243</u>	<u>240,021,409</u>	<u>-</u>	<u>1,528,834</u>

* The off-balance sheet items have been valued at year end rates.

36.1 Currency risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. The bank manages this risk by setting and monitoring dealer, currency and counter-party limits for on and off balance sheet financial instruments.

Off-balance sheet financial instruments are contracts, the characteristics of which are derived from those of underlying assets. These include forwards and swaps in foreign exchange market. The bank's exposure in these instruments represents forward foreign exchange contracts on behalf of customers in import and export transactions and forward sales and purchases on behalf of customers in the inter-bank market. The risks associated with forward exchange contracts are managed by matching the maturities and fixing counter-party, dealers' intra-day and overnight limits.

The exposure of the bank to currency risk is also restricted by the statutory limit on aggregate exposure enforced by the State Bank of Pakistan.

NOTES TO THE FINANCIAL STATEMENTS

	2005		2004	
	Book value	Fair value	Book value	Fair value
..... Rupees in '000				
37. FAIR VALUE OF FINANCIAL INSTRUMENTS				
On-balance sheet financial instruments				
Assets				
Cash balances with treasury banks	24,788,625	24,788,625	19,708,518	19,708,518
Balances with other banks	9,713,369	9,713,369	3,183,957	3,183,957
Lendings to financial institutions	27,050,493	27,050,493	-	-
Investments	57,425,700	56,360,387	35,503,196	34,833,430
Advances	118,864,010	118,864,010	88,931,400	88,931,400
Other Assets	3,708,046	3,708,046	2,213,498	2,213,498
	<u>241,550,243</u>	<u>240,484,930</u>	<u>149,540,569</u>	<u>148,870,803</u>
Liabilities				
Bills Payable	3,733,124	3,733,124	2,233,671	2,233,671
Borrowings from financial institutions	5,844,389	5,844,389	12,723,830	12,723,830
Deposits and other accounts	222,345,067	222,345,067	129,714,891	129,714,891
Subordinated loan	3,223,355	3,223,355	1,899,480	1,899,480
Other liabilities	4,875,474	4,875,474	2,277,378	2,277,378
	<u>240,021,409</u>	<u>240,021,409</u>	<u>148,849,250</u>	<u>148,849,250</u>
Off-balance sheet financial instruments				
Forward purchase of foreign exchange	3,224,283	3,195,895	8,947,317	8,959,825
Forward sale of foreign exchange	4,738,140	4,683,657	5,351,909	5,334,423

38. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Provision against non performing loans and advances

The Bank reviews its loan portfolio to assess amount of non performing loans and advances and provision required there against on a quarterly basis. The provision is made in accordance with prudential regulations issued by State Bank of Pakistan. The forced sale values are estimated by independent valuations of the assets mortgaged/pledged. The provision will change due to changes in prudential regulations relating to increased percentage against substandard debts and increased discounting of forced sale values.

(b) Classification of Investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, or available for sale.

NOTES TO THE FINANCIAL STATEMENTS

Held to maturity

The Bank follows the guidance provided in the State Bank of Pakistan's (SBP) circulars on classifying non-derivatives financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

Held for trading

Classification of investments as held for trading depends on the criteria let by the pronouncement of SBP vide its circular and how management monitor the performance of these investments and have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the financial statements.

Available for sale

All other investments are classified as available for sale.

(c) Valuation of unquoted equity investments

The Bank estimates impairment to the investment in unquoted equity securities based on factors such as:

- the expected cashflows discounted at current rates applicable for items with similar terms and risks characteristics;
- Break-up value of unquoted equity investments;
- Other valuation models.

(d) Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past. There are various matters where bank's view differs with the view taken by the income tax department and such amounts are shown as contingent liability.

39. CONCENTRATION OF CREDIT AND DEPOSITS

Credit risk management

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparts failed to perform as contracted. The bank has built-up and maintained a sound loan portfolio in terms of well-defined Credit Policy approved by the Board of Directors. Its credit evaluation system comprises of well-designed credit appraisal, sanctioning and review procedures for the purpose of emphasizing prudence in its lending activities and ensuring quality of asset portfolio. Special attention is paid by the management in respect of non-performing loans. A separate Credit Monitoring Cell (CMC) is operational at the Head Office. A "watchlist" procedure is also functioning which identifies loans showing early warning signals of becoming non-performing.

The Bank constantly monitors overall credit exposure and takes analytical and systematic approaches to its credit structure categorized by group and industry. The credit portfolio is well diversified sectorally with manufacturing and exports accounting for the bulk of the financing which is considered to be low risk due to the nature of underlying security.

NOTES TO THE FINANCIAL STATEMENTS

39.1 Segment by class of business

	2005					
	Deposits		Advances		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agribusiness	1,531,047	0.69	4,039,016	3.40	335,298	0.80
Automobile and Transportation Equipments	4,946,577	2.22	4,518,216	3.80	1,625,303	3.88
Chemical and Pharmaceuticals	1,523,142	0.69	1,808,180	1.52	1,558,254	3.72
Cement	695,187	0.31	1,649,374	1.39	2,408,408	5.75
Communication	7,193,318	3.24	896,358	0.75	1,834,689	4.38
Electronic & Electrical Appliances	696,027	0.31	1,638,143	1.38	1,583,488	3.78
Educational Institutes	3,352,905	1.51	593,985	0.50	54,111	0.13
Financial	10,925,720	4.91	2,977,027	2.50	2,812,608	6.71
Fertilizers	4,479,942	2.01	460,735	0.39	588,771	1.40
Food & Allied Products	997,532	0.45	3,137,503	2.64	210,956	0.50
Glass & Ceramics	99,589	0.04	259,746	0.22	547,892	1.31
Ghee & Edible Oil	656,963	0.30	901,559	0.76	541,273	1.29
Housing Societies / Trusts	2,961,424	1.33	1,036,194	0.87	7,997	0.02
Insurance	1,409,691	0.63	91,549	0.08	100,664	0.24
Import & Export	1,924,628	0.87	3,709,434	3.12	463,524	1.11
Iron / Steel	1,987,071	0.89	1,600,289	1.35	1,878,505	4.48
Oil & Gas	7,973,068	3.59	1,201,261	1.01	4,663,088	11.13
Paper & Board	427,124	0.19	339,081	0.29	1,739,181	4.15
Production and Transmission of Energy	21,180,290	9.53	731,283	0.62	2,450,859	5.85
Real Estate / Construction	7,383,895	3.32	2,805,210	2.36	1,245,080	2.97
Retail / Wholesale Trade	3,744,262	1.68	4,732,230	3.98	1,125,326	2.68
Rice Processing and Trading	482,484	0.22	3,302,822	2.78	26,204	0.06
Sugar	1,018,299	0.46	1,610,618	1.36	127,442	0.30
Shoes & Leather Garments	725,846	0.33	574,884	0.48	135,431	0.32
Sports Goods	61,105	0.03	295,144	0.25	5,596	0.01
Surgical Goods	34,871	0.02	98,958	0.08	43,358	0.10
Textile Spinning	1,446,926	0.65	11,586,298	9.75	1,676,105	4.00
Textile Weaving	1,052,664	0.47	4,545,694	3.82	1,059,366	2.53
Textile Composite	1,463,777	0.66	8,137,774	6.85	1,437,132	3.43
Welfare Institutions	4,072,286	1.83	663,669	0.56	8,988	0.02
Individuals	71,709,117	32.25	28,674,505	24.12	1,622,044	3.87
Others	54,188,290	24.37	20,247,271	17.04	7,997,427	19.08
	222,345,067	100.00	118,864,010	100.00	41,914,368	100.00

39.2 Segment by sector

Public / Government	64,102,676	28.83	6,917,284	5.82	6,514,819	15.54
Private	158,242,391	71.17	111,946,726	94.18	35,399,549	84.46
	222,345,067	100.00	118,864,010	100.00	41,914,368	100.00

NOTES TO THE FINANCIAL STATEMENTS

40. GEOGRAPHICAL SEGMENT ANALYSIS

	2005			
	Profit before taxation	Total Asset Employed	Net Assets Employed	Contingencies and commitments
Pakistan	2,549,740	244,721,675	6,158,223	41,387,719
Asia Pacific (including South Asia)	13,550	3,592,118	1,305,903	526,649
	<u>2,563,290</u>	<u>248,313,793</u>	<u>7,464,126</u>	<u>41,914,368</u>

41. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include major shareholders, associated companies with or without common directors, retirement benefit funds and directors and key management personnel and their close family members.

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 (i.e. under the comparable uncontrolled price method).

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. Remuneration to the executives are determined in accordance with the terms of their appointment.

Details of transactions with related parties and balances with them excluding those entered into with directors / executives as per their terms of employment as at the year-end were as follows:

	2005	2004
	Rupees in '000	
41.1 Financing		
<i>With subsidiary company - Alfalah Securities (Private) Limited</i>		
Balance at the beginning of the year	90,809	-
Disbursements during the year	17,927,013	25,847,114
Repayments during the year	(17,793,257)	(25,756,305)
Balance at the end of the year	<u>224,565</u>	<u>90,809</u>
Maximum amount utilized under Running Finance arrangement	<u>230,035</u>	<u>211,152</u>
<i>With associated company - Warid Telecom (Private) Limited</i>		
Balance at the beginning of the year	-	-
Disbursements during the year	34,559	-
Repayments during the year	(2,590)	-
Balance at the end of the year	<u>31,969</u>	<u>-</u>

These accounts are of current nature which are subject to variations.

NOTES TO THE FINANCIAL STATEMENTS

	2005	2004
	Rupees in '000	
41.2 Deposits		
<i>With subsidiary companies</i>		
Balance at the beginning of the year	60,329	25,164
Placements during the year	831,919	30,799,008
Withdrawal during the year	(853,534)	(30,763,843)
Balance at the end of the year	38,714	60,329
<i>With associated company - Warid Telecom (Private) Limited</i>		
Balance at the beginning of the year	-	-
Placements during the year	12,040,037	-
Withdrawal during the year	(11,382,048)	-
Balance at the end of the year	657,989	-
<i>With other related party</i>		
Balance at the beginning of the year	9,897	3,448
Placements during the year	2,928,740	1,051,634
Withdrawal during the year	(2,921,879)	(1,045,185)
Balance at the end of the year	16,758	9,897
41.3 With subsidiary companies		
Mark-up / interest earned	12,029	3,137
Brokerage and commissions	4,104	5,299
Rent Income	2,194	838
Finance lease income	173	82
Lease rentals	2,018	398
Leases disbursed during the year to subsidiary companies	10,068	1,885
Receivable against trade of marketable securities	15,276	30,152
Receivable against expenditures	489	8,171
Reimbursement of expenditures	12,923	-
Security deposit	1,003	209
Communication charges recovered	-	503
Bank Charges recovered	245	36
Subscription towards share capital	34,000	33,600

NOTES TO THE FINANCIAL STATEMENTS

	2005	2004
	Rupees in '000	
<i>With associated companies</i>		
Commission income from Warid Telecom (Private) Limited	9,559	-
Investment in Alfalah GHP Value Fund	100,000	-
<i>With key management personnel and benefit plans</i>		
Remuneration paid to Chief Executive Officer	14,645	9,625
Contribution to employee provident fund	53,815	34,014

41.4 There are no loans and advances to directors and related parties, except to the extent described above and in note 11.6.1.

42. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 25, 2006 by the Board of Directors of the bank.

43. GENERAL

Figures have been rounded off to the nearest thousand rupees except stated otherwise.

Chief Executive Officer

Director

Director

Chairman

**STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES
OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2005**

(Rupees in '000)

S. No.	Name and address of the Borrower	Name of individuals / partners / directors (with N.I.C. No.)	Father's / Husband's Name	Outstanding Liabilities at January 1, 2005				Principal written-off	Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
1	Khurshid Brothers (Pvt) Ltd 182, Circular Road Faisalabad	Khurshid Alam NIC# 33100-6487812-9 Tanveer Ahmed NIC# 35201-1485172-9 Naseer Ahmed NIC# 35202-2808856-9	S/o Mohammad Rafiq S/o Mohammad Rafiq S/o Mohammad Rafiq	2,433	-	-	2,433	1,146	-	-	1,146
2	Hilite Industries KDLB Building, 2nd Floor 58, West Wharf Road Karachi	Khurshid Alam NIC# 33100-6487812-9 S.Z.Rehman	S/o Mohammad Rafiq Not Available	8,232	-	-	8,232	1,606	-	-	1,606
3	Hytex Industries 20, Main Chambers Sharah-e-Laquat, Karachi	Tanveer Ahmed NIC# 35201-1485172-9	S/o Mohammad Rafiq	4,966	-	-	4,966	727	-	-	727
4	National Cotton Textile (Pvt) Ltd Room no 17, 7th Floor, M.A.Jinnah Road, Karachi	S.M Tariq Saigal NIC# 42301-6562907-1 Sami Ahmed Qadri NIC # N/A Zafar Ahmed NIC # N/A	S/o Imam Ellahi Saigal Not Available Not Available	4,812	-	-	4,812	4,132	-	-	4,132
5	N.F Enterprises 1st Floor, PIDC House Dr. Ziauddin Ahmed Road Karachi	Mohammad Farooq NIC # N/A	Not Available	1,050	-	-	1,050	1,050	-	-	1,050
6	Zeenat Textile Mills Limited 705/711, Mohammadali House, LI Chundrigar Road, Karachi	Sh. Khurshid Anwer Sh. Naseem Anwer Naim Anwer Haji Mohammad Sadiq Mrs. Zarina Bano Mrs. Zakia Bequm Mrs. Safia Bano	Not Available Not Available Not Available Not Available Not Available Not Available	4,222	-	-	4,222	4,222	-	-	4,222
7	Global Produce Limited 36-A, Lazzar Drive, Opp Beach Luxury Hotel, M.T. Khan Road, Karachi.	Riaz Hussain Laljee Ibrahim Jan Mohammad Wadhwanat Chakamal Mahmood Pfr Bhai	Not Available Not Available Not Available Not Available	66,358	-	-	66,358	66,358	-	-	66,358
8	Hassan Associates Room No 23, 3rd Floor Textile Plaza, M.A.Jinnah Road, Karachi	Syed Mehmood-ul-Hassan Sami Ahmed Qadri	Not Available Not Available	3,051	-	-	3,051	2,351	-	-	2,351
9	Bea Chemical Industries Ltd 1-C, Street - 48, F - 7/4, Islamabad	Maqbool Elahi ANG Abbasi Zaigham M. Rizvi Mushiq Hussain Qureshi Naeem Rabbani Iqbal Rita Nazar Saleh Din Ghulam AH M. Rashid Zahir	Not Available Not Available Not Available Not Available Not Available Not Available Not Available Not Available	10,897	-	-	10,897	10,897	-	-	10,897

**STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES
OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2005**

(Rupees in '000)

S. No.	Name and address of the Borrower	Name of individuals / partners / directors (with N.I.C. No.)	Father's / Husband's Name	Outstanding Liabilities at January 1, 2005				Principal written-off	Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
10	Mian Mohammad Ahmed (Group) F-5, Estate Avenue Road, S.I.T.E, Karachi										
A	Ahmed Enterprises Pvt Ltd	Late Mian Mohammad Ahmed Akber Mehmood Ahmed Ashgar Mehmood Ahmed Khurshed Ahmed Rizwan Ahmed Imran Ahmed Saeed Ahmed Anis Ahmed	Not Available Late Mian Mohammad Ahmed Late Mian Mohammad Ahmed Not Available Late Mian Mohammad Ahmed Late Mian Mohammad Ahmed Late Mian Mohammad Ahmed Late Mian Mohammad Ahmed	17,983	-	-	17,983	17,983	-	-	17,983
B	Ahmed Investment (Pvt) Ltd			1,375	-	-	1,375	1,375	-	-	1,375
C	Yousuf Hardware			7,510	-	-	7,510	7,510	-	-	7,510
11	A.A.S Real Estate	Ali Aslam Khan Sultan Mehmood Khan Sh. Mohammad Aslam NIC# 276-47-178605	Abdur Rehman Khan Abdur Rehman Khan Karim Bakhsh	1,001	-	-	1,001	701	-	-	701
12	G.A. Industries 31-A Temple Road, Lahore	Pervez Amir Rasheed Masih Begum Gulshan Pervez Rafiq Hirqel	Ghulam Masih Hameed Masih Pervez Amir Fazal Semoall	1,766	-	-	1,766	1,191	-	-	1,191
13	Choudhry Cables (Pvt) Ltd 3-C Zafar Ali Road, Gulberg-V, Lahore	Ch. Mohammad Qasim Mst. Sakamat Mushin Ch. Muhammad Akram Ch. Mohammad Azam	Haji Siraj Din W/o Ch. Mhd Qasim Haji Siraj Din Haji Siraj Din	14,117	2,034	-	16,151	9,117	2,035	-	11,152
14	Big Mak Foods 137-Industrial Estate, Kot Lakhpat, Lahore	Syed Javed Hassan NIC# 270-88-003349 Khalifa Syed Saifullah Khalifa Syed Iqbal Abbas Mrs. Shaheena Saifullah Khalifa Syed Mohsin Iqbal R.D. Durrani Aziz Alam Durrani Mrs. Rubina Durrani Ayaz Durrani Khalifa Syed Javed Iqbal Syed Sami Ullah	Syed Aziz Hassan Khalifa Syed Iqbal Hassan Khalifa Syed Iqbal Hassan W/o Khalifa Syed Iqbal Khalifa Syed Iqbal Hassan Khalifa Syed Iqbal Hassan R.D. Durrani R.D. Durrani R.D. Durrani Khalifa Syed Iqbal Hassan Khalifa Syed Iqbal Hassan	19,700	2,783	-	22,483	16,684	2,783	-	19,467
15	Shamma Wire and Cables 3-C Zafar Ali Road, Gulberg-V, Lahore	Ch Mohammad Qasim Mst Sakamat Muslim Ch. Mohammad Akram Ch. Mohammad Azam Mst. Nawaz Begum Ch. Ahmed Kaleem	Haji Siraj Din w/o Ch Mohammad Qasim Haji Siraj Din Haji Siraj Din Ch. Mohammad Azam Ch. Mohammad Azam	96,159	4,552	-	100,711	100,711	-	-	100,711
16	Hendrix (Pak) Ltd	Abdul Jabber Khan	Not Available	1,037	-	-	1,037	1,037	-	-	1,037
TOTAL				266,679	9,369	-	276,048	248,808	4,818	-	253,626

Consolidated Annual Accounts
of
Bank Alfalah Limited
and Subsidiary Companies



AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Bank Alfalah Limited (the Bank) and its subsidiary companies as at 31 December 2005 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated 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. We have also expressed separate opinion on the financial statements of Bank Alfalah Limited and the financial statements of subsidiary company Alfalah Securities (Private) Limited. The financial statements of another subsidiary Alfalah GHP Investment Management Limited have been audited by another firm of chartered accountants and our opinion in so far as it relates to the amounts included for the said company, is based solely on the report of such auditor.

