

IN THE NAME OF ALLAH  
THE MOST GRACIOUS,  
THE MOST MERCIFUL

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## CORPORATE INFORMATION

(As at February 28, 2007)

### 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. Khalid Mana Saeed Al Otaiba	Director
Mr. Abdulla Khalil Al Mutawa	Director
Mr. Bashir A. Tahir	Member
Mr. Ganpat Singhvi	Member
Mr. M. Iftikhar 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

### Board Credit And Finance Committee

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

### Board Risk Management Committee

Mr. Khalid Mana Saeed Al Otaiba	Director
Mr. Abdullah Khalil Al Mutawa	Director
Mr. Ganpat Singhvi	Member
Mr. Bashir A. Tahir	Member
Mr. Shad Quraeshi	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

### Chief Operating Officer

Mr. Sirajuddin Aziz

### 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 15TH ANNUAL GENERAL MEETING

NOTICE is hereby given that the 15th Annual General Meeting of Bank Alfalah Limited will be held on Monday, 26th March 2007 at 11:00 AM at Ballroom "C" of Karachi Sheraton Hotel & Towers, Karachi, to transact the following business:

### ORDINARY BUSINESS:

1. To confirm the Minutes of the Extra-Ordinary General Meeting held on May 27, 2006 at Karachi.
2. To receive, consider and adopt the audited Annual Accounts and Consolidated Accounts of the Bank for the year ended December 31, 2006 together with the Directors' Report and Auditors' Report thereon.
3. To appoint Auditors of the Bank for the year 2007 and fix their remuneration.

### SPECIAL BUSINESS:

4. To approve as recommended by the Board of Directors, issue of bonus shares in the ratio of three (3) shares for every ten (10) shares held, i.e. 30%, and to pass the following resolution as an Ordinary Resolution:

"RESOLVED that as recommended by the Board of Directors, the paid-up capital of the Bank be increased by issue of 150 million fully paid Bonus Shares of Rs. 10/- each in the ratio of three (3) shares for every ten (10) shares held, i.e. 30%, to the shareholders whose names appear on the Register of Members as at close of business on 19th March 2007. These Bonus Shares shall rank pari passu in all respect with the existing shares of the Bank.

RESOLVED FURTHER that share premium amount of Rs. 1,000 million and unappropriated profit of Rs. 500 million be utilised for the same.

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 transact any other business with the permission of the Chair.

Karachi  
Dated: 3rd March 2007

BY ORDER OF THE BOARD  
Company Secretary

#### NOTES:

1. The Share Transfer Books of the Bank will remain closed from 20th March 2007 to 26th March 2007 (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/s. F D. Registrar Services (SMC-Pvt) Limited, 1700-A, 17th Floor, Saima Trade Towers, I.I. Chundrigar Road, Karachi, 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/s. F D. Registrar Services (SMC-Pvt) Limited

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

This statement sets out the material facts concerning the Special Business (given at agenda item No: 4) to be transacted at the 15th Annual General Meeting of the members of Bank Alfalah Limited to be held on 26th March 2007.

#### 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.

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

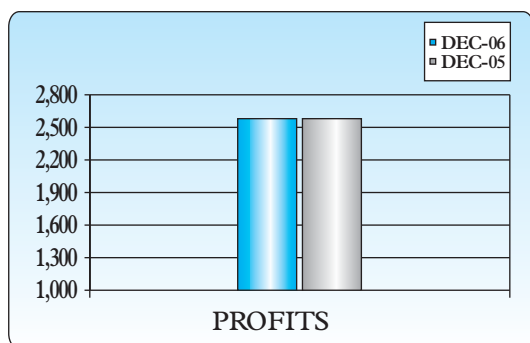
## DIRECTORS' REPORT TO THE SHAREHOLDERS

The Board of Directors is pleased to present the audited financial statements of the Bank for the year 2006.

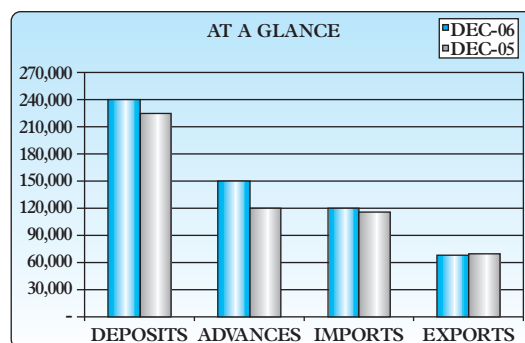
	2006	2005
	Rupees in '000	
<b>Profit before provision and Taxation</b>	3,263,635	2,965,588
Provisions	(697,690)	(402,298)
<b>Profit before Taxation</b>	<u>2,565,945</u>	<u>2,563,290</u>
Taxation	(803,254)	(861,196)
<b>Profit After Taxation</b>	<u><u>1,762,691</u></u>	<u><u>1,702,094</u></u>
Earnings per share	Rs. 3.86	Rs. 3.92

### Operating Results

Profit Before Tax



Rs. in Million



### Bonus Shares

The directors recommend the issue of fully paid bonus shares in the ratio of three shares for every ten shares held i.e. 30% subject to approval of the Shareholders. For the purpose an amount of Rs.1,000 million is proposed to be utilized from share premium account and further Rs. 500 million to be utilized from un-appropriated profit.

### Operating Results

During the year the bank's profit before provisions and tax stood at Rs. 3,263.635 million compared to Rs. 2,965.588 million the previous year registering an increase of 10%. This increase in profit is primarily attributable to overall increase in business volumes.

We continue to strengthen our presence in the market place and as of year end 2006, we have a nationwide network of 195 branches that includes 23 Islamic Banking branches, five overseas branches three in Bangladesh and two in Afghanistan and one offshore banking unit in Bahrain.

### Economic Overview

Pakistan's economy has continued to perform strongly over the last several years with economic growth accelerating to 8.4% in 2004-05, its fastest pace in two decades. The strong economic recovery since 2002-03 accompanied by macroeconomic stability has been underpinned by prudent macroeconomic policies, wide-ranging structural reforms, fiscal discipline and consistency and continuity in polices.

## DIRECTORS' REPORT TO THE SHAREHOLDERS

On the back of this strong economic recovery the fiscal year (2005-2006) was envisaged to consolidate the gains made over the last three years and also address the challenges of economic recovery.

### 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, 2006. 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, 2006 is:

Staff Provident Fund	Rs.552.040 million
Staff Gratuity Fund	Rs.201.309 million

- j) The number of Board meetings held during 2006 were 5 and attended by directors as under:

#### No. of Meetings attended

1. H. E. Hamdan Bin Mubarak Al Nahayan	3
2. Mr. Abdulla Nasser Hawaileel Al Mansoori	3
3. Mr. Abdulla Khalil Al Mutawa	5
4. Mr. Khalid Mana Saeed Al Otaiba	5
5. Mr. Mohammad Saleem Akhtar	5
6. Mr. Bashir A. Tahir	-
7. Mr. Ikram Ul-Majeed Sehgal	5

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

## DIRECTORS' REPORT TO THE SHAREHOLDERS

### Risk Management

In compliance with the requirements of the State Bank of Pakistan, Bank has in place an approved integrated risk management framework for managing credit risk, market risk, liquidity risk and operational risk as evidenced by its Board approved "Risk Management and Internal Control" manual and a dedicated Risk Management Division (RMD) has been created with the Head RMD reporting directly to the Chief Executive Officer. Risk Management Division has been structured to address Credit, Market and Operational risk and a team of suitable personnel have been hired.

The Board of Directors through its sub-committee called 'Board Risk Management Committee' (BRMC) oversees the overall risk of our Bank. The Risk Management Division (RMD) is the organizational arm performing the functions of identifying, measuring, monitoring and controlling the various risks and assists the BRMC and the various sub-committees in conversion of policies into action. As part of its mandate the Central Management Committee (CMC) is entrusted with overseeing the operational risk of the Bank..

The Bank has established a Treasury Middle Office to effectively monitor day-to-day trading activities of the dealing room. An independent risk review function exists at our Bank through our internal audit division that reports directly to the Board Audit Committee.

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 practices to enhance stakeholders' value.

### Corporate Social Responsibility

The bank as a responsible corporate citizen endeavors to fulfill its social obligations through effective contribution towards well being of society as a whole. Donations of Rs. 3.625 million have been made during the year mainly to the education and health services organizations

### 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 2007, we plan to open 67 more branches all over Pakistan which includes 17 Islamic Banking branches.

### 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 26, 2007  
Abu Dhabi



## EIGHT YEAR FINANCIAL SUMMARY

	1999	2000	2001	2002	2003	2004	2005	2006
	Restated							
<b>OPERATIONAL RESULTS</b>								
Total Income	2,096	2,531	3,700	5,246	7,425	7,140	14,515	24,416
Operating Expenses	403	511	744	1,184	1,803	2,679	4,344	5,918
Profit before Income Tax and Provision	218	304	510	948	3,593	2,026	2,966	3,264
Profit before Income Tax	354	400	524	895	3,506	1,654	2,563	2,566
Profit after Taxation	157	215	311	446	2,123	1,092	1,702	1,763
<b>BALANCE SHEET</b>								
Shareholders' Equity	895	901	1,362	1,616	3,753	4,369	6,738	10,573
Total Assets	21,019	28,855	40,098	65,167	98,952	154,835	248,314	275,686
Advances - net of provision	10,327	15,242	19,131	28,319	49,216	88,931	118,864	149,999
Investments - net of provision	4,993	4,875	11,397	24,470	28,904	35,503	57,416	56,502
Deposits and other accounts	15,821	20,482	30,207	51,685	76,698	129,715	222,345	239,509
<b>OTHERS</b>								
Imports	5,909	13,858	26,658	33,879	46,807	78,472	116,210	119,937
Exports	10,020	16,756	25,261	33,057	44,273	57,317	71,847	70,844
<b>RATIOS</b>								
Capital Adequacy %	13.52	8.35	9.56	8.70	8.45	8.16	8.66	9.48*
Profit before Tax ratio (PBT/Gross mark up income) %	18.60	17.70	15.45	19.67	86.92	29.43	20.93	12.11
Gross spread ratio (Net mark up income/gross mark up income) %	22.64	23.78	25.85	31.62	49.71	56.69	41.17	28.12
Income/Expense ratio Times	5.20	4.95	5.07	4.43	4.12	2.67	3.34	4.13
Return on Average Equity (ROE) %	17.90	23.94	27.49	29.95	79.08	26.89	30.65	20.37
Return on Average Assets (ROA) %	0.89	0.89	0.90	0.85	2.59	0.86	0.84	0.67
Advances/Deposits Ratio %	65.27	74.42	63.33	54.79	64.17	68.56	53.46	62.63
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.	14.92	15.01	18.15	16.16	18.77	17.48	22.46	21.15
Book value per share including revaluation of Assets Rs.	30.44	28.64	28.80	36.53	23.79	21.05	24.88	24.48
Basic Earnings per share Rs.	2.61	3.59	3.65	2.23	8.49	3.90	3.92	3.86
No. of Employees (other than outsourced) No.	564	695	959	1,504	2,133	3,352	5,218	6,543
* 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.