It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the 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 our opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements examined by us present fairly the financial position of Bank Alfalah Limited and its subsidiaries as at 31 December 2005 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi
February 25, 2006

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2005

	Note	2005	2004
Rupees in '000			
ASSETS			
Cash and balances with treasury banks	7	24,788,625	19,708,523
Balances with other banks	8	9,716,206	3,194,776
Lendings to financial institutions	9	27,050,493	-
Investments	10	56,917,363	35,427,596
Advances	11	118,639,706	88,838,824
Other assets	12	4,449,794	3,588,084
Operating fixed assets	13	6,660,158	4,298,464
Deferred tax assets		-	-
		248,222,345	155,056,267
LIABILITIES			
Bills payable	14	3,733,124	2,233,671
Borrowings from financial institutions	15	5,844,389	12,723,830
Deposits and other accounts	16	222,335,585	129,654,561
Sub -ordinated loans	17	3,223,355	1,899,480
Liabilities against assets subject to finance lease	18	1,510	2,429
Other liabilities	19	5,507,817	2,967,258
Deferred tax liabilities	20	484,066	275,654
		241,129,846	149,756,883
NET ASSETS			
		7,092,499	5,299,384
REPRESENTED BY			
Share capital	21	3,000,000	2,500,000
Reserves		2,351,218	1,008,772
Unappropriated profit		973,076	856,297
		6,324,294	4,365,069
Minority interest		42,142	41,903
		6,366,436	4,406,972
Surplus on revaluation of assets	22	726,063	892,412
		7,092,499	5,299,384
CONTINGENCIES AND COMMITMENTS			
	23		

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Chairman

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2005

	Note	2005	2004
Rupees in '000			
Mark-up / return / interest earned	24	12,242,627	5,616,984
Mark-up / return / interest expensed	25	7,204,551	2,434,642
Net mark-up / interest income		5,038,076	3,182,342
Provision against non-performing loans and advances - net	11.4	(402,298)	(370,208)
Gain / (loss) on remeasurement of held for trading investments		23,176	(2,165)
Bad debts written off directly		(512)	(351)
		(379,634)	(372,724)
Net mark-up / interest income after provisions		4,658,442	2,809,618
NON MARK-UP/INTEREST INCOME			
Fee, commission and brokerage income		1,196,419	691,382
Dividend income		53,153	52,539
Income from dealing in foreign currencies		290,091	218,820
Other income	26	753,062	574,860
Total non-markup / interest income		2,292,725	1,537,601
		6,951,167	4,347,219
NON MARK-UP/INTEREST EXPENSES			
Administrative expenses	27	4,364,367	2,697,707
Other provisions / write-offs		10,125	-
Other charges	28	21,104	1,700
Total non-markup / interest expenses		4,395,596	2,699,407
Share of loss of associates		(520,880)	-
Extraordinary / unusual items		-	-
PROFIT BEFORE TAXATION		2,034,691	1,647,812
Taxation			
For the year		598,507	586,917
- Current		148,644	(3,843)
- Deferred		(7,064)	(30,000)
For prior years		8,037	9,249
- Current		748,124	562,323
- Deferred	29	1,286,567	1,085,489
PROFIT AFTER TAXATION		1,286,567	1,085,489
Loss Attributable to Minority Interest		5,761	2,497
Profit Attributable to Equity Holders of the Parent		1,292,328	1,087,986
Unappropriated profit brought forward		856,297	963,042
Transferred from surplus on revaluation of fixed assets - net of tax		24,870	23,667
Profit available for appropriation		2,173,495	2,074,695
APPROPRIATIONS			
Transferred to statutory reserve		(340,419)	(218,398)
Bonus shares - interim @ nil (2004: @ 25 percent)		-	(500,000)
Final dividend for 2004: @ nil (2003: @ 25 percent)		-	(500,000)
Interim dividend @ 12 percent (2004: @ nil)		(360,000)	-
Transfer to reserve for issue of bonus shares		(500,000)	-
		(1,200,419)	(1,218,398)
Unappropriated profit carried forward		973,076	856,297
		973,076	856,297
		(Rupees)	
Basic / diluted earnings per share	30	4.37	3.88

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Chairman

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2005

Note	2005	2004
	Rupees in '000	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	2,034,691	1,647,812
Share of loss of associate	520,880	-
Dividend income	(53,153)	(52,539)
	2,502,418	1,595,273
<i>Adjustments for non-cash charges</i>		
Depreciation	475,886	296,456
Amortization - intangible assets	15,042	12,057
Provision against non-performing advances	402,298	370,208
(Gain) / loss on remeasurement of held for trading investments	(23,176)	2,165
Provision against other assets	452	-
Bad debts written-off directly	512	351
Gain on sale of operating fixed assets	(4,322)	(4,297)
Provision for gratuity	46,637	27,531
	913,329	704,471
	3,415,747	2,299,744
<i>(Increase) / decrease in operating assets</i>		
Lendings to financial institutions	(26,260,493)	6,787,733
Net investment in held for trading securities	(436,974)	(283,065)
Advances	(30,203,692)	(39,993,263)
Other assets - net of provision against other assets	(719,619)	(2,003,294)
	(57,620,778)	(35,491,889)
<i>Increase / (decrease) in operating liabilities</i>		
Bills payable	1,499,453	1,025,000
Borrowings from financial institutions	(6,879,441)	(403,924)
Deposits	92,681,024	52,981,404
Other liabilities	2,619,814	1,570,266
	89,920,850	55,172,746
	35,715,819	21,980,601
Gratuity paid	(46,637)	(27,531)
Income tax paid	(809,828)	(1,346,710)
Net cash flow from operating activities	34,859,354	20,606,360
CASH FLOW FROM INVESTING ACTIVITIES		
Net investment in available for sale securities	(3,660,288)	22,464,569
Net investment in held to maturity securities	(17,172,695)	(27,753,009)
Investment in associated companies	(810,628)	(1,138,176)
Proceeds from the issue of share capital of subsidiary	6,000	26,400
Dividend received	53,506	54,629
Investment in operating fixed assets	(2,857,847)	(1,817,154)
Sale proceeds of property and equipment disposed-off	9,547	7,195
Net cash flow from investing activities	(24,432,405)	(8,155,546)
CASH FLOW FROM FINANCING ACTIVITIES		
Issue of share capital	999,600	-
Issue of sub-ordinated loans	1,324,615	1,250,000
Redemption of sub-ordinated loans	(740)	(260)
Payments against lease obligation	(919)	2,429
Dividend paid	(360,000)	(500,000)
Net cash flow from financing activities	1,962,556	752,169
Adjustment of Exchange Translation Reserve	2,027	-
Increase in cash and cash equivalents	12,391,532	13,202,983
Cash and cash equivalents at beginning of the year	22,903,299	9,700,316
Cash and cash equivalents at end of the year	35,294,831	22,903,299

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2005

	Share capital	Share premium	Statutory reserve	Reserve for issue of Bonus shares	Exchange translation reserve	Unappropriated profit	Minority interest	Total
	----- (Rupees in '000) -----							
Balance at January 1, 2004 as previously reported	2,000,000	-	790,374	-	-	463,042	18,000	3,271,416
Effect of Change in accounting policy with respect to dividend declared after the balance sheet date	-	-	-	-	-	500,000	-	500,000
Balance at January 1, 2004 as restated	2,000,000	-	790,374	-	-	963,042	18,000	3,771,416
<i>Changes in equity for 2004</i>								
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	23,667	-	23,667
Profit attributable to equity holders of the parent	-	-	-	-	-	1,087,986	-	1,087,986
Loss attributable to minority	-	-	-	-	-	-	(2,497)	(2,497)
Total recognized income and expense for the year	-	-	-	-	-	1,111,653	(2,497)	1,109,156
Capital contribution by minority	-	-	-	-	-	-	26,400	26,400
Transfer to statutory reserve	-	-	218,398	-	-	(218,398)	-	-
Issue of bonus shares	500,000	-	-	-	-	(500,000)	-	-
Final dividend of 2003 @ 25 percent - paid	-	-	-	-	-	(500,000)	-	(500,000)
Balance at December 31, 2004	2,500,000	-	1,008,772	-	-	856,297	41,903	4,406,972
<i>Changes in equity for 2005</i>								
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	24,870	-	24,870
Profit attributable to equity holders of the parent	-	-	-	-	-	1,292,328	-	1,292,328
Loss attributable to minority	-	-	-	-	-	-	(5,761)	(5,761)
Total recognized income and expense for the year	-	-	-	-	-	1,317,198	(5,761)	1,311,437
Capital contribution by minority	-	-	-	-	-	-	6,000	6,000
Transfer to statutory reserve	-	-	340,419	-	-	(340,419)	-	-
Issue of Rights shares	500,000	500,000	-	-	-	-	-	1,000,000
Effect of foreign currency translation	-	-	-	-	2,027	-	-	2,027
Interim dividend @ 12 percent	-	-	-	-	-	(360,000)	-	(360,000)
Transfer to reserve for issue of bonus shares 1 share for every 3 shares held (2004: nil)	-	(500,000)	-	1,000,000	-	(500,000)	-	-
Balance at December 31, 2005	3,000,000	-	1,349,191	1,000,000	2,027	973,076	42,142	6,366,436

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Chairman

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

1. STATUS AND NATURE OF BUSINESS

Bank Alfalah Limited (holding company and the Bank) was incorporated in Pakistan on June 21, 1992 as a public limited company under the Companies Ordinance, 1984. It commenced banking operations from November 1, 1992. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962 and is operating through 128 conventional banking (December 2004: 79) branches, 15 Islamic Banking (December 2004: 11) branches and 4 overseas branches (2004: Nil) with the registered office situated at B.A. Building, I. I. Chundrigar Road, Karachi. The Bank is listed on Karachi and Lahore Stock Exchanges.

The Bank has invested in 76 percent (December 2004: 70 percent) shares of Alfalah Securities (Private) Limited. The principal objective of the company is to undertake the business of a brokerage house. Alfalah Securities (Private) Limited was incorporated on September 23, 2003 with registered office in Karachi, Pakistan. The company obtained corporate membership from Karachi Stock Exchange (Guarantee) Limited on November 24, 2003.

The Bank has invested in 56 percent (December 2004: 56 percent) shares of Alfalah GHP Investment Management Limited. The principal activity of the company is to act as asset management company, investment advisor / fund manager and constitute, float and manage open-ended and closed-ended funds. Alfalah GHP Investment was incorporated on October 18, 2004 as a public limited company under the Companies Ordinance, 1984 with registered office in Karachi, Pakistan. The certificate of commencement of business was obtained on March 10, 2005. The company is registered as an Asset Management Company and Investment Advisor under the Non Banking Finance Companies (NBFC) (Establishment and Regulation) Rules, 2003. During the second half of the year, the company floated an open end fund Alfalah GHP Value Fund.

2. BASIS OF PRESENTATION

In accordance with the Islamic Banking System, trade related mode of financing include purchase of goods by the Bank from its customer and simultaneous re-sale 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

These financial statements are prepared in accordance with approved accounting standards as applicable in Pakistan and requirements of the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with requirements of these standards the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence. The Securities and Exchange Commission of Pakistan (SECP) has approved and notified the adoption of International Accounting Standard 39, Financial Instruments; Recognition and Measurement and International Accounting Standard 40, Investment Property. The requirements of these standards have not been followed in preparation of these financial statements as the State Bank of Pakistan has deferred the implementation of these standards for the banks in Pakistan till further instructions. However, investments have been classified in accordance with the requirements prescribed by the State Bank of Pakistan for financial statements.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

4. DISCONTINUING OPERATION

On October 28, 2005 the Board of Directors of the Bank approved a plan to segregate its business of Islamic Banking into a separate entity. The segregation reflects Bank's plan to remain competitive with ever increasing competition in the local market and become the premier Islamic bank. Resultantly, in order to achieve this objective the Board feels that the Islamic Banking Division should be converted into a wholly owned subsidiary of the Bank. As of December 31, 2005 the Islamic Banking Division's assets were Rs. 15,320 million and its liabilities were Rs. 13,999 million. During 2005, Islamic Banking Division earned revenue of Rs. 622.368 million, incurred expenses of Rs. 579.576 million and incurred a pre-tax profit of Rs. 42.792 million with a related tax expense (including current and deferred tax) of Rs. 14.38 million. During 2005, Islamic Banking Division's cash inflow from operating activities was Rs. 1,153.442 million, cash outflow from investing activities was Rs. 189.473 million, and cash inflow from financing activities was Rs. 700 million.

5. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in Market Treasury Bills, Pakistan Investment Bonds, Federal Investment Bonds and listed securities and in conformity with the accepted accounting practices of banking institutions in Pakistan.

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

Judgements made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 39.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Basis of consolidation

Subsidiaries are those companies in which the Bank directly or indirectly controls, beneficially owns or holds more than 50 percent of the voting securities or otherwise has the power to elect and appoint more than 50 percent of its directors.

The Bank has the following subsidiaries:

Percentage of shareholding	
Alfalah Securities (Private) Limited	76 percent
Alfalah GHP Investment Management Limited	56 percent

Associates are those companies in which the Bank directly, indirectly or beneficially owns more than 20 percent of the voting securities and / or has the ability to exercise significant influence over financial or operating policies of the investee.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

The Bank has the following associates:

Percentage of shareholding	
Warid Telecom (Private) Limited	20 percent
Alfalah GHP Value Fund	25 percent

The financial statements of the subsidiaries are included in the consolidated financial statements from the date the control commences until the date the control ceases. In preparing consolidated financial statements, the financial statements of the Bank and its subsidiaries are combined on a line by line basis by adding together like items of assets, liabilities, equity, income and expenses. Significant inter-company transactions are eliminated.

Investments in associates are accounted for under equity method of accounting.

6.2 Cash and cash equivalents

Cash and cash equivalents comprises cash and balances with treasury bank, balances with other banks and call lendings.

6.3 Revenue recognition

Mark-up income and expense and profit on murabaha and musharika financing are recognised on a time proportion basis taking into account effective yield on the instrument. Fee, commission and brokerage except income from guarantees are accounted for on receipt basis. Mark-up / return on non-performing advances are suspended, where necessary and recognized on receipt basis.

Dividend income is recognized at the time when the Bank's right to receive has been established.

Financing method is used in accounting for income from lease and ijarah financing. Under this method, the unrealised lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.

Unrealised lease income is suspended, where necessary, in accordance with the requirements of the Prudential Regulations of the State Bank of Pakistan and recognised on receipt basis. Gains / losses on termination of lease contracts, documentation charges, front end fee and other lease income are recognized as income on receipt basis.

Brokerage, commission and other income are accrued as and when due. Client referral fee is recognized when received.

Management fee for open end unit trust is recognized on an accrual basis by charging the specified rates to the daily net asset value of unit trust.

6.4 Advances

Loans and advances including financing under murabaha and musharika and net investment in finance lease / ijarah are stated net of provisions against non-performing advances. Specific and general provisions are made against advances in accordance with the guidance in the Prudential Regulations issued by the State Bank of Pakistan from time to time. The net provision made / reversed during the year is charged to profit and loss account and accumulated provision is netted off against advances. Advances are written off when there are no realistic prospects of recovery.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

Leases / ijarah financing where the Group transfers substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. A receivable is recognised at an amount equal to the present value of the lease payments, including any guaranteed residual value.

6.5 Investments

Investments of the holding company are classified into 'held to maturity', 'held for trading' or 'available for sale' categories in accordance with the requirements of BSD Circular No. 10 dated July 13, 2004 as amended vide BSD Circular No. 11 dated August 4, 2004 and BSD Circular No.14 dated September 24, 2004

The investments of the Group are classified in the following categories:

Securities held for trading

These are investments acquired principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin.

Securities held to maturity

These are investments with fixed or determinable payments and fixed maturity and the Group has the positive intent and ability to hold them till maturity.

Available for sale

These are investments which do not fall under the held for trading and held to maturity categories.

Quoted securities where ready quotes are available on Reuters Page (PKRV) or Stock Exchange, other than investments classified as held to maturity and investments in associates, are valued at market value. Investments classified as held to maturity are carried at amortised cost.

The surplus / deficit arising as a result of revaluation at market value on 'held for trading' portfolio is taken to income and that relating to the 'available for sale' portfolio is kept in a separate account and shown below equity.

Unquoted securities are stated at cost less provision for impairment loss.

The difference between the face value and purchase price is amortised over the remaining life of the security using the effective yield method.

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

Gains or losses on disposals during the year are taken to profit and loss account.

Derivatives

These are initially recognized at cost and subsequently remeasured at their fair value. The fair value of future contracts is calculated as being the net difference between the contract price and the closing price reported on the primary exchange of the futures contract. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the Balance Sheet. The resultant gains and losses are included in the Profit and Loss account.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

Sale and repurchase agreements

The Group enters into purchase / (sale) of investment under agreements to resale / (repurchase) at a certain date in the future at a fixed price.