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

- xiv) The bank has complied with all the applicable corporate and financial reporting requirements.
- 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 six times during the year 2006.
- 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.
- xx) In November 2006 one of the Director of Bank tendered his resignation. The resultant casual vacancy in the office of Directors will be filled in the next Board Meeting.

For and on behalf of the Board

**Mohammad Saleem Akhtar**  
Director & Chief Executive Officer  
February 26, 2007  
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 systems 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  
February 26, 2007  
Karachi

## 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, 2006.

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 26, 2007  
Abu Dhabi

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Bank Alfalah Limited ("the Bank") as at December 31, 2006 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 5 overseas branches audited by auditors abroad and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

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

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting 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 domestic 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 except for the change as stated in note 6 to the financial statements, with which we concur;
  - (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 2006, 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  
February 26, 2007  
Karachi

# BALANCE SHEET

AS AT DECEMBER 31, 2006

	Note	2006	2005 Restated
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with treasury banks	8	27,859,360	24,798,070
Balances with other banks	9	12,731,952	9,713,369
Lendings to financial institutions	10	12,456,653	27,050,493
Investments	11	56,502,210	57,416,255
Advances	12	149,999,325	118,864,010
Operating fixed assets	13	10,502,990	6,620,067
Deferred tax assets		-	-
Other assets	14	5,633,051	3,851,529
		<u>275,685,541</u>	<u>248,313,793</u>
<b>LIABILITIES</b>			
Bills payable	15	3,091,135	3,733,124
Borrowings	16	8,394,130	5,844,389
Deposits and other accounts	17	239,509,391	222,345,067
Sub-ordinated loans	18	3,222,106	3,223,355
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	19	1,921,338	484,066
Other liabilities	20	7,305,496	5,219,666
		<u>263,443,596</u>	<u>240,849,667</u>
<b>NET ASSETS</b>		<u>12,241,945</u>	<u>7,464,126</u>
<b>REPRESENTED BY</b>			
Share capital	21	5,000,000	3,000,000
Reserves		2,749,533	1,851,218
Unappropriated profit		2,823,072	1,886,845
		<u>10,572,605</u>	<u>6,738,063</u>
Surplus on revaluation of assets	22	1,669,340	726,063
		<u>12,241,945</u>	<u>7,464,126</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	23		

The annexed notes 1 to 47 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Chairman

## PROFIT AND LOSS ACCOUNT

### FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006	2005 Restated
(Rupees in '000)			
Mark-up / Return / Interest Earned	25	21,191,470	12,246,811
Mark-up / Return / Interest Expensed	26	<u>15,232,886</u>	<u>7,204,992</u>
Net Mark-up / Interest Income		5,958,584	5,041,819
Provision against non-performing loans and advances	124	<u>(697,690)</u>	<u>(402,298)</u>
Provision for diminution in value of investments		-	-
Bad debts written off directly	12.5	<u>(1,537)</u>	<u>(512)</u>
		<u>(699,227)</u>	<u>(402,810)</u>
Net Mark-up / Interest Income after provisions		<u>5,259,357</u>	<u>4,639,009</u>
<b>NON MARK-UP / INTEREST INCOME</b>			
Fee, commission and brokerage income		<u>1,804,998</u>	<u>1,158,747</u>
Dividend income		37,393	52,014
Income from dealing in foreign currencies		386,997	290,091
Gain on sale of securities	27	180,751	239,551
Unrealized (loss) / gain on revaluation of investments classified as held for trading		<u>(27,599)</u>	<u>23,163</u>
Other income	28	<u>842,099</u>	<u>504,967</u>
Total Non-Mark-up / Interest Income		<u>3,224,639</u>	<u>2,268,533</u>
		<u>8,483,996</u>	<u>6,907,542</u>
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	29	<u>5,874,745</u>	<u>4,313,023</u>
Other provisions / write offs		-	10,125
Other charges	30	<u>43,306</u>	<u>21,104</u>
Total Non-Mark-up / Interest Expenses		<u>5,918,051</u>	<u>4,344,252</u>
		<u>2,565,945</u>	<u>2,563,290</u>
Extra ordinary / unusual items		-	-
<b>PROFIT BEFORE TAXATION</b>		<u>2,565,945</u>	<u>2,563,290</u>
Taxation	31		
- Current		<u>476,226</u>	<u>592,635</u>
- Prior years		<u>(100,874)</u>	<u>1,037</u>
- Deferred		<u>427,902</u>	<u>267,524</u>
		<u>803,254</u>	<u>861,196</u>
<b>PROFIT AFTER TAXATION</b>		<u>1,762,691</u>	<u>1,702,094</u>
Unappropriated profit brought forward		1,886,845	860,300
Transferred from surplus on revaluation of fixed assets - net of tax		26,074	24,870
Profit available for appropriation		<u>3,675,610</u>	<u>2,587,264</u>

(Rupees)

Basic / Diluted earnings per share	32	<u>3.86</u>	<u>3.92</u>
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The annexed notes 1 to 47 form an integral part of these financial statements.

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

\_\_\_\_\_  
Chairman



# CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006	2005
		(Rupees in '000)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		2,565,945	2,563,290
Less: Dividend income		(37,393)	(52,014)
		<u>2,528,552</u>	<u>2,511,276</u>
<b>Adjustments:</b>			
Depreciation		691,836	468,973
Amortization		16,660	14,397
Provision against non-performing advances		697,690	402,298
Unrealized loss / (gain) on revaluation of investments classified as held for trading		27,599	(23,163)
Provision against other assets		-	452
Bad debts written-off directly		1,537	512
(Gain) on sale of operating fixed assets		(12,999)	(4,309)
Provision for gratuity		62,797	46,637
		<u>1,485,120</u>	<u>905,797</u>
		<u>4,013,672</u>	<u>3,417,073</u>
(Increase) / Decrease in operating assets			
Lendings to financial institutions		16,393,628	(26,260,493)
Held-for-trading securities		(126,374)	(430,538)
Advances		(31,834,542)	(30,335,420)
Other assets - net of provision against other assets		(1,476,332)	(481,695)
		<u>(17,043,620)</u>	<u>(57,508,146)</u>
Increase / (Decrease) in operating liabilities			
Bills payable		(641,989)	1,499,453
Borrowings		2,549,741	(6,879,441)
Deposits and other accounts		17,164,324	92,630,176
Other liabilities		2,085,830	2,572,780
		<u>21,157,906</u>	<u>89,822,968</u>
		<u>8,127,958</u>	<u>35,731,895</u>
Gratuity paid		(62,797)	(46,637)
Income tax paid		(212,799)	(807,373)
Net cash flow from operating activities		<u>7,852,362</u>	<u>34,877,885</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investments in available-for-sale securities		(16,767,427)	(3,650,843)
Net investments in held-to-maturity securities		17,846,558	(17,172,695)
Investment in associated companies		(637,660)	(810,628)
Investment in subsidiary companies		(22,400)	(34,000)
Dividend income received		36,510	52,367
Investments in operating fixed assets		(2,501,170)	(2,827,988)
Proceeds from sale of operating fixed assets		28,360	9,364
Net cash used in investing activities		<u>(2,017,229)</u>	<u>(24,434,423)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Issue of sub-ordinated loans		-	1,324,615
Redemption of sub-ordinated loans		(1,249)	(740)
Proceeds from issue of right shares		2,000,000	999,600
Dividend paid		-	(360,000)
Net cash flow from financing activities		<u>1,998,751</u>	<u>1,963,475</u>
Effects of exchange rate changes in cash and cash equivalents		45,777	2,027
Increase in cash and cash equivalents		<u>7,879,661</u>	<u>12,408,964</u>
Cash and cash equivalents at beginning of the year		35,301,439	22,892,475
Cash and cash equivalents at end of the year	33	<u>43,181,100</u>	<u>35,301,439</u>

The annexed notes 1 to 47 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, 2006

	Share Capital	Share Premium	Statutory Reserve	Reserve for issue of Bonus Shares	Exchange Translation Reserve	Unappropriated Profit	Total
	------(Rupees in ' 000)-----						
Balance as at January 1, 2005	2,500,000	-	1,008,772	-	-	860,300	4,369,072
<b>Changes in equity for 2005</b>							
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	24,870	24,870
Exchange differences on translation of net investment in foreign branches	-	-	-	-	2,027	-	2,027
Profit after taxation for the year ended December 31, 2005	-	-	-	-	-	1,702,094	1,702,094
Total recognized income and expense for the year	-	-	-	-	2,027	1,726,964	1,728,991
Transfer to statutory reserve	-	-	340,419	-	-	(340,419)	-
Issue of right shares	500,000	500,000	-	-	-	-	1,000,000
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 as previously reported	3,000,000	-	1,349,191	1,000,000	2,027	1,386,845	6,738,063
Effect of change in accounting policy with respect to bonus shares declared after the balance sheet date - Note 6	-	500,000	-	(1,000,000)	-	500,000	-
Balance at December 31, 2005 as restated	3,000,000	500,000	1,349,191	-	2,027	1,886,845	6,738,063
Transfer to reserve for issue of bonus shares	-	(500,000)	-	1,000,000	-	(500,000)	-
Issue of bonus shares	1,000,000	-	-	(1,000,000)	-	-	-
<b>Changes in equity for 2006</b>							
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	26,074	26,074
Exchange differences on translation of net investment in foreign branches	-	-	-	-	45,777	-	45,777
Profit after taxation for the year ended December 31, 2006	-	-	-	-	-	1,762,691	1,762,691
Total recognized income and expense for the year	-	-	-	-	45,777	1,788,765	1,834,542
Transfer to statutory reserve	-	-	352,538	-	-	(352,538)	-
Issue of right shares	1,000,000	1,000,000	-	-	-	-	2,000,000
<b>Balance at December 31, 2006</b>	<u>5,000,000</u>	<u>1,000,000</u>	<u>1,701,729</u>	<u>-</u>	<u>47,804</u>	<u>2,823,072</u>	<u>10,572,605</u>

The annexed notes 1 to 47 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, 2006

## 1. STATUS AND NATURE OF BUSINESS

Bank Alfalah Limited is a banking company incorporated in Pakistan on June 21, 1992 as a public limited company under the Companies Ordinance, 1984. It commenced its banking operations on November 1, 1992. The Bank's registered office is at B.A. Building, I. I. Chundrigar Road, Karachi and is listed on the Karachi and Lahore Stock Exchanges. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962 and is operating through 166 conventional banking branches (2005: 128 branches) 5 overseas branches (2005: 4 branches), 23 Islamic banking branches (2005: 15 branches) and 1 offshore banking unit (2005: Nil).

## 2. BASIS OF PRESENTATION

In accordance with the Islamic Banking System, trade related mode of financing includes purchase of goods by the Bank from its customers and simultaneous re-sale to them at an appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such, but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

## 3. STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. 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, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, 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, vide its BSD Circular No.10 dated August 26, 2002, for banks in Pakistan till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

During the period, the Securities and Exchange Commission of Pakistan notified the Islamic Financial Accounting Standard 1 issued by the Institute of Chartered Accountants of Pakistan relating to accounting for murahaba transactions undertaken by the Bank. The said Standard is effective for financial statements of banks for the financial period beginning on or after 1 January 2006. The Bank has not adopted the above Standard as it considers that this Standard should be applicable to the dedicated Islamic banks preparing their financial statements in accordance with Islamic Financial Reporting Standard rather than to certain transactions carried out on an Islamic basis by Islamic Banking branches of traditional commercial banks. Further, the Bank also considers that adoption of the Standard may expose the Bank to certain additional tax liabilities which may need to be resolved before this Standard can be adopted.

## NOTES TO THE FINANCIAL STATEMENTS

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

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

IAS 1 - Presentation of Financial Statements - amendments relating to Capital disclosures.

IFRS 2 - Share based payments

IFRS 3 - Business Combinations

IFRS 5 - Non - current assets held for sale and discontinued operations.

IFRS 6 - Exploration for and evaluation of mineral resources

IFRIC 8 - Scope of IFRS 2 share based payments

IFRIC 9 - Reassessment of Embedded Derivatives

IFRIC 10 - Interim Financial Reporting and Impairment

IFRIC 11 - Group and Treasury Shares Transactions

IFRIC 12 - Services Concession Arrangements

### 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 the Bank's plan to remain competitive with the ever increasing competition in the local market and to 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, 2006, the Islamic Banking Division's assets were Rs. 23.496 billion and its liabilities were Rs. 21.622 billion. During 2006, Islamic Banking Division earned revenue of Rs. 1,362.884 million, incurred expenses of Rs. 1,215.086 million and earned a pre-tax profit of Rs. 147.798 million with a related tax expense of Rs. 53.299 million. During 2006, Islamic Banking Division's cash inflow from operating activities was Rs. 4,012.995 million, cash outflow from investing activities was Rs. 681.337 million, and cash inflow from financing activities was Rs. nil.

### 5. BASIS OF MEASUREMENT

5.1 These financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts, trading and available for sale investments and derivative financial instruments are measured at fair value.

5.2 The financial statements are presented in Pakistan Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to nearest thousand.

#### 5.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets, 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 forms the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year are discussed in note 40.

### 6. CHANGE IN ACCOUNTING POLICY

During the current year, the Bank has changed its policy whereby appropriations to the reserve for issue of bonus shares is now recognized in the period in which it is approved. Previously, the financial statements were adjusted for appropriations approved subsequent to the year-end. The change has been made to comply with the directive of the Institute of Chartered Accountants of Pakistan, through circular No. 06 of 19 June 2006. The change in accounting policy has been applied retrospectively and comparative information have been restated in accordance with the treatment specified by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). Had there been no change in accounting policy, the unappropriated profit for the year ended 31 December 2005 would have been lower and reserves as at that date would have been higher by Rs. 500 million respectively.

The effect of change in accounting policy has been reflected in the statement of changes in equity. However, the change in accounting policy has not resulted in any change in the profit for the current and previous years.

### 7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 7.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks, balances with other banks and call lendings for the purpose of the cash flow statement.

#### 7.2 Revenue recognition

Mark-up income and expense and profit on murabaha and musharika financing are recognized on a time proportion basis taking into account the effective yield on the instrument. Fee, commission and brokerage income except income from guarantees are accounted for on receipt basis.

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

Financing method is used in accounting for income from lease and ijarah financing. Under this method, the unrealized 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 the lease. Gains / losses on termination of leased contracts, documentation charges, front end fee and other lease income are recognized as income on receipt basis.

Unrealized lease income and mark-up / return on non-performing advances are suspended, where necessary, in accordance with the requirements of the Prudential Regulations of the State Bank of Pakistan and recognized on receipt basis.

#### 7.3 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 against domestic advances are made 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. Provisions pertaining to overseas advances are made in accordance with the requirements of regulatory authorities of the respective countries. 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 recognized at an amount equal to the present value of the lease payments, including any guaranteed residual value. Finance lease receivables are included in advances to customers.

## NOTES TO THE FINANCIAL STATEMENTS

### 7.4 Investments

Investments are classified into 'held to maturity' , 'held for trading' and '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:

#### *Held for trading*

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

#### *Held to maturity*

These are investments with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity.

#### *Available for sale*

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

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

On derecognition or impairment in quoted available for sale investments, the cumulative gain or loss previously reported as surplus / (deficit) on revaluation of assets below equity is included in the profit and loss account for the period.

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 and associates, are valued at market value. Investments classified as held to maturity are carried at amortized cost.

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

Unquoted equity securities, excluding investments in subsidiaries and associates are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in subsidiaries and associates (which qualify for accounting under International Accounting Standard - 28) are carried at cost, less impairment loss, if any.

Premium or discount on debt securities classified as 'available for sale' and 'held to maturity' securities is amortized using effective interest method and taken to the profit and loss account.

The carrying values of investments are reviewed for impairment at each balance sheet date. When any such indication exists where the carrying values exceed the estimated recoverable amounts, provision for impairment is made through the profit and loss account.

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognized 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.



### 7.5 Sale and repurchase agreements

The Bank enters into purchase / (sale) of investments under agreements to resale / (repurchase) investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resale them at future dates (reverse repo) are not recognized, as the Bank does not obtain control over the assets. The amounts paid are recognized in lendings to financial institutions.

Investments sold under repurchase agreements (repo) 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.

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

### 7.6 Operating fixed assets

#### *Tangible*

Fixed assets except office premises are shown at cost less accumulated depreciation and impairment loss, if any. Office premises are stated at revalued amount less accumulated depreciation.

Depreciation is charged to income applying the straight-line method using the rates specified in note 13.2 to these financial statements. Depreciation on additions is charged from the date on which the assets are available for use and ceases on the date on which they are disposed off.

Maintenance and normal repairs are charged to income as and when incurred. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

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. Gain and losses on disposal of fixed assets are taken to the profit and loss account except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to retained earnings. Valuations are carried out by professionally qualified valuers, with sufficient regularity, to ensure that carrying amounts do not differ materially from their fair values.

#### *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.

### 7.7 Capital work in progress

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

### 7.8 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 and any adjustment to tax payable in respect of previous years.

## NOTES TO THE FINANCIAL STATEMENTS

### *Deferred*

Deferred tax is recognized using the balance sheet liability method on all temporary differences arising between the carrying amounts of assets and liabilities for 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. A deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

The Bank also recognized a deferred tax asset / liability on the surplus / deficit on revaluation of fixed assets and securities, which is adjusted against the related surplus / deficit in accordance with the requirements of the International Accounting Standard 12 - Income Taxes.

Deferred tax liability is not recognized in respect of taxable temporary differences associated with exchange translation reserves of foreign branches, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

### **7.9 Employee 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 valuations. The results of the current actuarial valuation are summarized in Note 36. Actuarial gains / losses in excess of 10 percent of actuarial liabilities or plan assets are recognized over the average remaining lives of employees.

#### *Defined contribution plan*

The Bank operates a recognized 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.

### **7.10 Borrowings / deposits and their cost**

- a) Borrowings / deposits are recorded at the proceeds received.
- b) Borrowing / deposit costs are recognized as an expense in the period in which these are incurred using effective mark-up / interest rate method.

### **7.11 Foreign operations and foreign currencies**

#### **Foreign operations**

##### *Initial recognition*

The assets and liabilities of foreign branches are initially recognized at cost.

##### *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 into rupees at the average rate of conversion for the period. Translation gains and losses are taken to the Exchange Translation Reserve in equity.



### Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Pakistan Rupees at rates of exchange prevailing at the balance sheet date. Foreign currency transactions are converted at the rates prevailing on the transaction dates.

Forward contracts other than contracts with the State Bank of Pakistan 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 the State Bank of Pakistan 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.

### 7.12 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

#### Business segments

##### Corporate finance

Corporate banking includes services provided in connection with mergers and acquisitions, underwriting, privatization, securitization, research, debts (government, high yield), equity, syndication, IPO and secondary private placements.

##### Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, funding, lendings and repos and brokerage debt.

##### Retail banking

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

##### Commercial banking

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

#### Geographical segments

The Bank operates in three geographical regions being:

- Pakistan
- Asia Pacific (including South Asia)
- Middle East

## NOTES TO THE FINANCIAL STATEMENTS

### 7.13 Provisions

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

Other provisions are recognized when the Bank has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and 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.

### 7.14 Derivative financial instruments

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

### 7.15 Acceptances

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

### 7.16 Off-setting

Financial assets and financial liabilities are only off-set and the net amount 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.

### 7.17 Impairment

The carrying amount of the Bank's assets other than deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's 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.

### 7.18 Dividend and appropriation to reserves

Dividend and appropriations to reserves, except appropriations which are required by law, after the balance sheet date, are recognized as a liability in the Bank's financial statements in the year in which these are approved.

### 7.19 Earnings per share

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

## NOTES TO THE FINANCIAL STATEMENTS

### 8. CASH AND BALANCES WITH TREASURY BANKS

	Note	2006	2005
(Rupees in '000)			
<b>In hand</b>			
Local currency (including in transit Rs.73.673 million)		3,387,226	3,542,352
Foreign currency (including in transit Rs. 6.038 million)		1,469,879	897,695
<b>With State Bank of Pakistan in</b>			
Local currency current account	8.1	16,077,606	14,334,985
Foreign currency current account	8.2	939,560	939,111
Foreign currency deposit account	8.3	2,318,183	2,365,555
<b>With other central banks in</b>			
Foreign currency current account	8.4	1,515,185	428,064
Foreign currency deposit account	8.5	986,329	948,170
<b>With National Bank of Pakistan in</b>			
Local currency current account		1,151,358	1,332,693
<b>National Prize Bonds</b>		<u>14,034</u>	<u>9,445</u>
		<u>27,859,360</u>	<u>24,798,070</u>

- 8.1 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in the current account opened with the SBP at a sum not less than such percentage of its time and demand liabilities in Pakistan as may be prescribed by SBP.
- 8.2 Cash reserve of 5% is required to be maintained with State Bank Pakistan on deposits held under the New Foreign Currency Accounts Scheme vide BSD Circular No. 18 dated March 31, 2001.
- 8.3 Special cash reserve of 15% is required to be maintained with State Bank of Pakistan on deposits held under the New Foreign Currency Accounts Scheme vide BSD Circular No.18 dated March 31, 2001. Profit rates on these deposits are fixed by SBP on a monthly basis. It carries profit ranging between 3.63% to 4.39% (2005: 1.40% to 3.29%) per annum.
- 8.4 This includes an amount of USD 5.009 million equivalent to AFS 249.430 million placed with Da Afghan Bank of Afghanistan to comply with the capital requirements of the country's regulatory authority.
- 8.5 This represents an amount of USD 15.88 million (Taka 1.12 billion) placed with Central Bank of Bangladesh to meet the minimum capital requirement for Bangladesh operations at varying interest rates ranging from 4.22% to 5.07% (2005: 2.91% to 3.79%) per annum.

### 9. BALANCES WITH OTHER BANKS

	Note	2006	2005
(Rupees in '000)			
<b>In Pakistan</b>			
On current account		258,503	134,125
On deposit account	9.1	3,388,276	1,205,005
<b>Outside Pakistan</b>			
On current account		2,544,191	1,864,632
On deposit account	9.2	<u>6,540,982</u>	<u>6,509,607</u>
		<u>12,731,952</u>	<u>9,713,369</u>

- 9.1 This represents funds deposited with various banks at profit rates ranging from 7.8% to 8% (2005: 8% to 9%) per annum.