Investments purchased subject to commitment to resale them at the future dates are not recognized. The amounts paid are recognized in lending to financial institutions. The receivables are shown as collateralised by the underlying security.

Investments sold under repurchase agreements continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for investments. The proceeds from the sale of the investments are reported in borrowings from financial institutions.

The difference between the purchase / (sale) and resale / (repurchase) consideration is recognised on a time proportion basis over the period of the transaction and is included in mark-up / return / interest earned or expensed.

6.6 Operating fixed assets

Owned

Tangible

Office premises are shown at cost / revalued amount less accumulated depreciation. All other assets are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is charged to income applying the straight-line method using the rates specified in note 13.3 to the financial statements.

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

Gains and losses on disposal of fixed assets are taken to profit and loss account.

The surplus on revaluation of fixed assets (net of deferred taxation) to the extent of the incremental depreciation charged on the revalued assets is transferred to retained earnings.

Intangible

Intangible assets with definite useful lives are stated at cost less accumulated amortization and impairment losses, if any by taking into consideration the estimated useful life.

Leased

Assets subject to finance lease are initially recognized at lower of present value of minimum lease payments, under the lease agreement, and fair value of the assets. Subsequently, they are stated net off accumulated depreciation and impairment losses, if any. The related obligations are accounted for as liabilities. Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on outstanding liabilities. Depreciation on leased assets is charged to income by applying the straight line method.

6.7 Capital work in progress

Capital work in progress is stated at cost less impairment losses, if any.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

6.8 Taxation

Current

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date (including presumptive tax where applicable) and any adjustment to tax payable in respect of previous years.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences arising between the carrying amounts of assets and liabilities for the financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

6.9 Staff retirement benefits

Defined Benefit Plan

The Bank operates an approved funded gratuity scheme covering eligible employees whose period of employment with the Bank is five years or more. Contributions to the fund are made on the basis of actuarial recommendations. Projected Unit Credit Method has been used for the actuarial valuation. The results of current valuation are summarised in Note 33. Actuarial gains / losses in excess of 10 percent of actuarial liabilities or plan assets are recognised over the average lives of employees.

Defined Contribution Plan

The Bank and its subsidiaries operates recognised Provident Fund Schemes for all their permanent employees to which equal monthly contributions are made by the Group and one subsidiary and their employees at the rate of 8.33 percent of basic salary and 10 percent of basic salary by Alfalah GHP Investment Management Limited and its employees.

6.10 Foreign operations and Foreign Currencies

Foreign Operations

Initial recognition

The assets and liabilities of foreign branches taken over are initially recognized at cost. Any resulting goodwill is immediately written off.

Subsequent measurement

Assets and liabilities of foreign operations are translated into rupees at the exchange rate prevailing at the balance sheet date. Profit and loss account is translated at the average rate of conversion for the period. Gains and losses arising on the transactions are taken to Exchange Translation Reserve.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

Foreign Currencies

Assets and liabilities in foreign currencies are translated into Pak Rupee at the rates of exchange prevailing at the balance sheet date. Foreign currency transactions are converted at the rates prevailing on the transaction date.

Forward contracts other than contracts with SBP relating to foreign currency deposits are valued at forward rates applicable to the respective maturities of the relevant foreign exchange contract.

Forward purchase contracts with SBP relating to foreign currency deposits are valued at the spot rate prevailing on the balance sheet date. The forward cover fee payable on such contracts is amortized over the term of the contracts.

Exchange gains and losses are included in income currently.

6.11 Provisions

Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists for the bank to settle the obligation. Expected recoveries are recognized by debiting customer's account. Charge to profit and loss account is stated net-off expected recoveries.

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

6.12 Acceptances

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

6.13 Off-setting

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

6.14 Impairment

The carrying amount of the Group's assets other than the deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
Rupees in '000			
7. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency (including in transit Rs. 66.689 million)		3,542,352	2,971,782
Foreign currency (including in transit Rs. 67.952 million)		897,695	497,893
With State Bank of Pakistan in			
Local currency current account	<i>7.1</i>	14,334,985	13,132,499
Foreign currency current account	<i>7.2</i>	939,111	655,193
Foreign currency deposit account	<i>7.3</i>	2,365,555	1,793,320
With other central banks in			
Foreign currency current account	<i>7.4</i>	285,085	-
Foreign currency deposit account	<i>7.5</i>	1,091,149	-
With National Bank of Pakistan in			
Local currency current account		<u>1,332,693</u>	<u>657,836</u>
		<u>24,788,625</u>	<u>19,708,523</u>
7.1	This account is maintained under the requirement of section 22 of the Banking Companies Ordinance, 1962.		
7.2	This account is maintained under the requirement of BSD Circular No.18 dated March 31, 2001.		
7.3	This account is maintained under the requirement of BSD Circular No.18 dated March 31, 2001. Profit rates on these deposits are fixed by SBP on monthly basis. Profit ranging between 1.40% to 3.29% was paid during the year.		
7.4	This represents an amount of USD 4.774 million equivalent to Rs. 285.085 million placed with Da Afghan Bank of Afghanistan to comply with the regulatory capital requirement.		
7.5	This represents an amount of USD 18.270 million (Taka 1.21 billion) placed with Central Bank of Bangladesh to meet the minimum capital requirement for Bangladesh operations.		
7.6	This includes balances with Islamic Banking Division amounting to Rs. 2,502.913 million (2004: Rs. 2,719.238 million).		
8. BALANCES WITH OTHER BANKS			
In Pakistan			
On current account		136,962	137,993
On deposit account		1,205,005	50,000
Outside Pakistan			
On current account		1,864,632	1,861,578
On deposit account	<i>8.1</i>	<u>6,509,607</u>	<u>1,145,205</u>
		<u>9,716,206</u>	<u>3,194,776</u>
8.1	This represents placements of funds generated through foreign currency deposits scheme (FE-25), at interest rates ranging from 2.0% to 4.83% per annum with maturities upto December 2006.		

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

8.2 This includes balances with Islamic Banking Division amounting to Rs. 2,007.817 million (2004: Rs. 127.523 million).

9. LENDINGS TO FINANCIAL INSTITUTIONS	Note	2005	2004
		(Rupees in '000)	
Call Money Lendings		790,000	-
Repurchase Agreement Lendings (Reverse Repo)	9.1	26,260,493	-
		<u>27,050,493</u>	<u>-</u>

9.1 Securities held as collateral against lendings to financial institutions

	2005			2004		
	Held by the Group	Further given as collateral	Total	Held by the Group	Further given as collateral	Total
	----- (Rupees in '000) -----					
Treasury Bills	18,361,493	-	18,361,493	-	-	-
Pakistan Investment Bonds	7,899,000	-	7,899,000	-	-	-
	<u>26,260,493</u>	<u>-</u>	<u>26,260,493</u>	<u>-</u>	<u>-</u>	<u>-</u>

10. INVESTMENTS

10.1 Investment by type

	2005			2004		
	Held by the Group	Given as collateral	Total	Held by the Group	Given as collateral	Total
	----- (Rupees in '000) -----					
Available for sale securities						
Treasury Bills	5,534,534	-	5,534,534	-	-	-
Pakistan Investment Bonds	2,151,343	-	2,151,343	3,328,439	877,420	4,205,859
Federal Investment Bonds	-	-	-	15,598	-	15,598
Fully paid up ordinary shares / units - Listed	597,738	-	597,738	512,034	-	512,034
Fully paid up ordinary shares / units - Un-listed	76,979	-	76,979	6,356	-	6,356
Term Finance Certificates	496,345	-	496,345	362,043	-	362,043
Certificates of Investments	105,259	-	105,259	205,168	-	205,168
Prize Bonds	9,445	-	9,445	4,297	-	4,297
	<u>8,971,643</u>	<u>-</u>	<u>8,971,643</u>	<u>4,433,935</u>	<u>877,420</u>	<u>5,311,355</u>
Held to maturity securities						
Government Bonds	85,341	-	85,341	85,341	-	85,341
Pakistan Investment Bonds	9,635,243	255,327	9,890,570	8,534,837	1,598,129	10,132,966
Treasury Bills	33,967,529	-	33,967,529	13,918,840	3,259,769	17,178,609
Term Finance Certificates	1,767,600	-	1,767,600	1,141,429	-	1,141,429
	<u>45,455,713</u>	<u>255,327</u>	<u>45,711,040</u>	<u>23,680,447</u>	<u>4,857,898</u>	<u>28,538,345</u>
Held for Trading						
Treasury Bills	276,775	-	276,775	-	-	-
Fully paid up ordinary shares / units - Listed	443,251	-	443,251	283,065	-	283,065
	<u>720,026</u>	<u>-</u>	<u>720,026</u>	<u>283,065</u>	<u>-</u>	<u>283,065</u>
Associates						
Warid Telecom (Private) Limited	1,442,095	-	1,442,095	1,138,176	-	1,138,176
Alfalah GHP Value Fund	101,536	-	101,536	-	-	-
	<u>1,543,631</u>	<u>-</u>	<u>1,543,631</u>	<u>1,138,176</u>	<u>-</u>	<u>1,138,176</u>
Gain / (loss) on remeasurement of 'held for trading' investments	21,011	-	21,011	(2,165)	-	(2,165)
Surplus / (deficit) on revaluation of 'available for sale' securities (net) 22.2	(49,988)	-	(49,988)	138,471	20,349	158,820
	<u>(28,977)</u>	<u>-</u>	<u>(28,977)</u>	<u>136,306</u>	<u>20,349</u>	<u>156,655</u>
	<u>56,662,036</u>	<u>255,327</u>	<u>56,917,363</u>	<u>29,671,929</u>	<u>5,755,667</u>	<u>35,427,596</u>

10.1.1 This includes investment of Islamic Banking Division amounting to Rs. 97.973 million (2004: Rs.124.587 million).

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
Rupees in '000			
10.2 Investment by segment			
Federal Government Securities			
- Treasury Bills	<i>10.2.1</i>	39,778,838	17,178,609
- Pakistan Investment Bonds	<i>10.2.2</i>	12,041,913	14,338,825
- Federal Investment Bonds		-	15,598
- Government Bonds	<i>10.2.3</i>	85,341	85,341
- Prize Bonds		9,445	4,297
		51,915,537	31,622,670
Fully Paid up Ordinary Shares			
- Listed Companies	<i>10.2.4</i>	1,040,989	795,099
- Unlisted Companies	<i>10.2.5</i>	76,979	6,356
		1,117,968	801,455
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates			
- Term Finance Certificates - quoted	<i>10.2.6</i>	496,345	362,043
- Term Finance Certificates - unquoted	<i>10.2.7</i>	1,767,600	1,141,429
		2,263,945	1,503,472
Investments in associated companies	<i>10.2.8</i>	1,543,631	1,138,176
Other Investments			
Certificates of Investment	<i>10.2.9</i>	105,259	205,168
		56,946,340	35,270,941
Gain / (loss) on remeasurement of held for trading investments		21,011	(2,165)
Surplus / (deficit) on revaluation of available for sale securities (net)	<i>22.2</i>	(49,988)	158,820
		(28,977)	156,655
		56,917,363	35,427,596

10.2.1 Treasury bills are for the periods of six months and one year. The effective rates of profit on treasury bills range between 5.514 % to 8.471 % per annum with maturities upto December 2006.

10.2.2 Pakistan Investment Bonds are for periods of three, five, ten and fifteen years. The rates of profit range from 6% to 14% per annum with maturities from January 2006 to June 2019. These also include PIBs having face value of Rs.35 million (2004: Rs. 35 million) pledged with the National Bank of Pakistan as security to facilitate Telegraphic Transfer discounting facility.

10.2.3 This represents bonds issued by the Federal Government to settle the dues of Heavy Mechanical Complex at the rate of 6% per annum redeemable on maturity in March 2009.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

10.2.4 Investments in listed companies / funds include the following:

The par value of these shares / certificates/units is Rs. 10 except where stated.

2005	2004		2005	2004
No. of shares certificates/units			Rupees in '000	
		MUTUAL FUNDS		
-	50,000	Atlas Income Fund**	-	25,000
1,090,000	-	AKD Index Tracker Fund	10,900	-
369,500	-	Pakistan Capital Market Fund	4,881	-
1,898,500	-	Pakistan Premier Fund	25,728	-
4,495,290	8,095,790	ABAMCO Composite Fund	44,953	80,898
2,500,000	2,500,000	Meezan Balanced Fund	25,000	25,000
400,000	2,319,500	Pakistan Strategic Allocation Fund	4,000	23,190
		** The par value of these units is Rs. 500		
		INVESTMENT COMPANIES & BANKS		
502,500	2,635,000	Askari Commercial Bank Limited	27,574	188,788
925,000	-	Faysal Bank Limited	69,109	-
-	150,000	National Bank of Pakistan	-	12,129
150,000	-	Pakistan Industrial Credit and Investment Corporation	10,827	-
-	399,000	Bank of Punjab	-	26,616
200,000	275,000	MCB Bank Limited	33,950	16,447
690,000	-	Union Bank Limited	43,234	-
350,000	-	United Bank Limited	32,851	-
		CEMENT		
695,000	698,000	D.G.Khan Cement Limited (Preference Shares)	7,660	7,696
700,000	-	D.G.Khan Cement Limited	76,969	-
-	300,000	Pioneer Cement Limited	-	6,086
900,000	-	Lucky Cement Limited	71,336	-
		FUEL, ENERGY & OIL & GAS		
1,414,000	2,887,000	Hub Power Company Limited	50,935	98,939
15,000	-	Pakistan State Oil	6,437	-
142,700	-	Pakistan Oilfields Limited	59,347	-
25,000	-	Pakistan Petroleum Limited	5,284	-
200,000	-	PICIC Energy Fund	2,000	-
4,855,500	-	Southern Electric Power Company Limited	49,801	-
1,275,000	-	Kot Addu Power Company Limited	59,652	-
3,802,500	5,342,000	Kohinoor Energy Limited	120,548	166,790
-	250,000	Sui Northern Gas Pipelines Limited	-	15,358
-	475,000	Sui Southern Gas Company Limited	-	12,580
-	150,000	Japan Power Generation Limited	-	1,080
		INSURANCE		
2,000	-	Adamjee Insurance Company Limited	275	-
		FERTILIZER		
10,000	-	Engro Chemical Pakistan Limited	1,618	-
		AUTOMOBILE ASSEMBLERS		
1,558,500	-	Dewan Farooque Motors	49,721	-

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

2005	2004		2005	2004
No. of shares certificates/units			Rupees in '000	
		TEXTILE COMPOSITE		
625,000	-	Nishat Mills Limited	67,850	-
87,000	-	Azgard Nine Limited	3,615	-
		TECHNOLOGY & COMMUNICATION		
-	1,000,000	Pakistan Telecommunication Company Limited	-	44,250
10,000	1,534,500	Call Mate Telips Telecom Limited	804	24,972
-	1,400,000	Southern Networks Limited	-	14,000
		CHEMICALS AND FERTILIZERS		
348,100	-	ICI Pakistan	49,032	-
3,200,000	400,000	Pakistan PTA Limited	25,098	5,280
			<u>1,040,989</u>	<u>795,099</u>

10.2.5 Investment in unlisted companies

2005	2004		2005	2004
No. of shares				
		Pakistan Export Finance Guarantee Agency Limited		
572,531	572,531	Chief Executive : Mr. S.M. Zaem	5,725	5,725
8	5	Shares of SWIFT	1,254	631
7,000,000	-	Al-Hamra Hills (Private) Limited	70,000	-
		Chief Executive : Mr. Habib Ahmed		
		Break-up value: Rs. 10 each share		
			<u>76,979</u>	<u>6,356</u>

10.2.6 Term Finance Certificates - Quoted, Secured

Dewan Salman Fibre Limited NIL (2004:11,800) certificates of Rs.5,000 each Mark up: 16 percent per annum Redemption: Eight equal quarterly installments commencing September 2003 Maturity: June 2005	-	14,726
Gulistan Textile Mills Limited 6,000 (2004:6,000) certificates of Rs.5,000 each Mark up: 2 percent above SBP discount rate with a floor of 14 percent per annum and a ceiling of 17.5 percent per annum Redemption: Six equal semi-annual installments commencing March 2004 Maturity: September 2006	9,982	19,984

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

Note	2005	2004
Rupees in '000		
<p>Askari Commercial Bank Limited (2nd Issue) 20,000 (2004:Nil) units of Rs.5,000 each Mark up: 6 Months KIBOR (Ask Side) + 150 basis points per annum (no floor no cap) Redemption: Bullet at maturity Maturity: 8 years from date of disbursement i.e October 31, 2013</p>	100,000	-
<p>Union Bank Limited (3rd Issue) 10,000 (2004: Nil) units of Rs.5,000 each Mark up: 6 Months KIBOR + 200 basis points prevailing one working day prior to the beginning of each semi annual period. Redemption: A nominal amount i.e. 0.16 percent of the Issue Amount will be re-paid equally in each of the redemption periods during the first 4 years. Maturity: 7 years from the date of issue.</p>	50,000	-
<p>Bank Al Habib Limited 9,350 (2004: 9,350) certificates of Rs.5,000 each Mark up: The average 6 months KIBOR + 1.50 percent per annum with a floor of 3.50 percent and a cap of 10.00 percent per annum Redemption: The TFC is structured to redeem 0.25 percent of principal semi-annually in the first 78 months and the remaining principal in three semi-annual installments of 33.25 percent respectively starting from the 84th month. Maturity: June 2012</p>	46,731	46,750
<p>Prime Commercial Bank Limited 6,578 (2004:Nil) units of Rs.5,000 each Mark up: 6 months KIBOR (Ask Side) + 190 basis points (no floor no cap) Redemption: Redemption after a grace period of 54 months in 4 equal installments Maturity: 8 years from the date of disbursement i.e February 2012.</p>	32,884	-
<p>Trust Leasing Corporation Limited 11,136* (2004:11,136) certificates of Rs.5,000 each Mark up: 3.00 percent + KIBOR (6 months ask side) with a floor of 6.00 percent per annum and a cap of 10.00 percent per annum Redemption: Principal repayment in 10 equal semi-annual instalments; profit payable on semi-annual basis Maturity: July 2009 * 8,000 in pre IPO Participation, 3,136 in IPO</p>	44,544	55,680
<p>Crescent Leasing Corporation Limited 10,000 (2004: 10,000) certificates of Rs.5,000 each Mark up: Six months KIBOR (Average, Ask Side) + 1.75 percent per annum Redemption: Ten equal semi-annual installments commencing January 2005; the issuer has a Call Option exercisable at any time from the beginning of the nineteenth month till the end of the sixtieth month from the issue date only on a profit payment date subject to a 30 day notice period Maturity: July 2009</p>	40,000	50,000