## NOTES TO THE FINANCIAL STATEMENTS

- 9.2 This represents placements of funds generated through foreign currency deposits scheme (FE-25), at interest rates ranging from 3.15% to 5.36% (2005: 2.0% to 4.83%) per annum with maturities upto July 2007.

Note                      2006                      2005  
(Rupees in '000)

### 10. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings		2,589,788	790,000
Repurchase agreement lendings (Reverse Repo)	10.1 & 10.3	<u>9,866,865</u>	<u>26,260,493</u>
		<u>12,456,653</u>	<u>27,050,493</u>

- 10.1 These represent short term lendings to financial institutions against investment securities at interest rates ranging from 8.42% to 9.25% (2005: 6.75% to 8.75%) per annum with maturities upto January 2007.

2006                      2005  
(Rupees in '000)

### 10.2 PARTICULARS OF LENDINGS TO FINANCIAL INSTITUTIONS

In local currency		12,456,653	27,050,493
In foreign currencies		-	-
		<u>12,456,653</u>	<u>27,050,493</u>

### 10.3 SECURITIES HELD AS COLLATERAL AGAINST LENDINGS TO FINANCIAL INSTITUTIONS

	2006			2005		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
	-----Rupees in '000-----					
Market Treasury Bills	8,576,865	-	8,576,865	18,361,493	-	18,361,493
Pakistan Investment Bonds	1,290,000	-	1,290,000	7,899,000	-	7,899,000
	<u>9,866,865</u>	<u>-</u>	<u>9,866,865</u>	<u>26,260,493</u>	<u>-</u>	<u>26,260,493</u>

## NOTES TO THE FINANCIAL STATEMENTS

Note	2006			2005		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
-----Rupees in '000-----						
<b>11. INVESTMENTS</b>						
<b>11.1 INVESTMENTS BY TYPES:</b>						
<b>Held-for-trading securities</b>						
Market Treasury Bills	-	-	-	276,775	-	276,775
Fully paid up ordinary shares / units - Listed	839,977	-	839,977	436,828	-	436,828
	839,977	-	839,977	713,603	-	713,603
<b>Available-for-sale securities</b>						
Market Treasury Bills	19,981,883	1,681,213	21,663,096	5,534,534	-	5,534,534
Pakistan Investment Bonds	1,859,240	-	1,859,240	2,151,343	-	2,151,343
Fully paid up ordinary shares / units - Listed	615,886	-	615,886	597,738	-	597,738
Fully paid up ordinary shares / units - Unlisted	129,821	-	129,821	76,979	-	76,979
Term Finance Certificates	1,291,660	-	1,291,660	326,423	-	326,423
Certificates of Investment	-	-	-	105,259	-	105,259
	23,878,490	1,681,213	25,559,703	8,792,276	-	8,792,276
<b>Held-to-maturity securities</b>						
Government Bonds	85,341	-	85,341	85,341	-	85,341
Pakistan Investment Bonds	8,085,321	-	8,085,321	9,635,243	255,327	9,890,570
Market Treasury Bills	17,197,812	-	17,197,812	33,967,529	-	33,967,529
Term Finance Certificates	1,975,432	-	1,975,432	1,937,522	-	1,937,522
Sukook Bonds	690,498	-	690,498	-	-	-
	28,034,404	-	28,034,404	45,625,635	255,327	45,880,962
<b>Associates</b>						
Warid Telecom (Private) Limited	2,000,000	-	2,000,000	1,848,804	-	1,848,804
Wateen Telecom (Private) Limited	417,474	-	417,474	-	-	-
Alfalah Insurance Limited	68,990	-	68,990	-	-	-
Alfalah GHP Value Fund	100,000	-	100,000	100,000	-	100,000
	2,586,464	-	2,586,464	1,948,804	-	1,948,804
<b>Subsidiaries</b>						
Alfalah Securities (Private) Limited	76,000	-	76,000	76,000	-	76,000
Alfalah GHP Investment Management Limited	56,000	-	56,000	33,600	-	33,600
	132,000	-	132,000	109,600	-	109,600
Investment at cost	55,471,335	1,681,213	57,152,548	57,189,918	255,327	57,445,245
Less: Provision for diminution in value of investments	-	-	-	-	-	-
Investments (net of provisions)	55,471,335	1,681,213	57,152,548	57,189,918	255,327	57,445,245
Surplus/(Deficit) on revaluation of held-for-trading securities	11.15 (6,601)	-	(6,601)	20,998	-	20,998
(Deficit) on revaluation of available-for-sale investments	22.2 (63,548)	(816)	(64,364)	(49,988)	-	(49,988)
(Deficit) on revaluation of securities - associate	22.3 (579,373)	-	(579,373)	-	-	-
Total investments at market value	54,821,813	1,680,397	56,502,210	57,160,928	255,327	57,416,255

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006	2005
(Rupees in '000)			
<b>11.2 INVESTMENTS BY SEGMENTS:</b>			
<b>Federal Government Securities:</b>			
-Market Treasury Bills	11.3	38,860,908	39,778,838
-Pakistan Investment Bonds	11.4	9,944,561	12,041,913
-Government Bonds	11.5	85,341	85,341
-WAPDA Sukook Bonds	11.6	500,000	-
		49,390,810	51,906,092
<b>Fully Paid up Ordinary Shares:</b>			
-Listed companies	11.8	1,455,863	1,034,566
-Unlisted companies	11.9	129,821	76,979
		1,585,684	1,111,545
<b>Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:</b>			
-Listed TFCs	11.10	1,291,660	326,423
-Unlisted TFCs	11.11	1,975,432	1,937,522
		3,267,092	2,263,945
<b>Investment in subsidiary companies</b>	11.12	132,000	109,600
<b>Investment in associated companies</b>	11.13	2,586,464	1,948,804
<b>Certificates of Investment</b>		-	105,259
Sitara Chemical Industries Limited Sukook Bonds	11.6	190,498	-
<b>Total investment at cost</b>		57,152,548	57,445,245
(Deficit) / Surplus on revaluation of held-for-trading securities	11.15	(6,601)	20,998
(Deficit) on revaluation of available-for-sale securities	22.2	(64,364)	(49,988)
(Deficit) on revaluation of securities - associate	22.3	(579,373)	-
<b>Total investments at market value</b>		56,502,210	57,416,255

11.3 Market Treasury Bills are for the periods of six months and one year. The effective rates of profit on Market Treasury Bills range between 8.48 % to 8.79 % (2005: 5.51% to 8.47%) per annum with maturities upto July 2007.

11.4 Pakistan Investment Bonds are for periods of three, five, ten and fifteen years. The rates of profit range from 6% to 14% (2005: 6% to 14%) per annum with maturities from January 2007 to June 2019. These also include PIBs having face value of Rs. 35 million (2005: Rs. 35 million) pledged with the National Bank of Pakistan as security to facilitate Telegraphic Transfer discounting facility.

11.5 This represents bonds issued by the Federal Government to settle the dues of Heavy Mechanical Complex at the rate of 6% (2005: 6%) per annum redeemable on maturity in March 2009.

11.6 This represents bonds issued by Wapda for a period of ten years. The rates of profit ranges between 9.36% to 11.23% per annum. This also includes bonds issued by Sitara Chemicals for a tenure of five years with a grace period of two years. The rate of profit is KIBOR plus 1.65% per annum.

11.7 The market value of securities classified as 'held to maturity' amounted to Rs. 27.063 billion (2005: Rs. 44.656 billion) as at December 31, 2006.

## NOTES TO THE FINANCIAL STATEMENTS

### 11.8 Particulars of investments in listed companies / funds include the following:

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

2006	2005		2006	2005
(Number of shares) certificate / units			(Rupees in '000)	
<b>MUTUAL FUNDS</b>				
-	1,090,000	AKD Index Tracker Fund	-	10,900
465,640	369,500	Pakistan Capital Market Fund	4,881	4,881
2,637,500	1,898,500	Pakistan Premier Fund	36,555	25,728
-	4,495,290	ABAMCO Composite Fund	-	44,953
2,500,000	2,500,000	Meezan Balanced Fund	25,000	25,000
400,000	400,000	Pakistan Strategic Allocation Fund	4,000	4,000
104,144	-	AMZ Plus Income Fund	10,000	-
		<i>(Paid up value of each unit : Rs. 100)</i>		
217,000	-	PICIC Growth Fund	9,229	-
2,854,794	-	United Money Market Fund	300,000	-
		<i>(Paid up value of each unit : Rs. 100)</i>		
<b>INSURANCE</b>				
90,000	-	Adamjee Insurance	15,032	-
<b>INVESTMENT COMPANIES &amp; BANKS</b>				
3,509,602	500,000	Askari Commercial Bank Limited	304,139	27,256
-	925,000	Faysal Bank Limited	-	69,109
75,800	-	National Bank of Pakistan	17,710	-
85,000	150,000	Pakistan Industrial Credit and Investment Corporation	6,219	10,827
101,600	-	Allied Bank Limited	9,408	-
636,250	-	The Bank of Punjab	59,547	-
-	200,000	MCB Bank Limited	-	33,950
600,000	-	Soneri Bank Limited	27,271	-
-	690,000	Standard Chartered Bank (Pakistan) Limited	-	43,234
		<i>(Formerly Union Bank Limited)</i>		
400,000	350,000	United Bank Limited	49,580	32,851
<b>CEMENT</b>				
695,000	695,000	D.G.Khan Cement Limited (Preference Shares)	7,660	7,660
759,500	700,000	D.G.Khan Cement Limited	54,104	76,969
797,300	900,000	Lucky Cement Limited	63,446	71,336
605,000	-	Maple Leaf Cement Factory Limited	13,980	-
200,000	-	Fauji Cement Limited	3,952	-
182,500	-	Fecto Cement Limited	12,324	-
323,000	-	Kohat Cement Company Limited	17,766	-
<b>FUEL, ENERGY &amp; OIL &amp; GAS</b>				
924,000	1,414,000	Hub Power Company Limited	30,853	50,935
25,000	15,000	Pakistan State Oil Company Limited	7,069	6,437
85,000	142,700	Pakistan Oilfields Limited	28,972	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
3,402,000	3,802,500	Kohinoor Energy Limited	108,001	120,548
660,000	-	Oil and Gas Development Company Limited	80,257	-

## NOTES TO THE FINANCIAL STATEMENTS

2006	2005		2006	2005
(Number of shares) certificate / units			(Rupees in '000)	
<b>AUTOMOBILE ASSEMBLERS</b>				
316,500	1,558,500	Dewan Farooque Motors Limited	10,847	49,721
<b>TEXTILE COMPOSITE</b>				
452,100	625,000	Nishat Mills Limited	39,377	67,850
-	87,000	Azgard Nine Limited	-	3,615
50,000	-	Nishat (Chunian) Limited	3,353	-
<b>TECHNOLOGY &amp; COMMUNICATION</b>				
150,000	-	Pakistan Telecommunication Company Limited	6,917	-
<b>CHEMICALS &amp; FERTILIZERS</b>				
500,000	338,100	ICI Pakistan Limited	88,414	47,623
-	3,200,000	Pakistan PTA Limited	-	25,099
			<u>1,455,863</u>	<u>1,034,566</u>