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

Note	2005	2004
	Rupees in '000	
<p>First Dawood Investment Bank Limited 6,000 (2004: 6,000) certificates of Rs.5,000 each Mark up: On SBP discount rate + 1.75 percent per annum with a floor of 13.50 percent and a cap of 17.50 percent per annum Redemption: Bullet at maturity; the issuer has a Call Option exercisable in whole for redemption at face value at the end of every 5 years from the date of issue. The investor has a Put Option exercisable in whole for redemption at face value at the end of every 5 years from the date of issue. Maturity: September 2006</p>	31,485	33,615
<p>First Dawood Investment Bank Limited 2,000 (2004: 2,000) certificates of Rs.5,000 each Mark up: On SBP discount rate + 1.75 percent per annum with a floor of 12.25 percent and a cap of 16.25 percent per annum Redemption: Bullet at maturity; the issuer has a Call Option exercisable in whole for redemption at face value at the end of every 5 years from the date of issue. The investor has a Put Option exercisable in whole for redemption at face value at the end of every 5 years from the date of issue. Maturity: September 2007</p>	10,797	11,304
<p>Gulshan Spinning Mills Limited 10,000 (2004: 10,000) certificates of Rs. 5,000 each Mark up: Six months KIBOR (Average, Ask Side) + 1.80 percent per annum with a cap of 15 percent per annum Redemption: Seven equal semi-annual installments commencing June 2006 Maturity: June 2009</p>	49,970	50,000
<p>Paramount Spinning Mills Limited 16,000 (2004:16,000) certificates of Rs.5,000 each Mark up: Six months KIBOR (Average, Ask Side) + 1.80 percent per annum with a cap of 15 percent per annum Redemption: Seven equal semi-annual installments commencing June 2006 Maturity: September 2009</p>	79,952	79,984
	496,345	362,043
<p>10.2.7 Term Finance Certificates - Unquoted, Secured</p> <p>Pakistan International Airlines Corporation 100,000 (2004:100,000) certificates of Rs.5,000 each Mark up: SBP discount rate + 0.5 percent per annum with a floor of 8 percent per annum and a cap of 12.50 percent per annum Redemption: First four equal semi-annual installments commencing August 2003 amounting to Rs.5,000 each. Next six equal semi-annual installments commencing August 2005 amounting to Rs.12,499,500 each, subsequent six equal semi-annual installments commencing August 2008 amounting to Rs.70,830,500 each; the issuer has a Call Option exercisable any time at 24th, 48th and 72nd month to redeem in full or part with a premium. Maturity: February 2011</p>	487,481	499,985

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

Note	2005	2004
	Rupees in '000	
<p>Al-Abbas Sugar Mills (Private) Limited 10,000 (2004: 10,000) certificates of Rs.5,000 each Mark up: Cut-off yield of the last successful SBP auction of the 3 month Treasury Bills + 3.25 percent per annum with a floor of 6 percent per annum and a cap of 13 percent per annum. Redemption: Nineteen equal quarterly installments commencing January 2004; the issuer has a Call Option exercisable any time after 2 years to repay in whole or in part on a coupon date at a three months notice and with a premium. Maturity: July 2008</p>	28,720	39,474
<p>Pakistan Mobile Communication (Private) Limited 30,000 (2004: 30,000) certificates of Rs.5,000 each Mark up: Six months KIBOR (Average, Ask Side) + 1.60 percent per annum with a floor of 4.95 percent per annum and a cap of 12.00 percent per annum Redemption: Five equal semi-annual installments commencing September 2006; the issuer has a Call Option exercisable any time from the 36th month to 54th month on a coupon date subject to 30 days notice period to repay in whole or in part Maturity: September 2009</p>	150,000	150,000
<p>Pakistan Mobile Communication (Private) Limited 50,000 (2004: 50,000) certificates of Rs.5,000 each Mark up: Simple average of last three 6 - month Treasury Bills cut-off rate + 2.25 percent per annum with a floor of 6.00 percent per annum and a cap of 12.00 percent per annum Redemption: Five equal semi-annual installments commencing September 2006; the issuer has a call option exercisable any time from the first principal repayment date (i.e. starting from the 36th month) onwards on a coupon date subject to 30 days notice period to repay in whole or in part. Maturity: September 2008</p>	251,439	251,970
<p>Pakistan Mobile Communication (Private) Limited 50 (2004: Nil) units of Rs.5,000,000 each Mark up: 6 Months KIBOR (Ask Side) + 270 basis points per annum Redemption: Bullet payment at maturity Maturity: 6 months i.e March 2006.</p>	250,000	-
<p>Azgard Nine Limited 500 (2004: 500) certificates of Rs.100,000 each Mark up: Six months KIBOR + 1.75 percent per annum Redemption: Eight equal semi-annual installments commencing from eighteenth month of the issue date; the issuer has a Call Option exercisable at profit payment date to redeem in full or in part the outstanding issue amount of the TFCs Maturity: August 2009</p>	50,000	50,000
<p>Bosicor Pakistan Limited 20,000 (2004: 20,000) certificates of Rs.5,000 each Mark up: Six months KIBOR (average ask side) + 5.5 percent per annum with a floor of 9.00 percent per annum and a cap of 13.00 percent per annum payable semi-annually Redemption: Seven equal semi-annual installments commencing August 2006; the issuer has a Call Option exercisable at any time from the 1st principal repayment date (i.e. starting from the 24th month) onwards on a coupon date subject to a 60 days notice period to repay in whole or in part. Maturity: August 2009</p>	100,000	100,000

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
Rupees in '000			
<p>Security Leasing Corporation Limited 10,000 (2004: 10,000) certificates of Rs.5,000 each Mark up: Six months KIBOR (Average, Ask Side) + 190 basis point per annum. Redemption: Ten equal semi-annual installments commencing January 2005; the issuer has a Call Option exercisable at any time from the beginning of the nineteenth month till the end of the sixtieth month from the issue date only on profit payment date subject to a 30 days notice period. Maturity: April 2008</p>		49,960	50,000
<p>Security Leasing Corporation Limited (2nd Issue) 20,000 (2004:Nil) units of Rs.5,000 each Mark up: 6 Months KIBOR (Ask Side) + 165 basis point per annum (no floor no cap) Redemption: Ten equal quarterly installments commencing from the 9th month of the issue; the issuer has a Call Option exercisable at any mark-up payment date after a period of 12 months from the issue date to redeem in full or in part the issue amount outstanding of the PPTFCs subject to a 90 days notice to the Investors. Maturity: 3 years from date of disbursement i.e. June 2008.</p>		100,000	-
<p>Reliance Exports (Private) Ltd. 30,000 (2004:Nil) units of Rs.10,000 each Mark up: 6 Months KIBOR (Ask Side) + 250 basis point per annum (no floor no cap) Redemption: Redemption after a grace period of one year in stepped-up installments The issuer has a Call Option exercisable at any mark-up payment date to redeem in full or in part the Issue amount outstanding of the PPTFCs subject to a 60 days notice to the Investors. Maturity: 7 years from the date of disbursement i.e. July 2012.</p>		300,000	-
		1,767,600	1,141,429

10.2.8 This represents investment in 184.880 million (2004: 113.817 million) ordinary shares of Rs.10 each of Warid Telecom (Private) Limited - Chief Executive Mr. Hamid Farooq and 2 million (2004: Nil) units of Rs. 50 each of Alfalah GHP Value Fund -(Investment Adviser - Alfalah GHP Investment Management Limited).

	Tenor	Profit rate (percent per annum)	2005	2004
10.2.9 Particulars of Certificates of Investment are as follows:				
Pak Libya Holding Company (Private) Limited	3 years	5.25	105,259	205,168

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

11. ADVANCES	Note	2005	2004
Rupees in '000			
Loans, cash credits, running finances, etc.			
In Pakistan		99,610,701	80,642,466
Outside Pakistan		1,361,725	-
		<u>100,972,426</u>	<u>80,642,466</u>
Net Investment in Finance Lease / Ijarah Financing			
In Pakistan	11.2	12,149,319	6,372,805
Outside Pakistan		-	-
		<u>12,149,319</u>	<u>6,372,805</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		2,222,723	1,647,111
Payable outside Pakistan		4,848,219	1,536,499
		<u>7,070,942</u>	<u>3,183,610</u>
		<u>120,192,687</u>	<u>90,198,881</u>
Provision for non-performing advances	11.4	(1,552,981)	(1,360,057)
		<u>118,639,706</u>	<u>88,838,824</u>
11.1 Particulars of advances			
11.1.1 In local currency		112,160,309	86,800,326
In foreign currencies		6,479,397	2,038,498
		<u>118,639,706</u>	<u>88,838,824</u>
11.1.2 Short term (for upto one year)		70,622,789	57,630,575
Long term (for over one year)		48,016,917	31,208,249
		<u>118,639,706</u>	<u>88,838,824</u>
11.2 Net Investment in Finance Lease / Ijarah Financing			

	2005				2004
	Not later than one year	Later than one year & less than five years	Over five years	Total	Total
----- (Rupees in '000) -----					
Lease rental receivable	2,009,696	9,757,589	55,173	11,822,458	6,246,743
Add: Residual value	202,752	1,998,626	3,997	2,205,375	997,677
Minimum lease payments	2,212,448	11,756,215	59,170	14,027,833	7,244,420
Financial charges for future period	(346,586)	(1,528,074)	(3,854)	(1,878,514)	(871,615)
Present value of minimum lease payments	<u>1,865,862</u>	<u>10,228,141</u>	<u>55,316</u>	<u>12,149,319</u>	<u>6,372,805</u>

11.3 Advances include Rs. 1.06 billion (2004: Rs. 2.935 billion) which have been placed under non-performing status as detailed below:

	2005			Provision Required		Provision held	
	Domestic	Overseas	Total	Specific	General	Specific	General
----- (Rupees in '000) -----							
Category of classification							
Other Assets Especially							
Mentioned (Agri financing)	22,705	-	22,705	-	-	-	-
Substandard	171,072	-	171,072	6,975	-	6,975	-
Doubtful	48,787	-	48,787	11,006	-	11,006	-
Loss	776,116	41,275	817,391	689,388	-	689,388	-
	<u>1,018,680</u>	<u>41,275</u>	<u>1,059,955</u>	<u>707,369</u>	<u>754,967</u>	<u>707,369</u>	<u>845,612</u>

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

11.4 Particulars of provision against non-performing advances:

	2005			2004		
	Specific	General	Total	Specific	General	Total
----- (Rupees in '000) -----						
Opening balance	851,119	508,938	1,360,057	1,006,215	149,896	1,156,111
Opening balance of foreign branch acquired during the year	20,787	16,629	37,416	-	-	-
Charge for the year	206,704	320,269	526,973	92,053	359,052	451,105
Reversals	(124,451)	(224)	(124,675)	(80,887)	(10)	(80,897)
	82,253	320,045	402,298	11,166	359,042	370,208
Transferred from interest in suspense	3,637	-	3,637	-	-	-
Amounts written off	11.5.1 (250,427)	-	(250,427)	(166,262)	-	(166,262)
Closing balance	707,369	845,612	1,552,981	851,119	508,938	1,360,057

		2005	2004
Rupees in '000			
11.5	Particulars of write offs		
11.5.1	Against provisions	11.4 250,427	166,262
	Directly charged to profit and loss account	512	351
		<u>250,939</u>	<u>166,613</u>
11.5.2	Write-offs of Rs.500,000 and above	11.6 248,808	159,623
	Write-offs of below Rs.500,000	2,131	6,990
		<u>250,939</u>	<u>166,613</u>

11.6 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 persons during the year ended December 31, 2005 is given in Annexure-1.

		Balance as at December 31, 2005	Maximum amount of advances including temporary advances granted during the year
11.6.1	Particulars of loans and advances to directors, associated companies, etc.		
	Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons	153,675	155,475
	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.	31,969	34,559

11.7 This includes advances of Islamic Banking Division amounting to Rs. 9.934 billion (2004: Rs. 4.063 billion).

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

		2005	2004
		Rupees in '000	
12.	OTHER ASSETS		
	Income / mark-up accrued in local currency	2,423,624	1,330,454
	Income / mark-up accrued in foreign currency	107,158	22,325
	Advances, deposits, advance rent and other prepayments	1,296,959	777,399
	Membership card	31,000	31,000
	Advance taxation	142,483	-
	Dividend receivable	60	413
	Branch adjustment account	-	947,883
	Receivable against sale of shares	422,606	336,732
	Unrealised gain on forward foreign exchange contracts	26,095	29,994
	Prepaid exchange risk fee	1,628	3,552
	Stationery and stamps on hand	49,258	32,032
	Short term receivables	1,824	1,328
	Receivable against issue of rights <i>21.3</i>	400	-
	Receivable from brokers <i>12.1</i>	101,015	215,408
		<u>4,604,110</u>	<u>3,728,520</u>
	Less: Provision held against other assets <i>12.3</i>	(10,071)	(9,619)
	Mark-up held in suspense account	(144,245)	(130,817)
		<u>4,449,794</u>	<u>3,588,084</u>
12.1	This represents amount receivable from brokers against sale of shares.		
12.2	This includes other assets of Islamic Banking Division amounting to Rs. 120.601million (2004: Rs.145.370 million)		
12.3	Provisions against other assets		
	Opening balance	9,619	9,619
	Charge for the year	452	-
	Closing balance	<u>10,071</u>	<u>9,619</u>
13.	OPERATING FIXED ASSETS		
	Capital work-in-progress <i>13.2</i>	1,044,921	500,318
	Property and equipment <i>13.3</i>	5,580,047	3,765,004
	Intangible assets <i>13.4</i>	35,190	33,142
		<u>6,660,158</u>	<u>4,298,464</u>
13.1	This includes Capital work-in-progress, property and equipment and intangible assets of Rs. 44.231million (2004: Rs. 6.969 million), Rs. 608.605 million (2004: Rs. 464.717 million) and Rs. 3.286million (2004: Nil) respectively of Islamic Banking Division.		
13.2	Capital work-in-progress		
	Advances to suppliers and contractors	1,044,921	500,318

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

13.3 Property and equipment

Description	Cost / revaluation at January 1, 2005	Additions / (disposals) / *adjustments	Revaluation surplus	Cost / Revaluation as at December 31, 2005	Accumulated depreciation at January 1, 2005	Depreciation for the year / (on disposal) / *adjustments	Accumulated depreciation at December 31, 2005	Net book value at December 31, 2005	Rate of depreciation % per annum
(Rupees in '000)									
Owned									
Office premises	1,691,664	1,181,593	-	2,849,274	14,375	34,060	51,330	2,797,944	2.5-5.5
		*(23,983)				* 2,895			
Revaluation	1,138,799	-	-	1,138,799	40,113	40,113	80,226	1,058,573	2.5-5.5
	2,830,463	1,181,593	-	3,988,073	54,488	74,173	131,556	3,856,517	
		*(23,983)	-			* 2,895			
Lease hold improvement	295,292	163,023 (399)	-	481,899	105,960	74,971 (367)	177,669	304,230	20
		* 23,983				* (2,895)			
Furniture and fixtures	261,480	121,811 (1,991)	-	381,300	74,694	33,807 (795)	107,706	273,594	10-25
Office equipment	894,698	663,671 (4,380)	-	1,553,989	389,737	237,395 (2,648)	624,484	929,505	20-25
Vehicles	212,447	166,056 (8,468)	-	370,035	108,569	54,273 (6,203)	156,639	213,396	25
Leased Vehicles	5,069	-	-	5,069	997	1,267	2,264	2,805	25
2005	4,499,449	2,296,154 (15,238)	-	6,780,365	734,445	475,886 (10,013)	1,200,318	5,580,047	
2004	2,913,976	1,602,166 (15,074)	-	4,499,449	451,747	296,408 (12,176)	734,445	3,765,004	
		* (1,619)				* (1,582)			

13.3.1 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs. 229.195 million (2004: Rs. 201.192 million).

13.3.2 The fair value of property and equipment as per management estimate is not materially different from the carrying amount.

13.3.3 The above balance of owned operating assets represents the value of assets subsequent to revaluation on December 30, 1999 and December 31, 2003 which had resulted in surplus of Rs. 830.950 million and Rs. 516.802 million respectively and additions thereafter at cost.

13.3.4 As at December 31, 2005, un-depreciated balance of revaluation surplus included in the carrying value of fixed assets, amounted to Rs. 1,058,573 million (2004: Rs. 1,098,686 million)

13.4 Intangible assets

	COST			AMORTIZATION			Net book value as at December 31, 2005	Rate of amortization % per annum
	As at January 1, 2005	Additions / (deletions)	As at December 31, 2005	As at January 1, 2005	For the year	As at December 31, 2005		
(Rupees in '000)								
Computer software	53,543	17,090	70,633	20,401	15,042	35,443	35,190	20
Goodwill	15,440	-	15,440	15,440	-	15,440	-	
2005	68,983	17,090	86,073	35,841	15,042	50,883	35,190	
2004	60,815	8,168	68,983	23,784	12,057	35,841	33,142	

13.5 Details of disposal of fixed assets having cost of more than Rs. 1,000,000 or net book value of Rs. 250,000 or above

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
(Rupees in '000)						
Vehicle	835	60	775	835	Insurance Claim	Adamjee Insurance
Vehicle	555	156	399	474	Insurance Claim	Adamjee Insurance
Vehicle	809	58	751	765	Insurance Claim	Adamjee Insurance
Vehicle	785	493	292	705	Insurance Claim	Adamjee Insurance

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

		2005	2004
		Rupees in '000	
14.	BILLS PAYABLE		
	In Pakistan	3,458,499	2,233,671
	Outside Pakistan	274,625	-
		3,733,124	2,233,671
15.	BORROWINGS FROM FINANCIAL INSTITUTIONS		
	In Pakistan	5,815,915	12,252,275
	Outside Pakistan	28,474	471,555
		5,844,389	12,723,830
15.1	Particulars of borrowings from financial institutions		
	In local currency	5,815,915	12,252,275
	In foreign currencies	28,474	471,555
		5,844,389	12,723,830
15.2	Details of borrowings from financial institutions		
	Secured		
	Borrowings from State Bank of Pakistan under:		
	- Export refinance scheme	<i>15.2.1</i> 5,585,988	6,677,505
	- Long Term Finance for Export Oriented Projects scheme (LTFEOP)	<i>15.2.2</i> 29,927	-
	Repurchase agreement borrowings	<i>15.2.3</i> 100,000	5,459,770
		5,715,915	12,137,275
	Unsecured		
	Call borrowings	<i>15.2.4</i> 100,000	115,000
	Overdrawn nostro accounts	28,474	471,555
		128,474	586,555
		5,844,389	12,723,830

15.2.1 This facility is secured against demand promissory note executed in favour of the State Bank of Pakistan. The effective markup rate is 7.5 % per annum payable on a quarterly basis.

15.2.2 This facility is secured against demand promissory note executed in favour of the State Bank of Pakistan. The outstanding amount represents a borrower namely Novatex Limited. The effective markup rate is 5 % per annum payable on a quarterly basis.

15.2.3 This represents repurchase agreement borrowings from another bank at a rate of 6.5 % per annum maturing in January 2006.

15.2.4 This represents call borrowing in interbank market at the rate of 8.40 % per annum maturing in January 2006.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

		2005	2004
		Rupees in '000	
16.	DEPOSITS AND OTHER ACCOUNTS		
	Customers		
	Fixed deposits	80,167,779	21,892,081
	Savings deposits	81,048,878	65,965,795
	Current accounts - Remunerative	-	-
	Current accounts - Non-remunerative	45,813,931	36,153,237
	Margin, call and sundry deposits	3,509,310	2,123,779
		210,539,898	126,134,892
	Financial Institutions		
	Remunerative deposits	11,760,879	3,503,281
	Non-remunerative deposits	34,808	16,388
		11,795,687	3,519,669
		<u>222,335,585</u>	<u>129,654,561</u>
16.1	Particulars of deposits		
	In local currency	202,071,404	117,627,343
	In foreign currencies	20,264,181	12,027,218
		<u>222,335,585</u>	<u>129,654,561</u>
16.2	These include deposits of Rs. 12,471.732 million (2004: Rs. 6,548.307 million) [Foreign currency Rs. 1,200.653 million (2004: Rs. 323.768 million)] of Islamic Banking Division.		
17.	SUB-ORDINATED LOANS		
	Term Finance Certificates I - Quoted, Unsecured	649,220	649,480
	Mark-up	1.33 percent above 5 years PIB yield; floor: 10 percent per annum; cap: 15 percent per annum	
	Subordination	The TFCs are subordinated to all other indebtedness of the Bank including deposits.	
	Rating	AA-	
	Tenor	Six years	
	Redemption	2 equal semi-annual installments commencing June 2008.	
	Maturity	December 2008	
	Term Finance Certificates II - Quoted, Unsecured	1,249,520	1,250,000
	Mark-up	Base Rate* + 1.50 percent Base rate is the simple average of the ask side rate of the six months (KIBOR) prevailing on the first day of the start of each half-yearly period and mark-up due at the end of that period.	

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

		2005	2004		
		Rupees in '000			
Subordination	The TFCs are subordinated as to the payment of principal and profit. In the case of occurrence of an event of default, the TFC holder will rank below the senior unsecured creditors and depositors and other creditors of the bank.	1,324,615	-		
Rating	AA-				
Tenor	Eight years				
Redemption	3 equal semi-annual installments commencing 84th month of the issue date.				
Maturity	December 2012				
Term Finance Certificates III - Quoted, Unsecured					
Mark-up	Base Rate* + 1.50 percent * Base rate is the simple average of the ask rate of the six months (KIBOR) prevailing on the first day of the start of each half-yearly period and mark-up due at the end of that period.				
Subordination	The TFCs are subordinated as to the payment of principal and profit to all other indebtedness of the bank.			3,223,355	1,899,480
Rating	AA-				
Tenor	Eight years				
Redemption	3 equal semi-annual installments commencing 84th month of the issue date.				
Maturity	November 2013				

18. Liabilities against assets subject to finance lease

	2005			2004		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	------(Rupees in '000)-----					
Upto 1 year	821	151	670	776	139	637
Over 1 year to 4 years	903	63	840	1,926	134	1,792
	<u>1,724</u>	<u>214</u>	<u>1,510</u>	<u>2,702</u>	<u>273</u>	<u>2,429</u>

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

- 18.1 A subsidiary has entered into leasing arrangement with Faysal Bank Limited for vehicles. Lease rentals are payable in monthly instalments upto June 2008. Financial charges, included in the lease rentals, are determined on the basis of discount factors applied at rate of 12.5 percent per annum.

	2005	2004
	Rupees in '000	
19. OTHER LIABILITIES		
Mark-up / return / interest payable in local currency	1,783,199	701,230
Mark-up / return / interest payable in foreign currency	97,558	37,154
Unearned commission and income on bills discounted	118,326	88,495
Accrued expenses	146,664	217,377
Payable against redemption of credit card reward points	102,793	66,161
Branch adjustment account	344,186	-
Taxation	-	79,255
Lease security deposit	2,301,834	997,468
Exchange difference payable to SBP	13,099	6,693
Payable against purchase of shares	283,752	238,801
Payable to brokers	98,917	384,043
Others	217,489	150,581
	<u>5,507,817</u>	<u>2,967,258</u>

- 19.1 This represents amounts payable to brokers against purchase of shares.

- 19.2 These include Rs. 1,269.103 million (2004: Rs. 411.728 million) of Islamic Banking Division.

20. DEFERRED TAX (LIABILITIES) / ASSETS

Deferred debits arising in respect of:		
Provision for doubtful debts	883,798	729,330
Excess of Tax WDV over Accounting WDV of operating fixed assets	-	21,720
Deficit on revaluation of securities	18,803	-
License fee charged off	13,475	14,053
Asset acquired under leasing arrangement	-	73
Pre operating expenses	-	1,351
	<u>916,076</u>	<u>766,527</u>
Deferred credits arising in respect of:		
Write offs/ reversals of provision for bad debts	(563,178)	(450,401)
Leasing operations	(356,921)	(119,136)
Excess of accounting net book value over tax written down value of fixed assets	(72,414)	(1,244)
Surplus on revaluation of operating fixed assets	(407,629)	(422,874)
Surplus on revaluation of securities	-	(48,526)
	<u>(1,400,142)</u>	<u>(1,042,181)</u>
	<u>(484,066)</u>	<u>(275,654)</u>

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL

21.1 Authorized capital

2005	2004		2005	2004
Rupees in '000				
400,000,000	400,000,000	Ordinary shares of Rs.10 each	4,000,000	4,000,000

20.2 Issued, subscribed and paid up Ordinary shares of Rs.10 each

75,000,000	75,000,000	Fully paid in cash	750,000	750,000
175,000,000	175,000,000	Bonus shares	1,750,000	1,750,000
50,000,000	-	Right shares issued during the year	500,000	-
<u>300,000,000</u>	<u>250,000,000</u>		<u>3,000,000</u>	<u>2,500,000</u>

21.3 The right shares include 20,000 shares, representing rights relating to applications rejected and missing from the offer for sale of shares. These right shares would be offered to those applicants who would be allotted/ offered shares in accordance with the directives/ guidance of the Securities and Exchange Commission of Pakistan. These shares are entitled to all corporate actions as all other ordinary shares.

	Note	2005	2004
Rupees in '000			
22. SURPLUS ON REVALUATION OF ASSETS			
Surplus arising on revaluation of:			
- fixed assets	22.1	757,248	782,118
- securities	22.2	(31,185)	110,294
		<u>726,063</u>	<u>892,412</u>
22.1 Surplus on revaluation of fixed assets			
Surplus on revaluation of fixed assets		1,347,752	1,347,752
Deficit reversed due to disposal		243	243
Less: related deferred tax liability		(468,999)	(468,999)
Transferred to retained earnings relating to incremental depreciation (net of tax)		(121,748)	(96,878)
		<u>757,248</u>	<u>782,118</u>
22.2 Surplus on revaluation of securities			
i) Government securities		(49,481)	105,481
ii) Quoted shares		5,572	40,464
iii) Term Finance Certificates - quoted		(6,079)	12,875
		<u>(49,988)</u>	<u>158,820</u>
Related deferred tax asset/ (liability)		18,803	(48,526)
		<u>(31,185)</u>	<u>110,294</u>

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

	2005	2004
	Rupees in '000	
23. CONTINGENCIES AND COMMITMENTS		
23.1 Direct credit substitutes		
Contingent liability in respect of guarantees given favouring:		
i) Government	964,712	636,962
ii) Banking companies and other financial institutions	44,214	72,475
iii) Others	975,229	559,050
	<u>1,984,155</u>	<u>1,268,487</u>
23.2 Transaction-related contingent liabilities		
Contingent liability in respect of performance bonds, bid bonds, shipping guarantees, standby letters of credit etc. favouring:		
i) Government	8,957,823	9,154,516
ii) Banking companies and other financial institutions	662,917	75,037
iii) Others	5,004,954	3,286,554
	<u>14,625,694</u>	<u>12,516,107</u>
23.3 Trade-related contingent liabilities		
Letters of credit	20,490,078	14,698,842
Acceptances	4,814,441	4,510,247
23.4 Other contingencies		
Claims against the bank not acknowledged as debts	540,749	701,200
23.5 Commitments in respect of forward lending		
Commitments to extend credit	2,046,000	866,000
23.6 Commitments in respect of forward exchange contracts		
Purchase	3,195,895	8,947,317
Sale	4,683,657	5,351,909
23.7 Commitments for the acquisition of operating fixed assets and intangibles	122,942	119,300
23.8 Commitments in respect of repo transactions		
- Repurchase	206,743	5,542,013
- Resale	26,457,918	-

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
Rupees in '000			
24. MARK-UP / RETURN / INTEREST EARNED			
a) On loans and advances to:			
i) customers		8,775,650	4,149,506
ii) financial institutions		89,513	18,909
b) On investments in:			
i) available for sale securities		574,719	628,338
ii) held to maturity securities		1,888,494	691,503
iii) held for trading		1,401	-
c) On deposits with financial institutions		420,088	81,913
d) On securities purchased under resale agreements		492,762	46,815
		<u>12,242,627</u>	<u>5,616,984</u>
<i>24.1</i> These include mark-up earned of Rs. 303.466 million (2004: Rs. 96.626 million) of Islamic Banking Division.			
25. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits (including exchange risk fee)		6,446,202	1,795,093
Securities sold under repurchase agreements		235,177	398,704
Other short term borrowings		315,129	156,473
Term Finance Certificates		207,874	84,372
Lease obligation		169	-
		<u>7,204,551</u>	<u>2,434,642</u>
26. OTHER INCOME			
Postage, telex, service charges etc.		498,683	321,112
Net profit on sale of property and equipment		4,322	4,297
Gain on sale of shares / certificates / units - net		242,384	246,319
Gain on sale of government securities - net		7,673	3,132
		<u>753,062</u>	<u>574,860</u>
27. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		1,564,135	1,036,826
Charge for defined benefit plan - Gratuity		46,637	27,531
Contribution to defined contribution plan - Provident Fund		54,039	34,014
Brokerage and commissions		321,122	134,703
Rent, taxes, insurance, electricity, etc.		533,096	325,108
Legal and professional charges		48,606	47,317
Communication		213,472	126,860
Repair and maintenance		179,063	110,185
Stationery and printing		117,504	78,726
Advertisement and publicity		285,158	243,971
Donations	27.1	117,600	17,100
Auditor's remuneration	27.2	4,659	2,985
Depreciation	13.3	475,886	296,456
Amortization of intangible assets	13.4	15,042	12,057
Entertainment, vehicle running expenses, travelling and subscription		207,885	128,774
Others		180,463	75,094
		<u>4,364,367</u>	<u>2,697,707</u>

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

	Note	2005	2004
Rupees in '000			
27.1 Donations			
President Relief Fund for Earthquake Victims - 2005		100,000	-
Pakistan Human Development Fund (PHDF)		-	15,900
Rising Sun Institute Lahore		8,000	-
Beautification of I.I. Chundrigar Road		7,500	-
Mr.Mohammad Afzal		-	1,000
M/s Zindagi Trust		700	-
M/s Patients Welfare Association		500	-
Lahore Medical & Dental College		400	-
Shaukat Khanum Memorial Hospital		-	200
The Lahore Hospital Welfare Society		200	-
Pakistan Society for Rehabilitation of the Disabled		100	-
Escort Foundation		100	-
Umeed-e-Noor Center for Challenged Children		100	-
		<u>117,600</u>	<u>17,100</u>
None of the Directors or their spouses had any interest in the donees.			
27.2 Auditor's remuneration			
Audit fee		2,774	1,670
Fee for half yearly review		600	600
Special certifications and sundry advisory services		756	365
Taxation services		19	-
Out-of-pocket expenses		510	350
		<u>4,659</u>	<u>2,985</u>
28. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		<u>21,104</u>	<u>1,700</u>
29. TAXATION			
For the year			
Current		598,507	586,917
Deferred		148,644	(3,843)
		<u>747,151</u>	<u>583,074</u>
For prior year			
Current		(7,064)	(30,000)
Deferred		8,037	9,249
		<u>973</u>	<u>(20,751)</u>
		<u>748,124</u>	<u>562,323</u>

The income tax assessments of the Bank have been finalised upto and including tax year 2005. Matters of disagreement exist between the Bank and tax authorities for various assessment years and are pending with the Commissioner of Income Tax (Appeals), Income Tax Appellate Tribunal (ITAT) and High Court of Sindh.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

The issues mainly relate to addition of mark-up in suspense to income, taxability of profit on government securities, bad debts written off and disallowance relating to profit and loss expenses. However, adequate provision has been made in the financial statements in this respect.

During the year the Bank has been selected for tax audit in respect of Tax Year 2004 and the notice under section 176 of Income Tax Ordinance 2001 has been issued by the Tax Department (LTU). The audit is expected to be finalized in 2006.