### 11.9 Investments in unlisted companies

2006	2005		2006	2005
(Number of shares)			(Rupees in '000)	
572,531	572,531	Pakistan Export Finance Guarantee Agency Limited Chief Executive : Mr. S.M. Zaem	5,725	5,725
16	8	Society for Worldwide Interbank Fund Transfer Chief Executive : Mr. Pascal Deman	4,096	1,254
7,000,000	7,000,000	Al-Hamra Hills (Private) Limited Chief Executive : Mr. Habib Ahmed	70,000	70,000
5,000,000	-	Al-Hamra Avenue (Private) Limited Chief Executive : Mr. Habib Ahmed	50,000	-
			<u>129,821</u>	<u>76,979</u>

### 11.10 Particulars of Term Finance Certificates - Quoted, Secured

#### Gulistan Textile Mills Limited

Nil (2005: 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

Rating: A- (PACRA)

Chief Executive: Mr. Saifee Zakiuddin

2006                      2005  
(Rupees in '000)

-                                      9,982



## NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<p><b>Askari Commercial Bank Limited (2nd Issue)</b>            20,000 (2005: 20,000) units of Rs.5,000 each            Mark up: 6 Months KIBOR (Ask Side) + 150 basis points per annum (no floor no cap)            Redemption: Bullet payment at maturity            Maturity: 8 years from date of disbursement i.e October 31, 2013            Rating: AA (PACRA)            Chief Executive : Mr. Sheharyar Ahmad</p>	99,960	100,000
<p><b>Standard Chartered Bank (Pakistan) Limited (Formerly Union Bank Limited - 3rd Issue)</b>            10,000 (2005: 10,000) 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.            Rating: AA (PACRA)            Chief Executive : Mr. Badar Kazmi</p>	49,990	50,000
<p><b>Bank Al Habib Limited</b>            9,350 (2005: 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            Rating: AA- (PACRA)            Chief Executive : Mr. Abbas D. Habib</p>	46,713	46,731
<p><b>Prime Commercial Bank Limited</b>            6,578 (2005: 6,578) 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.            Rating: A (PACRA)            Chief Executive : Mr. Saeed I. Chaudry</p>	32,870	32,884
<p><b>Trust Leasing Corporation Limited</b>            11,136 (2005: 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            Rating: AA (PACRA)            Chief Executive : Mr. Rashid Ahmad</p>	33,408	44,544

## NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<p><b>First Dawood Investment Bank Limited</b>            Nil (2005: 6,000) certificates of Rs.5,000 each            Mark up: On SBP discount rate + 175 percent per annum with a floor of 13.50 percent and a cap of 17.50 percent per annum            Redemption: Bullet payment 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            Rating: AA- (PACRA)            Chief Executive : Mr. Rafiq Dawood</p>	-	31,485
<p><b>First Dawood Investment Bank Limited</b>            2,000 (2005: 2,000) certificates of Rs.5,000 each            Mark up: On SBP discount rate + 175 percent per annum with a floor of 12.25 percent and a cap of 16.25 percent per annum            Redemption: Bullet payment 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            Rating: AA- (PACRA)            Chief Executive : Mr. Rafiq Dawood</p>	10,289	10,797
<p><b>Allied Bank Limited</b>            67,686 (2005:Nil) certificates of Rs.5,000 each            Mark up: Six months KIBOR + 1.90 percent per annum with no floor &amp; cap            Redemption: The instrument is structured to redeem 0.24% of principal in the first 72 months and the remaining principal in 4 equal semi-annual installments of 24.94% each of the Issue amount respectively starting from the 78th month            Maturity: September 2014            Rating: A (JCR - VIS)            Chief Executive : Mr. Khalid A. Sherwani</p>	338,430	-
<p><b>Pakistan Mobile Communication (Private) Limited</b>            80,000 (2005: Nil) units of Rs.5,000 each            Mark up: 6 Months KIBOR (Ask Side) + 285 basis points per annum            Redemption: 6 monthly installments of principal amount after 4 years of grace period            Maturity: 7 years from date of issue.            Rating: AA- (PACRA)            Chief Executive : Mr. Zuhair A. Khaliq</p>	400,000	-
<p><b>ORIX Leasing Pakistan Limited</b>            37,000 (2005:Nil) certificates of Rs.5,000 each            Mark up: Six months KIBOR + 1.50 per annum with no floor &amp; cap            Redemption: The instrument is structured to redeem 0.08% of principal in the first 24 months in 4 equal semi-annual installments and the remaining 99.22% of the principal would be redeemed during the last 36 months in six equal semi-annual installments            Maturity: September 2012*            * Pre-IPO amount disbursed. Maturity date to be determined upon finalization of IPO date.            Rating: AA+ (PACRA)            Chief Executive : Mr. Humayun Murad</p>	185,000	-

## NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<p><b>Jahangir Siddiqui &amp; Company Limited</b>            10,000 (2005:Nil) certificates of Rs.5,000 each            Mark up: Six months KIBOR + 2.50% with a floor of 6.0% per annum and ceiling of 16% per annum            Redemption: The instrument is structured to redeem 0.18% of principal in the first 54 months            49.91% in the 60th month and the remaining 49.91% in the last six months            Maturity: September 2011            Rating: AA+ (PACRA)            Chief Executive : Mr. Munaf Ibrahim</p>	50,000	-
<p><b>Financial Receivables Securitization Company Limited</b>            9,000 (2005:Nil) certificates of Rs.5,000 each            Mark up: Six months KIBOR + 2.00 p.a. with a floor of 8.0% per annum and cap of 16% per annum            Redemption: Principal redemption will be carried out in 12 and 8 equal semi-annual instalments in arrears, with a grace period of 1 year and 3 years for Class A TFCs and Class B TFCs respectively.            Maturity: 7th January 2014            Rating: AA- (PACRA)            Chief Executive : Mr. S. M. Nasir Raza</p>	45,000	-
	1,291,660	326,423
<b>11.11 Particular of Term Finance Certificates - Unquoted, Secured</b>		
<p><b>Pakistan International Airlines Corporation</b>            100,000 (2005: 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            Chief Executive : Mr. Tariq Kirmani</p>	462,482	487,481
<p><b>Al-Abbas Sugar Mills (Private) Limited</b>            Nil (2005: 10,000) certificates of Rs.5,000 each            Mark up: Cut-off yield of the last successful SBP auction of 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            Chief Executive : Mr. Shunaid Qureshi</p>	-	28,720

## NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<p><b>Gulshan Spinning Mills Limited</b>            10,000 (2005: 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            Chief Executive : Mr. Mian Abdul Shakoor</p>	42,822	49,970
<p><b>Crescent Leasing Corporation Limited</b>            10,000 (2005: 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            Chief Executive : Mr. Javed A. Callea</p>	30,000	40,000
<p><b>Paramount Spinning Mills Limited</b>            16,000 (2005: 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            Chief Executive : Mr. Tanveer Ahmad</p>	68,530	79,952
<p><b>Pakistan Mobile Communication (Private) Limited</b>            30,000 (2005: 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 March 2007; 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            Chief Executive : Mr. Zuhair A. Khaliq</p>	150,000	150,000
<p><b>Pakistan Mobile Communication (Private) Limited</b>            50,000 (2005: 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            Chief Executive : Mr. Zuhair A. Khaliq</p>	200,908	251,439

## NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<p><b>Pakistan Mobile Communication (Private) Limited</b></p> <p>Nil (2005: 50) 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.            Chief Executive : Mr. Zuhair A. Khaliq</p>	-	250,000
<p><b>Azgard Nine Limited</b></p> <p>10,000 (2005: 10,000) certificates of Rs.5,000 each            Mark up: Six month KIBOR + 175 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            Chief Executive : Mr. Ahmed H. Shaikh</p>	37,500	50,000
<p><b>Bosicor Pakistan Limited</b></p> <p>20,000 (2005: 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            Chief Executive : Mr. M. Wasi Khan</p>	85,714	100,000
<p><b>Security Leasing Corporation Limited</b></p> <p>10,000 (2005: 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            Chief Executive : Mr. M. R. Khan</p>	37,500	49,960
<p><b>Security Leasing Corporation Limited (2nd Issue)</b></p> <p>20,000 (2005: 20,000) units of Rs.5,000 each            Mark up: 6 Months KIBOR (Ask Side) + 165 basis point per annum (no floor &amp; 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.            Chief Executive : Mr. M. R. Khan</p>	59,976	100,000

## NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>Reliance Exports (Private) Limited</b>	300,000	300,000
30 (2005: 30) units of Rs.10,000,000 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.		
Chief Executive : Mr. Fawad Ahmed Mukhtar		
<b>Dominion Fertilizers (Pvt) Limited</b>	500,000	-
500 (2005: Nil) units of Rs.1,000,000 each		
Mark up: 6 Months KIBOR (Ask Side) + 325 basis point per annum (no floor & no cap)		
Redemption: Redemption after a grace period of one year in 24 equal quarterly installments The issuer has a Call Option exercisable from six months from the date of disbursement at any mark-up payment date subject to a prepayment amount of at least PKR 500 milion or in multiples thereof in its entirety		
Maturity: 7 years from the date of disbursement i.e. July 2013.		
Chief Executive : Mr. Ahmed Hummayun Shaikh		
	<u>1,975,432</u>	<u>1,937,522</u>

### 11.12 Particulars of investments in subsidiary companies

The paid up value of these ordinary shares is Rs.10.

2006	2005		2006	2005
(Number of shares) certificate / units			(Rupees in '000)	
7,600,000	7,600,000	Alfalah Securities (Private) Limited	76,000	76,000
		Percentage of holding : 76%		
		Break-up value: Rs. 1042		
		Date of audited financial statements :		
		31 December 2006		
		Chief Executive : Mr. Mohammad Shoaib Memon		
5,600,000	3,360,000	Alfalah GHP Investment Management Limited	56,000	33,600
		Percentage of holding : 56%		
		Break-up value: Rs. 540		
		Date of audited financial statements :		
		31 December 2006		
		Chief Executive : Mr. Aziz Anis Dhedhi		
			<u>132,000</u>	<u>109,600</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 11.13 Particulars of investments in associated companies

The paid up value of these shares / units is Rs.10 except where stated.

2006	2005		2006	2005
(Number of shares)			(Rupees in '000)	
199,999,500	184,880,000	Warid Telecom (Private) Limited Percentage of holding : 16.38% Break-up value: Rs. 7.66 Date of audited financial statements : 30 June 2006 Chief Executive : Mr. Hamid Farooq	2,000,000	1,848,804
41,747,460	-	Wateen Telecom (Private) Limited Percentage of holding : 20% Break-up value: Rs. 10.94 Date of audited financial statements : 30 June 2006 Chief Executive : Mr. Tariq Malik	417,474	-
6,899,000	-	Alfalah Insurance Limited Percentage of holding : 30% Break-up value: Rs. 9.97 Date of un-audited financial statements : 31 December 2006 Chief Executive : Mr. Nasar us Samad Qureshi	68,990	-
2,000,000	2,000,000	Alfalah GHP Value Fund Percentage of holding : 25% Break-up value: Rs. 57.20 Date of audited financial statements : 31 December 2006 Investment Adviser - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 50)	100,000	100,000
			2,586,464	1,948,804



## NOTES TO THE FINANCIAL STATEMENTS

	Market value		Cost		Long/Medium Term Credit Rating	Rated by
	2006	2005	2006	2005		
-----Rupees in '000-----						
11.14 Quality of available for sale securities						
Market Treasury Bills	21,649,928	5,525,315	21,663,096	5,534,534	(Unrated - Government Securities)	
Pakistan Investment Bonds	1,842,473	2,111,081	1,859,240	2,151,343	(Unrated - Government Securities)	
Listed Term Finance Certificates						
Gulistan Textile Mills Limited	-	10,138	-	9,982	A-	PACRA
Bank Al-Habib Limited	45,026	44,413	46,713	46,731	AA-	PACRA
Trust Leasing Corporation Limited	33,652	43,952	33,408	44,544	AA	PACRA
First Dawood Investment Bank Limited	10,065	40,667	10,289	42,282	AA-	PACRA
Prime Commercial Bank Limited	32,808	32,518	32,870	32,884	A	PACRA
Askari Commercial Bank Limited (2nd Issue)	99,060	98,960	99,960	100,000	AA	PACRA
Standard Chartered Bank (Pakistan) Limited (formerly Union Bank Limited)	50,810	50,000	49,990	50,000	AA	PACRA
Pakistan Mobile Communication (Pvt) Limited	402,400	-	400,000	-	AA-	PACRA
Orix Leasing Limited	185,000	-	185,000	-	AA+	PACRA
Allied Bank Limited	338,667	-	338,430	-	A	JCRVIS
Jahangir Siddiqui & Company Limited	50,000	-	50,000	-	AA+	PACRA
Financial Receivables Securitization Company Limited	45,000	-	45,000	-	AA-	PACRA
	1,292,488	320,648	1,291,660	326,423		
Shares in Listed Companies / Certificates / Units						
ABAMCO Composite Fund	-	42,930	-	44,953	-----	(Unrated)-----
AMZ Plus Income Fund	11,065	-	10,000	-	A(f)	JCRVIS
Askari Commercial Bank Limited	157,425	63,400	118,923	27,256	AA+	PACRA
The Bank of Punjab	51,258	-	45,697	-	AA	PACRA
DG.Khan Cement Limited	-	74,620	-	76,969	-----	(Unrated)-----
DG.Khan Cement Limited (Preference Shares)	6,497	5,838	7,660	7,660	-----	(Unrated)-----
Faysal Bank Limited	-	68,542	-	69,109	-----	(Unrated)-----
Dewan Farooque Motors Limited	4,906	-	10,847	-	-----	(Unrated)-----
Fecto Cement Limited	4,918	-	12,324	-	-----	(Unrated)-----
Hub Power Company Limited	18,198	33,936	24,279	50,935	-----	(Unrated)-----
ICI Pakistan Limited	57,750	-	88,414	-	-----	(Unrated)-----
Kohat Cement Company Limited	10,271	-	17,766	-	A	PACRA
Kohinoor Energy Limited	84,710	104,218	108,001	119,843	-----	(Unrated)-----
Lucky Cement Limited	-	75,510	-	71,336	-----	(Unrated)-----
MCB Bank Limited	-	33,560	-	33,950	AA	PACRA
Meezan Balanced Fund	21,500	24,375	25,000	25,000	5 Star	PACRA
Nishat (Chunian) Limited	1,908	-	3,353	-	-----	(Unrated)-----
Nishat Mills Limited	39,694	36,888	39,377	36,118	A+	PACRA
Pakistan Capital Market Fund	5,332	5,480	4,881	4,881	5 Star	PACRA
Pakistan Premier Fund	34,288	29,333	36,555	25,728	5 Star	PACRA
Pakistan Strategic Allocation Fund	3,400	4,680	4,000	4,000	5 Star	PACRA
PICIC Growth Fund	6,109	-	9,229	-	MFR 4 Star	JCRVIS
United Bank Limited	61,400	-	49,580	-	AA	JCRVIS
	580,629	603,310	615,886	597,738		
Shares in Un-listed Companies						
Pakistan Export Finance Guarantee Agency Limited	Not Applicable		5,725	5,725	-----	(Unrated)-----
Society for Worldwide Interbank Fund Transfer	Not Applicable		4,096	1,254	-----	(Unrated)-----
Al-Hamra Hills (Private) Limited	Not Applicable		70,000	70,000	-----	(Unrated)-----
Al-Hamra Avenue (Private) Limited	Not Applicable		50,000	-	-----	(Unrated)-----
			129,821	76,979		
Certificates of Investment						
Pak Libya Holding Company (Private) Limited	Not Applicable		-	105,259	AA-	PACRA
	25,365,518	8,560,354	25,559,703	8,792,276		



## NOTES TO THE FINANCIAL STATEMENTS

### 11.15 Unrealized gain on revaluation of investments classified as held for trading - net

	Unrealised gain / (loss)		Cost	
	2006	2005	2006	2005
	-----Rupees in '000-----			
<b>Investee Company</b>				
<b>Fully paid up ordinary shares / units - Listed</b>				
Allied Bank Limited	92	-	9,408	-
Askari Commercial Bank Limited	25,691	-	185,216	-
Adamjee Insurance Company Limited	(1,487)	-	15,032	-
AKD Index Trackker Fund	-	(926)	-	10,900
Azgard Nine Limited	-	431	-	3,615
The Bank of Punjab	(689)	-	13,850	-
DG Khan Cement Limited	(6,293)	-	54,104	-
Dewan Farooque Motors Limited	-	2,333	-	49,721
Fauji Cement Limited	(932)	-	3,952	-
Hub Power Company Limited	176	-	6,574	-
ICI Pakistan Limited	-	(120)	-	47,623
Kot Addu Power Company Limited	-	2,186	-	59,652
Kohinoor Energy Limited	-	26	-	705
Lucky Cement Limited	(15,687)	-	63,446	-
Maple Leaf Cement Factory Limited	(3,453)	-	13,980	-
National Bank of Pakistan Limited	(712)	-	17,710	-
Nishat Mills Limited	-	2,318	-	31,732
Oil and Gas Development Company Limited	(4,555)	-	80,257	-
Pakistan Oil Fields Limited	757	1,729	28,972	59,347
Pakistan Industrial Credit and Investment Corporation	(911)	(1,107)	6,219	10,827
Pakistan Petroleum Limited	-	(28)	-	5,284
Pakistan PTA Limited	-	661	-	25,099
Pakistan State Oil Company Limited	281	(185)	7,069	6,437
Pakistan Telecommunication Limited	(272)	-	6,917	-
Soneri Bank Limited	1,319	-	27,271	-
Southern Electric Power Company Limited	-	3,609	-	49,801
Standard Chartered Bank (Pakistan) Limited (Formerly Union Bank Limited)	-	4,272	-	43,234
United Bank Limited	-	5,562	-	32,851
United Money Market Fund	74	-	300,000	-
<b>Market Treasury Bills</b>	-	237	-	276,775
	<u>(6,601)</u>	<u>20,998</u>	<u>839,977</u>	<u>713,603</u>

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006	2005
(Rupees in '000)			
<b>12. ADVANCES</b>			
Loans, cash credits, running finances, etc.			
In Pakistan		128,054,207	99,826,193
Outside Pakistan		3,552,842	1,361,725
		<u>131,607,049</u>	<u>101,187,918</u>
Net investment in finance lease			
In Pakistan	12.2	14,289,817	12,158,131
Outside Pakistan		-	-
		<u>14,289,817</u>	<u>12,158,131</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,687,954	2,222,723
Payable outside Pakistan		4,650,961	4,848,219
		<u>6,338,915</u>	<u>7,070,942</u>
		<u>152,235,781</u>	<u>120,416,991</u>
Provision for non-performing advances	12.4	(2,236,456)	(1,552,981)
		<u>149,999,325</u>	<u>118,864,010</u>
<b>12.1 Particulars of advances</b>			
12.1.1 In local currency		142,225,318	113,900,178
In foreign currencies		10,010,463	6,516,813
		<u>152,235,781</u>	<u>120,416,991</u>
12.1.2 Short Term (upto one year)		87,544,463	72,400,074
Long Term (over one year)		64,691,318	48,016,917
		<u>152,235,781</u>	<u>120,416,991</u>

### 12.2 Net investment in Finance Lease / Ijarah Financing

	2006				2005			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
------(Rupees in '000)-----								
Lease rentals receivable	3,184,213	10,144,088	47,765	13,376,066	2,012,664	9,763,270	55,173	11,831,107
Residual value	373,072	2,908,808	11,966	3,293,846	202,752	1,999,930	3,997	2,206,679
Minimum lease payments	<u>3,557,285</u>	<u>13,052,896</u>	<u>59,731</u>	<u>16,669,912</u>	<u>2,215,416</u>	<u>11,763,200</u>	<u>59,170</u>	<u>14,037,786</u>
Financial charges for future periods	(559,656)	(1,812,439)	(8,000)	(2,380,095)	(347,153)	(1,528,649)	(3,853)	(1,879,655)
Present value of minimum lease payments	<u>2,997,629</u>	<u>11,240,457</u>	<u>51,731</u>	<u>14,289,817</u>	<u>1,868,263</u>	<u>10,234,551</u>	<u>55,317</u>	<u>12,158,131</u>

## NOTES TO THE FINANCIAL STATEMENTS

12.3 Advances include Rs.2.31 billion (2005: Rs.1.06 billion) which have been placed under non-performing status as detailed below:-

	2006								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	------(Rupees in '000)-----								
Category of Classification									
Other Assets Especially Mentioned (Agri Financing)	60,158	-	60,158	-	-	-	-	-	-
Substandard	489,955	-	489,955	87,025	-	87,025	87,025	-	87,025
Doubtful	503,524	-	503,524	143,706	-	143,706	143,706	-	143,706
Loss	1,209,360	45,671	1,255,031	923,979	20,858	944,837	923,979	20,858	944,837
	<u>2,262,997</u>	<u>45,671</u>	<u>2,308,668</u>	<u>1,154,710</u>	<u>20,858</u>	<u>1,175,568</u>	<u>1,154,710</u>	<u>20,858</u>	<u>1,175,568</u>
	2005								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	------(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	6,975	-	6,975
Doubtful	48,787	-	48,787	11,006	-	11,006	11,006	-	11,006
Loss	776,116	41,275	817,391	668,601	20,787	689,388	668,601	20,787	689,388
	<u>1,018,680</u>	<u>41,275</u>	<u>1,059,955</u>	<u>686,582</u>	<u>20,787</u>	<u>707,369</u>	<u>686,582</u>	<u>20,787</u>	<u>707,369</u>

### 12.4 Particulars of provision against non-performing advances

	Note	2006			2005		
		Specific	General	Total	Specific	General	Total
		------(Rupees in '000)-----					
Opening balance		707,369	845,612	1,552,981	851,119	508,938	1,360,057
Opening balance of foreign branch acquired		-	-	-	20,787	16,629	37,416
Exchange adjustments		70	(1,650)	(1,580)	-	-	-
Charge for the year		652,227	217,069	869,296	206,704	320,269	526,973
		<u>1,359,666</u>	<u>1,061,031</u>	<u>2,420,697</u>	<u>1,078,610</u>	<u>845,836</u>	<u>1,924,446</u>
Amounts written off	12.5	(12,635)	-	(12,635)	(250,427)	-	(250,427)
Reversals / recoveries		(171,463)	(143)	(171,606)	(124,451)	(224)	(124,675)
Other movements		-	-	-	3,637	-	3,637
Closing balance		<u>1,175,568</u>	<u>1,060,888</u>	<u>2,236,456</u>	<u>707,369</u>	<u>845,612</u>	<u>1,552,981</u>

12.4.1 General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan. General provision for overseas branches are maintained in accordance with the guidelines of the authorities in the respective countries.