Further, during the year, various appeals have also been decided in the Bank's favour:

	Note	2005	2004
		Rupees in '000	
29.1 Relationship between tax expense and accounting profit			
Profit before tax		2,034,691	1,647,812
Tax at the applicable rate of 38% (2004: 41%)		773,183	678,789
Effect of:			
- Change in tax rate		8,037	9,249
- income chargeable to tax at reduced rates		(17,165)	(19,093)
- income exempt from tax		(88,114)	(96,708)
- other differences		(8,612)	20,086
- tax effect of items that are not included in determining taxable profit		87,795	-
- prior year provision		(7,000)	(30,000)
Tax expense for the year		748,124	562,323
30. BASIC EARNINGS PER SHARE			
Profit for the year		1,292,328	1,087,986
		Number of shares in thousand	
Weighted average number of ordinary shares		296,016	280,428
Basic and diluted earnings per share	Rupees	4.37	3.88
31. CASH AND CASH EQUIVALENTS		2005	2004
		(Rs. in '000)	
Cash and balances with treasury banks		24,788,625	19,708,523
Balances with other banks		9,716,206	3,194,776
Call lendings		790,000	-
		35,294,831	22,903,299
32. STAFF STRENGTH		Number of employees	
Total number of employees at the end of the year		5,291	3,388
33. DEFINED BENEFIT PLAN			
33.1 Principal actuarial assumptions			
Discount factor used (% per annum compounded)		10.00	9.00
Expected yield on investment (% per annum)		10.00	9.00
Salary increase (% per annum)		10.00	9.00
Normal retirement age		60 years	60 years

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

Note	2005	2004
Rupees in '000		
33.2 Reconciliation of payable to defined benefit plan		
Present value of defined benefit obligations	261,191	176,786
Fair value of plan assets	(183,665)	(131,193)
Net actuarial losses not recognized	(71,866)	(45,593)
Unrecognized transitional obligation	(5,660)	-
	<u>-</u>	<u>-</u>
33.3 Movement in payable to defined benefit plan		
Opening balance	-	-
Charge for the year	46,637	27,531
Contribution to fund made during the year	(46,637)	(27,531)
Closing balance	<u>-</u>	<u>-</u>
33.4 Charge for defined benefit plan		
Current service cost	26,908	17,298
Interest cost	15,911	9,482
Expected return on plan assets	(11,807)	(7,897)
Actuarial losses	3,102	5,269
Past service cost	12,523	3,379
	<u>46,637</u>	<u>27,531</u>
33.5 Actual return on plan assets		
	<u>13,956</u>	<u>6,522</u>

34. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Chief Executive Officer		Director/Executives	
	2005	2004	2005	2004
Rupees in '000				
Managerial remuneration	7,110	6,121	225,854	128,434
Bonus	5,812	2,950	75,150	37,214
Retirement benefit plan	543	415	23,299	14,484
Rent and house maintenance	3,199	1,200	69,975	41,667
Utilities	683	300	232	100
Medical	31	13	-	16
Others	67	102	7	104
	<u>17,445</u>	<u>11,101</u>	<u>394,520</u>	<u>222,019</u>
Number of persons	<u>3</u>	<u>3</u>	<u>196</u>	<u>116</u>

The Chief Executive and certain executives have been provided with the free use of cars and household equipments.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

	2005				
	Total	Upto three months	Over 3 months to one year	Over one year to five years	Over five years
----- (Rupees in '000) -----					
35. MATURITIES OF ASSETS AND LIABILITIES					
ASSETS					
Cash and balances with treasury banks	24,788,625	24,788,625	-	-	-
Balances with other banks	9,716,206	8,180,198	1,536,008	-	-
Lending to financial institutions	27,050,493	26,950,493	100,000	-	-
Investments	56,917,363	13,991,330	29,597,761	6,681,470	6,646,802
Advances	118,639,706	16,473,595	54,149,194	39,398,936	8,617,981
Other assets	4,449,794	3,398,637	512,441	337,533	201,183
Operating fixed assets	6,660,158	932,525	1,808,404	1,966,213	1,953,016
	<u>248,222,345</u>	<u>94,715,403</u>	<u>87,703,808</u>	<u>48,384,152</u>	<u>17,418,982</u>
LIABILITIES					
Bills payable	3,733,124	3,733,124	-	-	-
Borrowings from financial institutions	5,844,389	228,474	5,585,988	-	29,927
Deposits and other accounts *	222,335,585	116,819,122	50,163,515	21,475,170	33,877,778
Subordinated loans	3,223,355	370	3,330	645,520	2,574,135
Liabilities against assets subject to finance lease	1,510	168	502	840	-
Other liabilities	5,507,817	2,908,263	629,023	1,891,498	79,033
Deferred tax liabilities	484,066	18,803	-	465,263	-
	<u>241,129,846</u>	<u>123,708,324</u>	<u>56,382,358</u>	<u>24,478,291</u>	<u>36,560,873</u>
NET ASSETS	<u>7,092,499</u>	<u>(28,992,921)</u>	<u>31,321,450</u>	<u>23,905,861</u>	<u>(19,141,891)</u>
Share capital	3,000,000				
Reserves	2,351,218				
Unappropriated profit	973,076				
Surplus on revaluation of assets	726,063				
Minority interest	42,142				
	<u>7,092,499</u>				

*20 percent of saving deposits have been classified in each of upto three months, over three months to one year and over one year to five years with the remaining 40 percent being classified under the over 5 years category based on management's experience with such class of deposits. However, contractually these deposits are payable on demand.

Liquidity risk is the risk that the Group will not be able to raise funds to meet its commitments. The Group's Asset and Liability Management Committee manages the liquidity position on a continuous basis. The Committee monitors the maintenance of balance sheet liquidity ratios, depositors' concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits and liquidity contingency plans. Moreover, core retail deposits (current accounts and saving accounts) form a considerable part of the Group's overall funding therefore significant importance is attached to the stability and growth of these deposits.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

36. YIELD / INTEREST RATE RISK

	Effective yield/interest rate	2005					Not expose to yield/interest rate
		Total	Upto three months	Over three 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	3.290	24,788,625	2,365,555	-	-	-	22,423,070
Balances with other banks	4.315	9,716,206	5,388,604	1,536,008	-	-	2,791,594
Lending to financial institutions	7.921	27,050,493	26,950,493	100,000	-	-	-
Investments	7.665	56,917,363	12,861,358	29,597,761	6,681,470	5,134,707	2,642,067
Advances	8.900	118,639,706	16,473,595	54,149,194	39,398,936	8,617,981	-
Other assets		4,231,957	-	-	-	-	4,231,957
		241,344,350	64,039,605	85,382,963	46,080,406	13,752,688	32,088,688
LIABILITIES							
Bills payable		3,733,124	-	-	-	-	3,733,124
Borrowings from financial institutions	7.511	5,844,389	200,000	5,585,988	-	29,927	28,474
Deposits and other accounts *	4.880	222,335,585	70,970,384	50,163,515	21,475,170	33,877,777	45,848,739
Subordinated loans	9.600	3,223,355	370	3,330	645,520	2,574,135	-
Liabilities against assets subject to finance lease	12.500	1,510	168	502	840	-	-
Other liabilities		5,016,967	-	-	-	-	5,016,967
		240,154,930	71,170,922	55,753,335	22,121,530	36,481,839	54,627,304
On-balance sheet gap		1,189,420	(7,131,317)	29,629,628	23,958,876	(22,729,151)	(22,538,616)
Cumulative yield / interest risk sensitivity gap			(7,131,317)	22,498,311	46,457,187	23,728,036	1,189,420

*20 percent of saving deposits have been classified in each of upto three months, over three months to one year and over one year to five years with the remaining 40 percent being classified under the over 5 years category based on management's experience with such class of deposits. However, contractually these deposits are payable on demand.

36.1 The interest rate risk arises from the fluctuation in the value of financial instruments consequent to the changes in the market interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or are re-priced in a given period. In order to ensure that this risk is managed within acceptable limits, the Group's Asset and Liability Management Committee monitors the re-pricing of the assets and liabilities on a regular basis.

The Group's interest rate risk is limited since the majority of customer's deposits are retrospectively re-priced on a biannual basis on the profit and loss sharing principles. Hence the Group's exposure in three months to one-year time as mentioned above has no impact on Group's results.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

	2005			
	Assets	Liabilities	Off-balance sheet items*	Net foreign currency exposure
Rupees in '000				
37. CURRENCY RISK				
Pakistan Rupee	220,804,965	219,490,092	(158,268)	1,156,605
United States Dollar	15,429,334	15,711,542	118,746	(163,462)
Great Britain Pound	1,847,258	1,860,312	19,090	6,036
Japanese Yen	14,496	40	(14,689)	(233)
Euro	1,357,261	1,376,477	49,652	30,436
Other currencies	1,891,036	1,716,467	(14,531)	160,038
	<u>241,344,350</u>	<u>240,154,930</u>	<u>-</u>	<u>1,189,420</u>

* The off-balance sheet items have been valued at year end rates.

37.1 Currency risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. The Group manages this risk by setting and monitoring dealer, currency and counter-party limits for on and off balance sheet financial instruments.

Off-balance sheet financial instruments are contracts, the characteristics of which are derived from those of underlying assets. These include forwards and swaps in foreign exchange market. The Group's exposure in these instruments represents forward foreign exchange contracts on behalf of customers in import and export transactions and forward sales and purchases on behalf of customers in the inter-bank market. The risks associated with forward exchange contracts are managed by matching the maturities and fixing counter-party, dealers' intra-day and overnight limits.

The exposure of the Bank to currency risk is also restricted by the statutory limit on aggregate exposure enforced by the State Bank of Pakistan.

	2005		2004	
	Book value	Fair value	Book value	Fair value
Rupees in '000				
38. FAIR VALUE OF FINANCIAL INSTRUMENTS				
On-balance sheet financial instruments				
Assets				
Cash balances with treasury banks	24,788,625	24,788,625	19,708,523	19,708,523
Balances with other banks	9,716,206	9,716,206	3,194,776	3,194,776
Lending to financial institutions	27,050,493	27,050,493	-	-
Investments	56,917,363	55,732,901	35,427,596	34,760,986
Advances	118,639,706	118,639,706	88,838,824	88,838,824
Other Assets	4,231,957	4,231,957	2,543,622	2,543,622
	<u>241,344,350</u>	<u>240,159,888</u>	<u>149,713,341</u>	<u>149,046,731</u>

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

	2005		2004	
	Book value	Fair value	Book value	Fair value
Rupees in '000				
Liabilities				
Bills Payable	3,733,124	3,733,124	2,233,671	2,233,671
Borrowings from financial institutions	5,844,389	5,844,389	12,723,830	12,723,830
Deposits and other accounts	222,335,585	222,335,585	129,654,561	129,654,561
Subordinated loan	3,223,355	3,223,355	1,899,480	1,899,480
Liabilities against assets subject to finance lease	1,510	1,510	-	-
Other liabilities	5,016,967	5,016,967	2,518,399	2,518,399
	<u>240,154,930</u>	<u>240,154,930</u>	<u>149,029,941</u>	<u>149,029,941</u>
Off-balance sheet financial instruments				
Forward purchase of foreign exchange	<u>3,224,283</u>	<u>3,195,895</u>	<u>8,947,317</u>	<u>8,959,825</u>
Forward sale of foreign exchange	<u>4,738,140</u>	<u>4,683,657</u>	<u>5,351,909</u>	<u>5,334,423</u>

39. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Provision against non performing loans and advances and receivables

The Group reviews its loan portfolio to assess amount of non performing loans and advances and provision required there against on a quarterly basis. The provision is made in accordance with prudential regulations issued by State Bank of Pakistan. The forced sale values are estimated by independent valuations of the assets mortgaged/pledged. The provision will change due to changes in prudential regulations relating to increased percentage against substandard debts and increased discounting of forced sale values.

(b) Classification of Investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, or available for sale.

Held to maturity

The Group follows the guidance provided in the State Bank of Pakistan's (SBP) circulars and International Accounting Standards on classifying non-derivatives financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

Held for trading

Classification of investments as held for trading depends on the criteria let by the pronouncement of SBP vide its circular and International Accounting Standards and how management monitor the performance of these investments and have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the financial statements.

Available for sale

All other investments are classified as available for sale.

(c) Valuation of unquoted equity investments

The Group estimates impairment to the investment in unquoted equity securities based on factors such as:

- the expected cash flows discounted at current rates applicable for items with similiar terms and risks
- characteristics;
- Break-up value of unquoted equity investments;
- Other valuation models.

(d) Income taxes

In making the estimates for income taxes currently payable by the Group, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past. There are various matters where Group's view differs with the view taken by the income tax department and such amounts are shown as contingent liability.

40. CONCENTRATION OF CREDIT AND DEPOSITS

Credit risk management

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparts failed to perform as contracted. The Group has built-up and maintained a sound loan portfolio in terms of well-defined Credit Policy approved by the Board of Directors. It's credit evaluation system comprises of well-designed credit appraisal, sanctioning and review procedures for the purpose of emphasizing prudence in its lending activities and ensuring quality of asset portfolio. Special attention is paid by the management in respect of non-performing loans. A separate Credit Monitoring Cell (CMC) is operational at the Head Office. A "watchlist" procedure is also functioning which identifies loans showing early warning signals of becoming non-performing.

The Group constantly monitors overall credit exposure and takes analytical and systematic approaches to its credit structure categorized by group and industry. The credit portfolio is well diversified sectorally with manufacturing and exports accounting for the bulk of the financing which is considered to be low risk due to the nature of underlying security.

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

40.1 Segment by class of business

	2005					
	Deposits		Advances		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agribusiness	1,531,047	0.69	4,039,016	3.40	335,298	0.80
Automobile and transportation equipments	4,946,577	2.22	4,518,216	3.81	1,625,303	3.88
Chemical and pharmaceuticals	1,523,142	0.69	1,808,180	1.52	1,558,254	3.72
Cement	695,187	0.31	1,649,374	1.39	2,408,408	5.75
Communication	7,193,318	3.24	896,358	0.76	1,834,689	4.38
Electronic & electrical appliances	696,027	0.31	1,638,143	1.38	1,583,488	3.78
Educational institutes	3,352,905	1.51	593,985	0.50	54,111	0.13
Financial	10,916,238	4.91	2,752,723	2.32	2,812,608	6.71
Fertilizers	4,479,942	2.01	460,735	0.39	588,771	1.40
Food & allied products	997,532	0.45	3,137,503	2.64	210,956	0.50
Glass & ceramics	99,589	0.04	259,746	0.22	547,892	1.31
Ghee & edible oil	656,963	0.30	901,559	0.76	541,273	1.29
Housing societies / trusts	2,961,424	1.33	1,036,194	0.87	7,997	0.02
Insurance	1,409,691	0.63	91,549	0.08	100,664	0.24
Import & export	1,924,628	0.87	3,709,434	3.13	463,524	1.11
Iron / steel	1,987,071	0.89	1,600,289	1.35	1,878,505	4.48
Oil & gas	7,973,068	3.59	1,201,261	1.01	4,663,088	11.13
Paper & board	427,124	0.19	339,081	0.29	1,739,181	4.15
Production and transmission of energy	21,180,290	9.53	731,283	0.62	2,450,859	5.85
Real estate / construction	7,383,895	3.32	2,805,210	2.36	1,245,080	2.97
Retail / wholesale trade	3,744,262	1.68	4,732,230	3.99	1,125,326	2.68
Rice processing and trading	482,484	0.22	3,302,822	2.78	26,204	0.06
Sugar	1,018,299	0.46	1,610,618	1.36	127,442	0.30
Shoes & leather garments	725,846	0.33	574,884	0.48	135,431	0.32
Sports goods	61,105	0.03	295,144	0.25	5,596	0.01
Surgical goods	34,871	0.02	98,958	0.08	43,358	0.10
Textile spinning	1,446,926	0.65	11,586,298	9.77	1,676,105	4.00
Textile weaving	1,052,664	0.47	4,545,694	3.83	1,059,366	2.53
Textile composite	1,463,777	0.66	8,137,774	6.86	1,437,132	3.43
Welfare institutions	4,072,286	1.83	663,669	0.56	8,988	0.02
Individuals	71,709,117	32.25	28,674,505	24.17	1,622,044	3.87
Others	54,188,290	24.37	20,247,271	17.07	7,997,427	19.08
	222,335,585	100.00	118,639,706	100.00	41,914,368	100.00

40.2 Segment by sector

Public / Government	64,102,676	28.83	6,917,284	5.83	6,514,819	15.54
Private	158,232,909	71.17	111,722,422	94.17	35,399,549	84.46
	222,335,585	100.00	118,639,706	100.00	41,914,368	100.00

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

41. GEOGRAPHICAL SEGMENT ANALYSIS

	2005			
	Profit before taxation	Total asset employed	Net assets employed	Contingencies and commitments
	----- (Rupees in '000) -----			
Pakistan	2,021,141	244,630,227	5,786,596	41,387,719
Asia Pacific (including South Asia)	13,550	3,592,118	1,305,903	526,649
	<u>2,034,691</u>	<u>248,222,345</u>	<u>7,092,499</u>	<u>41,914,368</u>

42. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include major shareholders, associated companies with or without common directors, retirement benefit funds and directors and key management personnel and their close family members.

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 (i.e. under the comparable uncontrolled price method).

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. Remuneration to the executives are determined in accordance with the terms of their appointment.

Details of transactions with related parties and balances with them excluding those entered into with directors / executives as per their terms of employment as at the year-end were as follows:

	2005	2004
	Rupees in '000	
42.1 Financing		
With associated company - Warid Telecom (Private) Limited		
Balance at the beginning of the year	-	-
Disbursements during the year	34,559	-
Repayments during the year	(2,590)	-
Balance at the end of the year	<u>31,969</u>	<u>-</u>
These accounts are of current nature which are subject to variations.		
42.2 Deposits		
<i>With associated company - Warid Telecom (Private) Limited</i>		
Balance at the beginning of the year	-	-
Placements during the year	12,040,037	-
Withdrawal during the year	(11,382,048)	-
Balance at the end of the year	<u>657,989</u>	<u>-</u>

CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

	2005	2004
	Rupees in '000	
<i>With other related party</i>		
Balance at the beginning of the year	9,897	3,448
Placements during the year	2,928,740	1,051,634
Withdrawal during the year	(2,921,879)	(1,045,185)
Balance at the end of the year	16,758	9,897
<i>With associated companies</i>		
Commission income from Warid Telecom (Private) Limited	9,559	-
Investment in Alfalah GHP Value Fund	100,000	-
<i>With key management personnel and benefit plans</i>		
Remuneration paid to Chief Executive Officers	17,445	11,101
Contribution to employee provident fund	54,039	34,014

42.3 There are no loans and advances to directors and related parties, except to the extent described above and in note 11.6.1.

43. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 25, 2006 by the Board of Directors of the Bank.

44. GENERAL

Figures have been rounded off to the nearest thousand rupees except stated otherwise.

Chief Executive Officer

Director

Director

Chairman

**STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES
OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2005**

(Rupees in '000)

S. No.	Name and address of the Borrower	Name of individuals / partners / directors (with N.I.C. No.)	Father's / Husband's Name	Outstanding Liabilities at January 1, 2005				Principal written-off	Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
1	Khurshid Brothers (Pvt) Ltd 182, Circular Road Faisalabad	Khurshid Alam NIC# 33100-6487812-9 Tanveer Ahmed NIC# 35201-1485172-9 Naseer Ahmed NIC# 35202-2808856-9	S/o Mohammad Rafiq S/o Mohammad Rafiq S/o Mohammad Rafiq	2,433	-	-	2,433	1,146	-	-	1,146
2	Hilite Industries KDLB Building, 2nd Floor 58, West Wharf Road Karachi	Khurshid Alam NIC# 33100-6487812-9 S.Z.Rehman	S/o Mohammad Rafiq Not Available	8,232	-	-	8,232	1,606	-	-	1,606
3	Hytex Industries 20, Main Chambers Sharah-e-Laquat, Karachi	Tanveer Ahmed NIC# 35201-1485172-9	S/o Mohammad Rafiq	4,966	-	-	4,966	727	-	-	727
4	National Cotton Textile (Pvt) Ltd Room no 17, 7th Floor, M.A.Jinnah Road, Karachi	S.M Tariq Saigal NIC# 42301-6562907-1 Sami Ahmed Qadri NIC # N/A Zafar Ahmed NIC # N/A	S/o Imam Ellahi Saigal Not Available Not Available	4,812	-	-	4,812	4,132	-	-	4,132
5	N.F Enterprises 1st Floor, PIDC House Dr. Ziauddin Ahmed Road Karachi	Mohammad Farooq NIC # N/A	Not Available	1,050	-	-	1,050	1,050	-	-	1,050
6	Zeenat Textile Mills Limited 705/711, Mohammadali House, LI Chundrigar Road, Karachi	Sh. Khurshid Anwer Sh. Naseem Anwer Naim Anwer Haji Mohammad Sadiq Mrs. Zarina Bano Mrs. Zakia Bequm Mrs. Safia Bano	Not Available Not Available Not Available Not Available Not Available Not Available	4,222	-	-	4,222	4,222	-	-	4,222
7	Global Produce Limited 36-A, Lazzar Drive, Opp Beach Luxury Hotel, M.T. Khan Road, Karachi.	Riaz Hussain Laljee Ibrahim Jan Mohammad Wadhumat Chakamal Mahmood Pfr Bhai	Not Available Not Available Not Available	66,358	-	-	66,358	66,358	-	-	66,358
8	Hassan Associates Room No 23, 3rd Floor Textile Plaza, M.A.Jinnah Road, Karachi	Syed Mehmood-ul-Hassan Sami Ahmed Qadri	Not Available Not Available	3,051	-	-	3,051	2,351	-	-	2,351
9	Bea Chemical Industries Ltd 1-C, Street - 48, F - 7/4, Islamabad	Maqbool Elahi ANG Abbasi Zaigham M. Rizvi Mushaq Hussain Qureshi Naeem Rabbani Iqbal Rita Nazar Saleh Din Ghulam Ali M. Rashid Zahir	Not Available Not Available Not Available Not Available Not Available Not Available Not Available Not Available	10,897	-	-	10,897	10,897	-	-	10,897

**STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES
OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2005**

(Rupees in '000)

S. No.	Name and address of the Borrower	Name of individuals / partners / directors (with N.I.C. No.)	Father's / Husband's Name	Outstanding Liabilities at January 1, 2005				Principal written-off	Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
10	Mian Mohammad Ahmed (Group) F-5, Estate Avenue Road, S.I.T.E, Karachi			5							
A	Ahmed Enterprises Pvt Ltd	Late Mian Mohammad Ahmed Akber Mehmood Ahmed Ashgar Mehmood Ahmed Khurshed Ahmed Rizwan Ahmed Imran Ahmed Saeed Ahmed Anis Ahmed	Not Available Late Mian Mohammad Ahmed Late Mian Mohammad Ahmed Not Available Late Mian Mohammad Ahmed Late Mian Mohammad Ahmed Late Mian Mohammad Ahmed Late Mian Mohammad Ahmed	17,983	-	-	17,983	17,983	-	-	17,983
B	Ahmed Investment (Pvt) Ltd			1,375	-	-	1,375	1,375	-	-	1,375
C	Yousuf Hardware			7,510	-	-	7,510	7,510	-	-	7,510
11	A.A.S Real Estate	Ali Aslam Khan Sultan Mehmood Khan Sh. Mohammad Aslam NIC# 276-47-178605	Abdur Rehman Khan Abdur Rehman Khan Karim Bakhsh	1,001	-	-	1,001	701	-	-	701
12	G.A. Industries 31-A Temple Road, Lahore	Pervez Aamir Rasheed Masih Begum Gulshan Pervez Rafiq Hirqel	Ghulam Masih Hameed Masih Pervez Aamir Fazal Semoall	1,766	-	-	1,766	1,191	-	-	1,191
13	Choudhry Cables (Pvt) Ltd 3-C Zafar Ali Road, Gulberg-V, Lahore	Ch. Mohammad Qasim Mst. Sakamat Mushin Ch. Muhammad Akram Ch. Mohammad Azam	Haji Siraj Din W/o Ch. Mhd Qasim Haji Siraj Din Haji Siraj Din	14,117	2,034	-	16,151	9,117	2,035	-	11,152
14	Big Mak Foods 137-Industrial Estate, Kot Lakhpat, Lahore	Syed Javed Hassan NIC# 270-88-003349 Khalifa Syed Saifullah Khalifa Syed Iqbal Abbas Mrs. Shaheena Saifullah Khalifa Syed Mohsin Iqbal R.D. Durrani Aziz Alam Durrani Mrs. Rubina Durrani Ayaz Durrani Khalifa Syed Javed Iqbal Syed Sami Ullah	Syed Aziz Hassan Khalifa Syed Iqbal Hassan Khalifa Syed Iqbal Hassan W/o Khalifa Syed Iqbal Khalifa Syed Iqbal Hassan Khalifa Syed Iqbal Hassan R.D. Durrani R.D. Durrani R.D. Durrani Khalifa Syed Iqbal Hassan Khalifa Syed Iqbal Hassan	19,700	2,783	-	22,483	16,684	2,783	-	19,467
15	Shamma Wire and Cables 3-C Zafar Ali Road, Gulberg-V, Lahore	Ch Mohammad Qasim Mst Sakamat Muslim Ch. Mohammad Akram Ch. Mohammad Azam Mst. Nawaz Begum Ch. Ahmed Kaleem	Haji Siraj Din w/o Ch Mohammad Qasim Haji Siraj Din Haji Siraj Din Ch. Mohammad Azam Ch. Mohammad Azam	96,159	4,552	-	100,711	100,711	-	-	100,711
16	Hendrix (Pak) Ltd	Abdul Jabber Khan	Not Available	1,037	-	-	1,037	1,037	-	-	1,037
TOTAL				266,679	9,369	-	276,048	248,808	4,818	-	253,626

COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS

AS AT DECEMBER 31, 2005

Number of Share Holders	From	To	Number of Shares Held
272	1	100	15,447
3,437	101	500	1,249,089
1,029	501	1,000	975,741
6,093	1,001	5,000	10,255,943
213	5,001	10,000	1,726,962
71	10,001	15,000	912,092
55	15,001	20,000	1,010,134
39	20,001	25,000	922,217
21	25,001	30,000	592,218
10	30,001	35,000	329,251
17	35,001	40,000	660,105
13	40,001	45,000	561,723
20	45,001	50,000	994,950
12	50,001	55,000	626,506
13	55,001	60,000	746,198
5	60,001	65,000	317,500
5	65,001	70,000	341,332
8	70,001	75,000	598,015
6	75,001	80,000	457,523
2	80,001	85,000	165,700
1	85,001	90,000	86,623
4	90,001	95,000	373,498
14	95,001	100,000	1,400,000
1	100,001	105,000	102,500
5	105,001	110,000	546,998
2	110,001	115,000	224,000
1	115,001	120,000	118,748
3	120,001	125,000	375,000
1	130,001	135,000	135,000
1	135,001	140,000	140,000
3	140,001	145,000	431,500
5	145,001	150,000	749,450
2	155,001	160,000	315,398
1	165,001	170,000	169,500
2	170,001	175,000	350,000
6	175,001	180,000	1,072,750
3	180,001	185,000	546,925
2	195,001	200,000	400,000
2	200,001	205,000	403,500
2	240,001	245,000	487,000
4	245,001	250,000	1,000,000
3	255,001	260,000	778,250
2	260,001	265,000	526,000
1	280,001	285,000	282,000

COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS

AS AT DECEMBER 31, 2005

Number of Share Holders	From	To	Number of Shares Held
1	285,001	- 290,000	286,362
1	300,001	- 305,000	301,500
2	345,001	- 350,000	700,000
1	350,001	- 355,000	354,500
1	355,001	- 360,000	359,000
1	360,001	- 365,000	362,500
2	370,001	- 375,000	743,965
3	395,001	- 400,000	1,200,000
1	415,001	- 420,000	415,700
1	420,001	- 425,000	425,000
1	440,001	- 445,000	440,750
1	465,001	- 470,000	468,000
5	495,001	- 500,000	2,500,000
1	500,001	- 505,000	501,184
1	555,001	- 560,000	555,500
2	580,001	- 585,000	1,169,484
1	595,001	- 600,000	600,000
1	605,001	- 610,000	608,000
2	690,001	- 695,000	1,380,926
1	695,001	- 700,000	695,550
1	745,001	- 750,000	745,436
1	895,001	- 900,000	900,000
1	970,001	- 975,000	972,000
1	1,010,001	- 1,015,000	1,015,000
1	1,045,001	- 1,050,000	1,049,580
1	1,100,001	- 1,105,000	1,105,000
1	1,125,001	- 1,130,000	1,126,000
1	1,260,001	- 1,265,000	1,264,336
1	1,495,001	- 1,500,000	1,500,000
1	1,730,001	- 1,735,000	1,733,335
1	1,915,001	- 1,920,000	1,916,538
1	1,955,001	- 1,960,000	1,957,900
1	2,450,001	- 2,455,000	2,450,022
1	2,720,001	- 2,725,000	2,723,129
1	3,600,001	- 3,605,000	3,600,500
1	4,250,001	- 4,255,000	4,253,384
1	4,445,001	- 4,450,000	4,447,000
1	6,380,001	- 6,385,000	6,380,073
1	7,145,001	- 7,150,000	7,148,901
1	8,540,001	- 8,545,000	8,542,942
1	8,805,001	- 8,810,000	8,808,500
1	10,440,001	- 10,445,000	10,442,798
1	12,235,001	- 12,240,000	12,239,125
1	15,295,001	- 15,300,000	15,299,635
1	16,825,001	- 16,830,000	16,829,890
1	17,995,001	- 18,000,000	18,000,000
2	22,945,001	- 22,950,000	45,898,904
1	29,325,001	- 29,330,000	29,329,525
1	39,775,001	- 39,780,000	39,779,340
11,472			300,000,000

**COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS
AS AT DECEMBER 31, 2005**

Shareholder's Category	Number of Shareholders	Number of Shares Held	Percentage
Individuals	11,269	35,292,244	11.76
Foreigners	45	225,084,421	75.03
Financial Institutions	17	7,427,025	2.48
Insurance Company	7	298,500	0.10
Investment Company	6	201,575	0.07
Leasing Companies	2	510,000	0.17
Joint Stock Companies	110	14,147,850	4.72
Mutual Fund	3	536,000	0.18
Charitable Trusts	1	1,500	0.00
Others	12	16,500,885	5.50
	11,472	300,000,000	100.00

**COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS
AS AT DECEMBER 31, 2005**

	Shareholder's Category	Number of Shareholders	Number of Shares Held	Category wise No. of Shares Held	Percentage
1	Associated Companies, Undertakings and related Parties	1		70,000	0.02
	CDC - Trustee Alfalah GHP Value Fund		70,000		
2	NTI / ICP	1		100,000	0.03
	Investment Corporation of Pakistan		100,000		
3	Directors, Chief Executive Officer and their spouse and minor children	7		53,506,938	17.84
	H. E. Sheikh Hamdan Bin Mubarak Al Nahayan		30,098,353		
	Mr. Abdulla Nasser Hawaileel		20,613,519		
	Mr. Abdulla Khalil Al Mutawa		2,520		
	Mr. Khalid Mana Saeed Al Otaiba		15,000		
	Mr. Ikram ul-Majeed Sehgal		745,436		
	Mr. Nadeem Iqbal Sheikh		1,882,110		
	Mr. Mohammad Saleem Akhtar		150,000		
4	Executives	65		1,237,735	0.413
5	Public Sector Companies and Corporations	3		5,823,000	1.941
6	Banks, DFIs, NBFIs, Insurance Companies Modarabas & Mutual Funds	27		1,954,900	0.652
	Trading in shares by Directors, CEO, CFO & Company Secretary :			Shares Purchase 2005	Shares Sold 2005
	H. E. Sheikh Hamdan Bin Mubarak Al Nahayan (Director)			-	510,000
	Mr. Abdulla Nasser Hawaileel (Director)			1,000,500	-
	Mr. Mohammad Saleem Akhtar (CEO)			-	54,008
	Chief Financial Officer (CFO)			-	30,000
	Shareholders Holding Ten Percent or more				
	Total Paid Up Capital		300,000,000	Shares	
	10% of the Paid-up Capital of the Company		30,000,000	Shares	
			Holding	%	
	H. E. Nahayan Mabarak Al Nahayan		50,222,138	16.741	
	H. E. Sheikh Hamdan Bin Mubarak Al Nahayan		30,098,353	10.033	

BRANCH NETWORK

KARACHI

Main Branch

B.A. Building, LLChundrigar Road.
Phone : (021) 2414030-39
UAN No. : 111-777-786
Fax : 2417006, 2434181

Cloth Market Branch

Cochinwala Market, Luxmidas Street.
Phone : (021) 2401621-6 Fax : 2401627-2418896

Clifton Branch

World Trade Centre, Khayaban-e-Romi, Clifton.
Phone : (021) 5833778-82 Fax : 5879175

Shahrah-e-Faisal Branch

Fortune Centre, Shahrah-e-Faisal.
Phone : (021) 4313536-38 , 4522441, 4522460
Fax : 4313539

Jodia Bazar Branch

Gulzar Manzil, Jodia Bazar.
Phone : (021) 2532483-4, 2544816-20
Fax : 2532485

Korangi Industrial Area Branch

Aiwan-e-Sanat, Plot No.ST-4/2, Sector 23,
Korangi Industrial Area.
Phone : (021) 5065701-2 Fax : 5050653

M.A.Jinnah Road Branch

Plot No.23/1, Zelin Place (Habib Bank Building),
M.A.Jinnah Road/Abdullah Haroon Road.
Phone : (021)2750627-28,
Fax : 2750629

S.I.T.E. Branch

D-40, Estate Avenue, Siemens Chowrangi, S.I.T.E.
Phone : (021) 2581247, 2582114-6
Fax : 2582113, 2581247

North Karachi Industrial Area Branch

Sector 12-B, North Karachi Industrial Area,
Opp: Police Station Gabol Town.
Phone : (021) 6987644, 6986170 Fax : 6986051

Paper Market Branch

Plot No. S.R.7/23, Campbell Street, Paper Market.
Phone : (021) 2211353-58 Fax : 2211243

Gulshan-e-Iqbal Branch

Plot No.SB-15, Block 13-B, KDA Scheme No.24,
University Road, Gulshan-e-Iqbal.
Phone : (021) 4984851, 4984937, 4984904
Fax : 4984971

Karachi Stock Exchange Branch

18-20, Karachi Stock Exchange Building,
Stock Exchange Road.
Phone : (021) 2417515-19 Fax : 2418353

North Napier Road Branch

Surv. No. 35 / Sheet No. NP-10 (Old Surv.No.A26/5),
Napier Quarters.
Phone : (021) 2544021-24, 2540989
Fax : 2540066

Bahadurabad Branch

Prime Arcade, Shop No. 1-3,
Bahadur Shah Zafar Road, Bahadurabad.
Phone : (021) 4129677-81, 4128578-81
Fax : 4129676

Timber Market Branch

Ground Floor, Sur. No. 15, Siddique Wahab Road,
Lawrence Quarters.
Phone : (021) 2750635-9 Fax : 2750632

Defence Housing Authority Branch

Plot No.40 & 42 C,26th Commercial St. Phase V,
Defence Housing Authority.
Phone : (021) 5304145-49 Fax : 5304157

PECHS Branch

Shop No. 3, 154-S, Block-2, P.E.C.H.S.
Phone : (021) 4535861-2 4538423-24
Fax : 4314221

Federal 'B' Area Branch

C-28, Block - 13, Federal 'B' Area.
Phone : (021) 6803041, 6344700,5&6
Fax : 6803043

Eidgah Branch

45/1/2, Wadhmal Udharam Quarters,
Near Light House, M.A. Jinnah Road.
Phone : (021) 2217290-4 Fax : 2217244

Marriot Road Branch

Karachi Survey # 67, Sheet # M.R.1,
Murad Khan Road, Marriot Road.
Phone : (021) 2414138-40 & 2412080
Fax : 2412082

Hyderi (North Nazimabad) Branch

Plot # ST-4, Al-Burhan Circle Hyderi, Block 'E',
North Nazimabad.
Phone : (021) 6626066, 6626004
Fax : 6625402

BRANCH NETWORK

Gulistan-e-Jauhar Branch
30-31, Saima Classic Rashid Minhas Road.
Phone : (021) 4815926-27, 4815930
Fax : 4815924

Tipu Sultan Road Branch
Z-111-112, Adamjee Nagar, Tipu Sultan Road.
Phone : (021) 4398457-9 Fax : 4398456

DHA Phase-I Branch
114, 9th East Street, Phase-I,
Defence Housing Authority, Main Korangi Road.
Phone : (021) 5887571-73 Fax : 5887574

Hawksbay Road Branch
KB-28, Haji Ishaq Market, Main Hawksbay Road,
Opp. Quaid-e-Azam New Truck Stand
Phone : (021) 2355871, 2355872 Fax : 2355873

Shershah Branch
D-283, Main Shershah Road, S.I.T.E.
Phone : (021) 2585001-4 Fax : 2585005

Malir Cantt. Branch
Old Malir Cantonment Library,
Cantt Bazar, Malir Cantt.
Phone : (021) 4904601 Fax : 4904602

Tariq Road Branch
124/A, Block 2, P.E.C.H.S, Main Tariq Road
Phone : (021) 4386052-5 Fax : 4386056

Landhi Branch
Area 5-D, Sector 36-E, Landhi Township
Phone : (021) 5034451-3 Fax : 5030875

HYDERABAD
Plot No.476/1 & 476/2,
adjacent to Hotel Faran, Saddar.
Phone : (0221) 786020-22, 784242 Fax : 786023

SUKKUR
B-2823/B-2851, Frere Road, Sarafa Bazar.
Phone : (071) 28173-75, 24753, 24750
Fax : 28176

NAWABSHAH
Municipal Office Chowk, Katchery Road
Phone : (0244)330721-28 Fax : 330729