### 12.4.2 Particulars of provisions against non-performing advances

	2006			2005		
	Specific	General	Total	Specific	General	Total
	------(Rupees in '000)-----					
In local currency	1,154,710	1,020,511	2,175,221	686,582	828,983	1,515,565
In foreign currencies	20,858	40,377	61,235	20,787	16,629	37,416
	<u>1,175,568</u>	<u>1,060,888</u>	<u>2,236,456</u>	<u>707,369</u>	<u>845,612</u>	<u>1,552,981</u>

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006	2005
(Rupees in '000)			
<b>12.5 Particulars of write-offs</b>			
<b>12.5.1 Against provisions</b>		12,635	250,427
Directly charged to Profit & Loss account		<u>1,537</u>	<u>512</u>
		<u>14,172</u>	<u>250,939</u>
<b>12.5.2 Write Offs of Rs. 500,000 and above</b>	12.6	11,991	248,808
Write Offs of Below Rs. 500,000		<u>2,181</u>	<u>2,131</u>
		<u>14,172</u>	<u>250,939</u>

### 12.6 Details of loans written-off of Rs. 500,000/- and above

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

	2006	2005
(Rupees in '000)		
<b>12.7 Particulars of loans and advances to directors, executives, associated companies, etc.</b>		
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons		
Balance at beginning of year	153,675	121,097
Loans granted during the year	316,729	160,500
Repayments	<u>(261,340)</u>	<u>(127,922)</u>
Balance at end of year	<u>209,064</u>	<u>153,675</u>
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		
Balance at beginning of year	31,969	-
Loans granted during the year	3,086,143	35,000
Repayments	<u>(17,204)</u>	<u>(3,031)</u>
Balance at end of year	<u>3,100,908</u>	<u>31,969</u>
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
Balance at beginning of year	224,565	-
Loans granted during the year	30,616,678	35,500,000
Repayments	<u>(30,743,918)</u>	<u>(35,275,435)</u>
Balance at end of year	<u>97,325</u>	<u>224,565</u>
	<u>3,407,297</u>	<u>410,209</u>

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006	2005
(Rupees in '000)			
<b>13. OPERATING FIXED ASSETS</b>			
Capital work-in-progress	13.1	1,370,175	1,038,875
Property and equipment	13.2	9,093,909	5,551,517
Intangible assets	13.3	38,906	29,675
		10,502,990	6,620,067
<b>13.1 Capital work-in-progress</b>			
Advances to suppliers and contractors		1,370,175	1,038,875

### 13.2 Property and equipment

Description	2006									
	Cost / revaluation at January 1, 2006	Additions / (disposals) / *adjustments	Revaluation surplus	Cost/ Revaluation as at December 31, 2006	Accumulated depreciation at January 1, 2006	Depreciation for the year/ (on disposal) / *adjustments	Accumulated depreciation on Revaluation as at Dec 31, 2006	Accumulated depreciation at December 31, 2006	Net Book Value at December 31, 2006	Rate of depreciation % per annum
----- (Rupees in '000) -----										
Office premises	2,849,274	778,636	-	3,605,728	51,330	39,151	(83,070)	-	3,605,728	2.5% - 5.5%
		-				-				
		(22,182)				(7,411)				
Revaluation	1,138,799	-	1,902,201	3,041,000	80,226	40,113	(120,339)	-	3,041,000	2.5% - 5.5%
	3,988,073	778,636	1,902,201	6,646,728	131,556	79,264	(203,409)	-	6,646,728	
		-				-				
		(22,182)				(7,411)				
Lease hold improvements	481,899	224,655	-	702,109	177,669	112,536	-	291,180	410,929	20%
		(1,754)				(313)				
		(2,691)				1,288				
Furniture and Fixtures	376,545	135,717	-	513,487	107,269	47,113	-	152,884	360,603	10% - 25%
		(1,866)				(903)				
		3,091				(595)				
Office equipment	1,534,854	885,405	-	2,395,310	619,516	366,401	-	976,238	1,419,072	20% - 25%
		(7,535)				(5,508)				
		(17,414)				(4,171)				
Vehicles	361,582	148,923	-	465,454	155,426	86,522	-	208,877	256,577	25%
		(42,833)				(31,903)				
		(2,218)				(1,168)				
	6,742,953	2,173,336	1,902,201	10,723,088	1,191,436	691,836	(203,409)	1,629,179	9,093,909	
		(53,988)				(38,627)				
		(41,414)				(12,057)				

## NOTES TO THE FINANCIAL STATEMENTS

Description	2005									
	Cost / revaluation at January 1, 2006	Additions / (disposals) / *adjustments	Revaluation surplus	Cost/ Revaluation as at December 31, 2006	Accumulated depreciation at January 1, 2006	Depreciation for the year/ (on disposal) / *adjustments	Accumulated depreciation on Revaluation as at Dec 31, 2006	Accumulated depreciation at December 31, 2006	Net Book Value at December 31, 2006	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	
		(23,983)				2,895				
Lease hold improvements	295,292	163,023	-	481,899	105,960	74,971	-	177,669	304,230	20%
		(399)				(367)				
		23,983				(2,895)				
Furniture and fixtures	259,610	118,926	-	376,545	74,656	33,408	-	107,269	269,276	10%-25%
		(1,991)				(795)				
		-				-				
Office equipment	887,179	651,844	-	1,534,854	388,813	233,310	-	619,516	915,338	20%-25%
		(4,169)				(2,607)				
		-				-				
Vehicles	212,213	157,837	-	361,582	108,518	53,111	-	155,426	206,156	25%
		(8,468)				(6,203)				
		-				-				
	4,484,757	2,273,223	-	6,742,953	732,435	468,973	-	1,191,436	5,551,517	
		(15,027)				(9,972)				
		-				-				

13.3 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs. 303.419 million (2005: Rs. 229.195 million).

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

13.5 Office premises have been revalued on 31 December 2006 on the basis of market value by Harvester Services (Private) Limited, engineers, surveyors, inspectors, valuers, loss assessors. Had there been no revaluation, the figures would have been as follows:

	Cost as at December 31, 2006	Accumulated depreciation as at December 31, 2006	Book value as at December 31, 2006
Office premises	3,605,728	83,070	3,522,658

13.6 The above balance of owned operating assets represents the value of assets subsequent to revaluation on December 30, 1999, December 31, 2003 and December 31, 2006 which had resulted in surplus of Rs. 830.950 million, Rs. 516.802 million and Rs. 2.106 billion respectively and additions thereafter at cost.

13.7 As at December 31, 2006, un-depreciated balance of revaluation surplus included in the carrying value of fixed assets, amounted to Rs. 3,124 million (2005: Rs.1,058.573 million).

## NOTES TO THE FINANCIAL STATEMENTS

### 13.8 Intangible assets

	2006						Book value at closing 2006	Rate of amortization %
	COST			AMORTIZATION				
	Opening Balance 2006	Additions/ (Deletions)/	Closing Balance 2006	Opening Balance 2006	Amortization	Closing Balance 2006		
------(Rupees in '000)-----								
Computer software	64,302	25,891	90,193	34,627	16,660	51,287	38,906	20%
2005	52,859	11,443	64,302	20,230	14,397	34,627	29,675	20%

### 13.9 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)-----						
<b>Leasehold Improvements</b>						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	1,754	313	1,441	76	Various	Various
<b>Furniture and Fixtures</b>						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	1,866	903	963	968	Various	Various
<b>Office Equipment</b>						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	7,535	5,508	2,027	2,670	Various	Various
<b>Vehicles</b>						
Vehicle	795	389	406	406	As per Bank's policy	Mr.Abdul Qayum
Vehicle	943	601	342	341	As per Bank's policy	Mr.Shahid Murtaza
Vehicle	785	525	260	260	As per Bank's policy	Mr.Mumtaz Hasan
Vehicle	795	370	425	442	As per Bank's policy	Mr.Ibrahim M. Siddique
Vehicle	555	232	323	334	As per Bank's policy	Mr.Munaf Tai
Vehicle	555	255	300	416	Auction	Mr.Umar Farooq Wadiwala
Vehicle	795	431	364	703	Auction	Mr.Irfan Raza
Vehicle	795	431	364	626	Auction	Mr.Mohammad Bilal
Vehicle	555	233	322	422	Auction	Mr.Mohammad Bilal
Vehicle	595	203	392	407	Auction	Mr.Irfan Raza
Vehicle	595	203	392	432	Auction	Mr.Adnan Hasan Khan
Vehicle	555	189	366	390	Auction	Capt. Riffaqt Ali
Vehicle	555	189	366	430	Auction	Capt. Riffaqt Ali
Vehicle	604	151	453	517	Auction	Mr.Rehan Mithani
Vehicle	835	17	818	835	Insurance Claim	M/s. Adamjee Insurance Co. Ltd.
Vehicle	831	-	831	831	Insurance Claim	M/s. Adamjee Insurance Co. Ltd.
Vehicle	795	432	363	700	Insurance Claim	M/s. Adamjee Insurance Co. Ltd.
Vehicle	795	302	493	725	Insurance Claim	M/s. Adamjee Insurance Co. Ltd.
Vehicle	884	148	736	881	Insurance Claim	M/s. Adamjee Insurance Co. Ltd.
Vehicle	835	281	554	652	Insurance Claim	M/s. Adamjee Insurance Co. Ltd.
	14,452	5,582	8,870	10,750		
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	28,381	26,321	2,060	13,896	Various	Various