QUETTA

M.A. Jinnah Road Branch
Property No.2-12(1), M.A.Jinnah Road.
Phone : (081) 2841057, 2841180-83
Fax : 2827562

Hazar Gunji Branch
Plot No. 332, 333, 334, Truck Stand, Hazar Gunji.
Phone : (081) 2460520 Fax : 2460519

Cloth Market Branch
Cut Piece Cloth Market, Shahrah-e-Iqbal
Phone : (081) 4003849 Fax : 2821636

CHAMAN

Trunch Road,
Phone : (0826) 613440, 612541 Fax : 613488

GAWADAR

Gawadar Palace Motel, Airport Road.
Phone : (0864) 211796-98 Fax : 210185

MIRPURKHAS

Plot # 854/7, Adam Town, Main Mmerkot Road,
Phone : (02338) 74466, 74686 Fax : 75127

LAHORE

LDA Plaza Branch
LDA Plaza, Kashmir Road.
Phone : (042)6306201-06 Fax : 6307836, 6368905

Gulberg Branch
125/E-I, Gulberg-III, Main Boulevard.
Phone : (042) 5877800-8 Fax : 5754900, 5877807

Defence Branch
G-9, Commercial Area, Phase-I, LCCHS.
Phone : (042) 5729772-6, 5729722-26
Fax : 5729727, 5733591

Circular Road Branch
A-43/A, Opp: Mazar Hazrat Shah Mohammad Ghous, Circular Road.
Phone : (042) 7638256-8 Fax : 7653384

Township Branch
47-B/1, Block 10, Akbar Chowk, Township.
Phone : (042) 5152833-6 Fax : 5113716

BRANCH NETWORK

Badami Bagh Branch
29-30 PECO Road, Badami Bagh.
Phone : (042) 7704961-66
Fax : 7728636, 7728074

Allama Iqbal Town Branch
36, College Block, Allam Iqbal Town.
Phone : (042) 5432961-5 Fax : 5432960

Shah Alam Market Branch
Hilal-e-Ahmar Health Complex, Shah Alam Market.
Phone : (042) 7673401-6 Fax : 7673409

Shadman Market Branch
Shop No. 2, Ground Floor,
Business Centre, Shadman Market.
Phone : (042) 7538116-20
Fax : 7538128

Tufail Road Branch
50/3, Tufail Road.
Phone : (042) 6689016-19 Fax : 6688374

Lahore Stock Exchange Branch
Basement Level - 2, Lahore Stock Exchange Building,
19, Khayaban-e-Iqbal.
Phone : (042) 6307461-69 Fax : 6307460

Baghbanpura Branch
G.T. Road, Baghbanpura.
Phone : (042) 6844002-09 Fax : 6844010

Ravi Road Branch
13 Ravi Raod.
Phone : (042) 7708661-65 Fax : 7708660

Liberty Branch
10-C, Commercial Area, Liberty Market,
Gulberg-III.
Phone : (042) 5756288 & 5756355 Fax : 5755226

Raiwind Road Branch
Thoker Niaz Beg, Raiwind Road.
Phone : (042) 5431802-05 Fax : 5431806

Shahdin Manzil Branch
Shahdin Manzil, Faysal Chowk, Mall Road.
Phone : (042) 6012000-30, 6300581, 6300586
Fax : 6300589

DHA Extension Branch
Divine Centre, Near Bhatta Chowk, New Airport Road, Lahore Cantt
Phone : (042) 5700301-309 Fax : 5700311

Azam Cloth Market Branch
Raheem Centre, Akbar Block, Azam Cloth Market
Phone : (042) 7665526, 7643851-55
Fax : 7643860

Shad Bagh Branch
37, Umer Din Road, Wassanpura
Phone : (042) 7616252-56 Fax : 6260295

Ferozpur Road Branch
18-KM Main Ferozpur Road
Phone : (042) 5807812-14 Fax : 5807811

Shahdara Branch
Main G.T. Road, Shahdara Chowk
Phone : (042) 7900290 Fax : 7900291

Walton Road Branch
E-28/A, Main Walton Road
Phone : (042) 6687390 Fax : 6687391

Urdu Bazar Branch
Main Kabir Street
Phone : (042) 7210644 Fax : 7210647

ISLAMABAD

Blue Area Branch
1-B, Awan Arcade, Jinnah Avenue, Blue Area.
Phone : (051) 2206986-7
Fax : 2279897, 2274766

I-10 Markaz Branch
4-A, I-10 Markaz
Phone : (051) 4435804-6 Fax : 4435807

F-7 Markaz Branch
5-A, Markaz F-7
Phone : (051) 2653959-63 Fax : 2653964

Stock Exchange Branch
101-W, Waqas Plaza, Blue Area
Phone : (051) 2804102-104 Fax : 2804106

F-10 Markaz Branch
4-D, Urfi Centre
Phone : (051) 2809703 Fax : 2809700

RAWALPINDI

The Mall Branch
8, The Mall
Phone : (051) 5566084-6 Fax : 5584213, 5567462

Satellite Town Branch
B/20, North Star Plaza, Satellite Town, Murree Road.
Phone : (051) 4424080-6 Fax : 4424087

Jinnah Road Branch
A-351, Jinnah Road (Old City Saddar Road).
Phone : (051) 5775325-8 Fax : 5775324

BRANCH NETWORK

Lalazar Branch
Tulsa Road, Lalazar
Phone : (051) 3007067-68 Fax : 5568977

Chaklala Branch
59, Shah Plaza, Commercial Area,
Chaklala Scheme III
Phone : (051) 5766003-4 Fax : 576605

College Road Branch
E/20-26, College Road
Phone : 051-5762008, 5762010 Fax : 5762007

WAH CANTT

4-1/100, Officers Colony, The Mall.
Phone : (0514) 539426-28 Fax : 511980

FAISALABAD

Main Branch
Ground Floor, State Life Building, Liaquat Road.
Phone : (041) 617436-9 Fax : 617432, 640834

Peoples Colony Branch
237-B, Commercial Area, D-Ground,
Peoples Colony No. 1.
Phone : (041) 8722636-39
Fax : 8722184

Susan Road Branch
25-Z-101, Susan Road, Madina Town
Phone : (041) 8556673-75 Fax : 8556679

Rail Bazar Branch
Property No. P-81, Rail Bazar
Phone : (041) 2540801-2 Fax : 2540803

Yarn Market Branch
P-229, Tikka Gali No. 2,
Yarn Market, Montgomery Bazar
Phone : (041) 2621486 Fax : 2621487

Minerva Road Branch
Shops No. 16 & 17, Golden Market,
New Grain Market Menerva Road
Phone : (041) 2540763-5 Fax : 2540759

PESHAWAR

Peshawar Cantt. Branch
6/38/L-Islamia Road.
Phone : (0915) 5287051-7 Fax : 5287058

Peshawar City Branch
Park Inn Hotel Building,
Khyber Bazar, Peshawar City.
Phone : (0915) 2551794, 2590023-27
Fax : 2551380

Hayatabad Jamrud Road
Shop No. B-29 & 30, J.B. Plaza, Karkhano Market
Phone : (0915) 5822902-5 Fax : 5822908

G.T. Road Branch
1045-1046, Hashtnagri,
Opp: Sarhad Chamber of Commerce, G.T. Road
Phone : 091-2593003 Fax : 2593001

ATTOCK

Zila Council Plaza, Katchery Chowk
Phone : (057) 2701568, 2701557-58
UAN : 111-777-786 Fax : 2700248

HUNGU

Saif-ur-Rehman Market, Opp:
DCO Bungalow, Kohat Road, Main Bazar
Phone : (0925) 624641-43 Fax : 624644

MULTAN

Abdali Road Branch
62-A, Abdali Road.
Phone : (061) 4546792-6 Fax : 4570233, 4540970

Vehari Road Branch
618/B, Vehari Road.
Phone : (061) 6244492-95 Fax : 6244496

Hussain Agahi Branch
Hussain Agahi Road
Phone : (061) 4577242, 457725 Fax : 4577232

Chowk Shaheedan Branch
Akbar Road, Chowk Shaheedan
Phone : (061) 4579021-23, 4588807
Fax : 4579024

SIALKOT

40/A, Paris Road.
Phone : (0432) 590098, 591741
Fax : 591742, 593210

RAHIM YAR KHAN

City Centre Complex, Shahi Road.
Phone : (068) 5879880-1, 5885970 Fax : 5879882

GUJRANWALA

B XII-7S-145, Krishan Nagar. G.T. Road.
Phone : (055) 3859931-3, 3847031-33
Fax : 3856471, 3255295

SAHIWAL

183-Sarwar Shaheed Road.
Phone : (040) 4467691-95 Fax : 4467696

BRANCH NETWORK

SARGODHA

Block # 5, Liaquat Road,
Opp: Jamia Mosque Hamid Ali.
Phone : (0451) 724138-9 Fax : 724193

GUJRAT

15/231, Circular Road, Opp: Rampair Mahal
Phone : (053) 3530071-3530219 Fax : 3530319

MARDAN

C-929 to 932 & C-662, Ex-Arif Hotel Building,
Bank Road.
Phone : (0931) 73631-3 Fax : 73733

BAHAWALPUR

Ground Floor, Bdg. No. V/912, Circular Road.
Phone : (062) 2889922-5 Fax : 889874

CHINIOT

1-A, Shahrah-e-Quaid-e-Azam
Phone : (047) 6000712 Fax : 6331322

DASKA

Gujranwala Road
Phone : (052) 6616834-35 Fax : 6619650

HAFIZABAD

BV-BS-26, Railway Road
Phone : (0547) 540801 Fax : 540804

CHICHAWATNI

1-Railway Road, Rai House,
Chichawatni District Sahiwal
Phone : (0405) 487802-6 Fax : 487807

ARIFWALA

47/D, Zain Palace, Qaboola Road
Phone : (0457) 835711-12-13 Fax : 835717

PAKPATTAN

Main College Road
Phone : (0457) 76020-22 Fax : 76024

DERA GHAZI KHAN

24-Block # 15, Liaquat Bazar.
Phone : (064) 2468201-6 Fax : 2468104

MINGORA, SWAT

Khasra No.95, Makan Bagh, Saidu Sharif Road,
Opposite PTCL Office.
Phone : (0946) 726745-6, 726740-4 Fax : 726747

JHELUM

Bungalow No.67, Kazam Kamal Road.
Phone : (0541) 610162, 610172, 610182
Fax : 610050

MIAN CHANNU

Ghazi Morr, G.T. Road.
Phone : (065) 2665301-4 Fax : 2665383

SHEIKHUPURA

Main Lahore-Sargodha Road.
Phone : (056) 3767970-4 Fax : 3614976

DERA ISMAIL KHAN

Plot # 3666-B, Kashmir Chowk, North Circular Road,
Phone : (0961) 720606-10 Fax : 720612

OKARA

Plot No. 14, Sahiwal Road.
Phone : (0442) 550418-22 Fax : 550423

ABBOTTABAD

191, Supply Bazar, Main Mansehra Road.
Phone : (0992) 344723-6 Fax : 344728

JHANG

9-D, Yousuf Shah Road, Jhang Saddar.
Phone : (0471) 624701-3 Fax : 624704

TOBA TEK SINGH

105-Farooq Road, Mohallah Jamia Masjid.
Phone : (0462) 517837-9 Fax : 517841

BUREWALA

95-C, Al-Aziz Market, College Road.
Phone : (067) 3771901-4 Fax : 3771905

BRANCH NETWORK

KOHAT

Bannur Road, Kohat Cantt.
Phone : (0922) 522791-7 Fax : 522798

SADIQABAD

28-29 D, Allama Iqbal Road.
Phone : (068) 5802501-4 Fax : 5802704

MANDI BHAUDDIN

17/207 Alvi Plaza,
Alvi Hospital Chowk, Phalia Road.
Phone : (0546) 520921-23 Fax : 507886

LALA MUSA

G.T. Road.
Phone : (053) 7518068, 7518368,
7518370, 7518780
Fax : 7518070

AHMEDPUR EAST BRANCH

Plot # 188, Block XI, Kutchery Road
Phone : (062) 2275504-8 Fax : 2275503

DAHARKI

446, National Highway
Phone : (0723) 641255, 641355, 641217
Fax : 644040

GHOTKI

1-13, Station Road
Phone : (0723) 684404, 684483, 684432
Fax : 684296

HAROONABAD

15-C/16-C, Ghalla Mandi
Phone : (063) 2256457 Fax : 2256458

HASILPUR

37-C, Committee Bazar
Phone : (062) 2448078, 2448090, 2448075
Fax : 2441071

KHARIAN

1, Rizwan Plaza, Main G.T. Road
Phone : (053) 7536241-43 Fax : 7536245

GILGIT

Shahrah-e-Quaid-e-Azam,
Near Radio Station, Jutial
Phone : (05811) 51904-07 Fax : 51903

CHAKWAL

City Trade Centre, Tehsil Chowk, Rawalpindi Raod
Phone : (0543) 555206-218 Fax : 555220

BHALWAL

Liaqat Shaheed Road,
Phone : (048) 6643709-6644863 Fax : 6624647

KASUR

Shop No. 8-12,
Adjacent to Mazar Hazrat Baba Bulley Shah,
Rail Road
Phone : (0492) 765218-9 Fax : 770890

ISLAMIC BANKING BRANCHES

Uni-Tower, Karachi
213 - Uni-Towers, I.I.Chundrigar Road.
Phone : (021) 2472295-8 Fax : 2472141

Shahrah-e-Faisal, Karachi
Faiyaz Centre, Shahrah-e-Faisal.
Phone : (021) 4313580, 4315271-4
Fax : 4313581

Main Branch, Lahore
66-Main Boulevard, Gulberg.
Phone : (042) 5715241-5 Fax : 5715249

McLeod Road, Lahore
Abid Plaza, 13, McLeod Road.
Phone : (042) 7211631-5 Fax : 7211640

New Garden Town, Lahore
Awami Complex Block # 1, New Garden Town.
Phone : (042) 5846374-85 Fax : 5846386

Y Block, Lahore
93-Y, Commercial Area, Phase III,
Defence Housing Authority.
Phone : (042) 5746191-5 Fax : 5746190

Johar Town, Lahore
69-R-I, M.A. Johar Town.
Phone : (042) 5313401-05 Fax : 5313406

BRANCH NETWORK

Jinnah Avenue, Islamabad
8-E, REDCO Plaza, Jinnah Avenue, Blue Area.
Phone : (051) 2879580-4 Fax : 2879589

Cantt. Rawalpindi
125-D, Murree Road.
Phone : (051) 5795184-88 Fax : 5795189

Kutchery Bazar Faisalabad
P-36, Kutchery Bazar.
Phone : (041) 603021-5 Fax : 603028

Medical College Road, Faisalabad
1-Ramana, Opp: Punjab Medical College, Jail Road.
Phone : (041) 8581602-04 Fax : 8581582

Gujranwala
Faisal Arcade G.T. Road.
Phone : (055) 4557301-05 Fax : 4557310

Multan
2, Bosan Road.
Phone : (061) 750941-5 Fax : 750885

Peshawar
Jamrud Road.
Phone : (0915) 5701385-89 Fax : 5701392

Sialkot
Ali Building, Khadim Ali Road.
Phone : (052) 3241302-5 Fax : 3241306

OVERSEAS BRANCH

BANGLA DESH

DHAKA

Dhaka Branch
5-Rajuk Avenue, Motijheel C.A.
Phone : (008802) 7168821-05 Fax : 9557413

Gulshan Branch
168, Gulshan Avenue,
Gulshan North, Dhaka 1212, Bangladesh
Phone : 0088 20 8861848, 8861704
Fax : 8850714

CHITTAGONG

Agrabad Branch
57, Agrabad, Chittagong, Bangla Desh

AFGHANISTAN

KABUL

Kabul Branch
410, Chahrahi-e-Sadarat, Shah-e-Nau
Phone : (009375) 2004105-10 Fax : 2002142

FORM OF PROXY

Folio/CDC Account No.

I/We _____
of _____ being member(s) of
BANK ALFALAH LIMITED ("the Bank"), holding _____ ordinary
shares, hereby appoint _____
of _____ or failing
him/her _____
of _____, who is also a
member of the Bank, as my/our proxy to vote for me/ us, and on my/our behalf at the **14th**
Annual General Meeting of the Bank to be held on **Wednesday, March 29, 2006** and at
any adjournment thereof.

As witness my/our hand this _____ day of _____, 2006.

Witness:

Name: _____

CNIC No/Passport No.: _____

Address: _____

(Member's signature on
Rs. 5/- Revenue Stamp)

1. A member entitled to attend, and vote at the Meeting is entitled to appoint another member as a proxy to attend, speak and vote on his/her behalf. A corporation being a member may appoint as its proxy any of its official or any other person whether a member of the Bank or otherwise.
2. An instrument of proxy and a Power of Attorney or other authority (if any) under which it is signed, or notarized copy of such Power of Attorney must be valid and deposited at the Share Registrar of the Bank, M. Yousuf Adil Saleem & Associates (Pvt) Ltd., 2nd Floor, Suzaka Chamber, Block 7 & 8, KCHSU, Shahra-e-Faisal, Karachi-75350. not less than 48 hours before the time of the Meeting.
3. In case of proxy for an individual beneficial owner of CDC, attested copy of beneficial owner's National Identity Card, Account and Participant's ID numbers must be deposited alongwith the form of proxy with the Share Registrar. The proxy must produce his/her original identity card at the time of the Meeting. In case of proxy for corporate members, he/she should bring the usual documents required for such purpose.





**AFFIX
CORRECT
POSTAGE**

BANK ALFALAH LIMITED

Share Registrar

M. Yousuf Adil Saleem & Associates (Pvt.) Ltd.

Second Floor, Suzaka Chambers, Block-7 & 8,

KCHSU, Shakra-e-Faisal, Karachi-75350

Fold : Here

Fold : Here

Fold : Here

Fold : Here