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006	2005
(Rupees in '000)			
<b>14. OTHER ASSETS</b>			
Income / mark-up accrued in local currency		3,407,048	2,423,566
Income / mark-up accrued in foreign currency		162,588	107,158
Advances, deposits, advance rent and other prepayments		1,596,153	1,138,511
Advance taxation		446,791	142,483
Unrealized gain on forward foreign exchange contracts		25,002	26,095
Dividend receivable		943	60
Prepaid exchange risk fee		5,277	1,628
Stationery & stamps on hand		66,771	49,258
Receivable against issue of rights		160	400
Receivable from brokers	14.1	200,497	116,289
		<u>5,911,230</u>	<u>4,005,448</u>
Mark up held in suspense account		(268,505)	(144,245)
Less: Provision held against other assets		(9,674)	(9,674)
		<u>5,633,051</u>	<u>3,851,529</u>
14.1 This represents amounts receivable from brokers against sale of shares.			
<b>15. BILLS PAYABLE</b>			
In Pakistan		3,059,519	3,458,499
Outside Pakistan		31,616	274,625
		<u>3,091,135</u>	<u>3,733,124</u>
<b>16. BORROWINGS</b>			
In Pakistan		8,286,053	5,815,915
Outside Pakistan		108,077	28,474
		<u>8,394,130</u>	<u>5,844,389</u>
<b>16.1 Particulars of borrowings with respect to currencies</b>			
In local currency		8,286,053	5,815,915
In foreign currencies		108,077	28,474
		<u>8,394,130</u>	<u>5,844,389</u>
<b>16.2 Details of borrowings secured / unsecured</b>			
<i>Secured</i>			
Borrowings from State Bank of Pakistan under:			
Export refinance scheme	16.3	5,950,216	5,585,988
Long Term Finance for Export Oriented Projects scheme (LTFEOP)	16.4	663,053	29,927
Repurchase agreement borrowings	16.5	1,672,784	100,000
		8,286,053	5,715,915
<i>Unsecured</i>			
Call borrowings		-	100,000
Overdrawn nostro accounts		108,077	28,474
		<u>108,077</u>	<u>128,474</u>
		<u>8,394,130</u>	<u>5,844,389</u>



## NOTES TO THE FINANCIAL STATEMENTS

- 16.3 This facility is secured against a demand promissory note executed in favour of the State Bank of Pakistan. The mark-up rate on this facility is 6.5% (2005: 6.5%) per annum payable on a quarterly basis.
- 16.4 This facility is secured against a demand promissory note executed in favour of the State Bank of Pakistan. The mark-up rate on this facility is 5% (2005: 5%) per annum payable on a quarterly basis.
- 16.5 This represents repurchase agreement borrowings from other banks at rates ranging from 8.72 % to 9.10% (2005: 6.5%) per annum maturing by February 16, 2007.

	2006	2005
	(Rupees in '000)	
<b>17. DEPOSITS AND OTHER ACCOUNTS</b>		
<b>Customers</b>		
Fixed deposits	88,851,222	80,167,779
Savings deposits	78,893,481	81,057,975
Current accounts - non-remunerative	58,234,013	45,814,316
Others	3,616,936	3,509,310
	229,595,652	210,549,380
<b>Financial institutions</b>		
Remunerative deposits	9,892,433	11,760,879
Non-remunerative deposits	21,306	34,808
	9,913,739	11,795,687
	239,509,391	222,345,067
<b>17.1 Particulars of deposits</b>		
In local currency	214,824,044	202,080,886
In foreign currencies	24,685,347	20,264,181
	239,509,391	222,345,067

### 18. SUB-ORDINATED LOANS

<b>Term Finance Certificates 1 - Quoted, Unsecured</b>	648,960	649,220
Mark up	Base Rate + 1.33% (Base Rate is defined as the cut-off yield on the last successful auction of the 5 year Pakistan Investment Bonds (PIB) conducted by SBP with a floor of 10% per annum and a cap of 15% per annum)	
Subordination	The TFCs are subordinated to all other indebtedness of the Bank including deposits.	
Issue Date	June 2002	
Rating	AA-	
Tenor	Six years	
Redemption	2 equal semi-annual instalments commencing 66th month after the issue date.	
Maturity	December 2008	

## NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>Term Finance Certificates II - Quoted, Unsecured</b>	1,249,040	1,249,520
Mark up	Base rate + 1.50 percent (Base Rate is defined as the simple average (average of the KIBOR Rate quoted by banks for that day) of the ask rate of the six months Karachi Interbank Offer rate (KIBOR) prevailing on the first day of the start of each half yearly period for mark up due at the end of that period)	
Subordination	The TFCs are subordinated as to the payment of principal & profit. In case of occurrence of default, the TFC holder will rank below the senior unsecured creditors and depositors and other creditors of the Bank.	
Issue Date	December 2004	
Rating	AA-	
Tenor	Eight years	
Redemption	3 equal semi-instalments commencing 84th month after the issue date.	
Maturity	December 2012.	
<b>Term Finance Certificates III - Quoted, Unsecured</b>	1,324,106	1,324,615
Mark up	Base rate + 1.50% (Base Rate is defined as 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 & profit to all other indebtedness of the bank.	
Issue Date	November 2005	
Rating	AA-	
Tenor	Eight years	
Redemption	3 equal semi-instalments commencing 84th month after the issue date.	
Maturity	November 2013.	
	<u>3,222,106</u>	<u>3,223,355</u>

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006	2005
(Rupees in '000)			
<b>19. DEFERRED TAX LIABILITIES</b>			
<b>Deferred credits arising due to</b>			
Write offs / reversals of provision for bad debts		688,974	563,178
Leasing operations		665,463	356,921
Excess of accounting net book value over tax written down value of fixed assets		837,272	72,414
Surplus on revaluation of operating fixed assets		1,130,553	407,629
		3,322,262	1,400,142
<b>Deferred debits arising due to</b>			
Provision for doubtful debts		(1,187,667)	(883,798)
Deficit on revaluation of securities		(213,257)	(18,803)
License fee charged off		-	(13,475)
		(1,400,924)	(916,076)
		1,921,338	484,066

### 20. OTHER LIABILITIES

Mark-up / return / interest payable in local currency		2,733,874	1,783,284
Mark-up / return / interest payable in foreign currency		205,197	97,558
Unearned commission and income on bills discounted		119,971	118,326
Accrued expenses		158,506	138,381
Payable against redemption of credit card reward points		136,224	102,793
Branch adjustment account		296,512	344,186
Security deposits against lease		3,318,786	2,302,841
Exchange difference payable to SBP		8	13,099
Payable to brokers	20.1	49,162	98,959
Others		287,256	220,239
		7,305,496	5,219,666

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

### 21. SHARE CAPITAL

#### 21.1 Authorized Capital

	2006	2005		2006	2005
(Number of shares)			(Rupees in '000)		
800,000,000	400,000,000	Ordinary shares of Rs. 10/- each	8,000,000	4,000,000	

#### 21.2 Issued, subscribed and paid up Ordinary Shares of Rs.10 each

225,000,000	125,000,000	Fully paid in cash	2,250,000	1,250,000
275,000,000	175,000,000	Issued as bonus shares	2,750,000	1,750,000
500,000,000	300,000,000		5,000,000	3,000,000

## NOTES TO THE FINANCIAL STATEMENTS

21.3 The right shares include 8,000 shares, representing rights relating to applications rejected and missing from the offer for sale of shares. These right shares will be offered to those applicants who were allotted/ offered shares in accordance with the directives / guidance of the Securities and Exchange Commission of Pakistan. These shares are subject to all corporate actions applicable to all other ordinary shares.

	Note	2006	2005
(Rupees in '000)			
<b>22. SURPLUS ON REVALUATION OF ASSETS</b>			
Surplus / (deficit) arising on revaluation of:			
- Fixed assets	22.1	2,099,820	757,248
- Available-for-sale securities	22.2	(53,887)	(31,185)
- Investment in associate	22.3	(376,593)	-
		<u>1,669,340</u>	<u>726,063</u>
<b>22.1 Surplus on revaluation of fixed assets</b>			
Surplus on revaluation of fixed assets		3,453,605	1,347,995
Less: related deferred tax liability		(1,205,963)	(468,999)
Transferred to retained earnings relating to incremental depreciation (net of tax)		(147,822)	(121,748)
		<u>2,099,820</u>	<u>757,248</u>
<b>22.2 Surplus / (deficit) on revaluation of available-for-sale securities</b>			
Government securities		(29,935)	(49,481)
Quoted shares		(35,257)	5,572
Term Finance Certificates - quoted		828	(6,079)
		<u>(64,364)</u>	<u>(49,988)</u>
Related deferred tax asset		10,477	18,803
		<u>(53,887)</u>	<u>(31,185)</u>
<b>22.3 (Deficit) on revaluation of securities - associates</b>			
Investment in associate	22.3.1	(579,373)	-
Related deferred tax asset		202,780	-
		<u>(376,593)</u>	<u>-</u>

22.3.1 This represents deficit on revaluation of investment in Warid Telecom (Private) Limited. The State Bank of Pakistan has allowed the Bank to book the deficit in "Surplus / Deficit on revaluation of securities" account.

	2006	2005
(Rupees in '000)		
<b>23. CONTINGENCIES AND COMMITMENTS</b>		
<b>23.1 Direct credit substitutes</b>		
i) Government	1,060,022	964,712
ii) Banking companies & other financial institutions	50,077	44,214
iii) Others	1,607,806	975,229
	<u>2,717,905</u>	<u>1,984,155</u>
<b>23.2 Transaction-related contingent liabilities</b>		
i) Government	11,477,550	8,957,823
ii) Banking companies & other financial institutions	617,392	662,917
iii) Others	5,603,788	5,004,954
	<u>17,698,730</u>	<u>14,625,694</u>

## NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>23.3 Trade-related contingent liabilities</b>		
Letters of credit	<u>27,080,933</u>	<u>20,490,078</u>
Acceptances	<u>5,261,893</u>	<u>4,814,441</u>
<b>23.4 Other contingencies</b>		
Claims against Bank not acknowledged as debts	<u>643,384</u>	<u>540,749</u>
<b>23.5 Commitments in respect of forward lendings</b>		
Forward repurchase agreement lendings	<u>922,102</u>	<u>-</u>
Commitments to extend credit	<u>6,106,000</u>	<u>2,046,000</u>
<b>23.6 Commitments in respect of forward exchange contracts</b>		
Purchase	<u>4,331,315</u>	<u>3,195,895</u>
Sale	<u>4,821,648</u>	<u>4,683,657</u>
<b>23.7 Commitments for the acquisition of operating fixed assets</b>	<u>520,565</u>	<u>121,522</u>
<b>23.8 Commitments in respect of repo transactions</b>		
Repurchase	<u>1,777,650</u>	<u>206,743</u>
Resale	<u>9,924,099</u>	<u>26,457,918</u>

### 24. DERIVATIVE INSTRUMENTS

The derivative activities of the Bank are primarily restricted to Forward Rate Agreements which are mainly conducted with banks, financial institutions and other entities. These off-balance sheet instruments are contracts, the characteristics of which are derived from those of underlying assets, these include forward 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.

#### 24.1 Product analysis

	2006					
	Interest Rate Swaps		Forward Rate Agreements		FX Options	
	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal
------(Rupees in '000)-----						
Counterparties						
With Banks for						
Hedging	-	-	116	8,713,216	-	-
Market Making	-	-	-	-	-	-
With FIs other than banks						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	130	401,194	-	-
Market Making	-	-	-	-	-	-
Total						
Hedging	-	-	246	9,114,410	-	-
Market Making	-	-	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

### 24.2 Maturity analysis

#### Forward Rate Agreements

#### Remaining Maturity

	No. of Contracts	Notional Principal (Rupees in '000)	2006		
			Mark to Market		Net (Rupees in '000)
			Negative	Positive	
Upto 1 month	64	3,695,882	-	6,129	3,702,011
1 to 3 months	80	2,579,520	-	10,000	2,589,520
3 to 6 months	49	2,284,308	-	12,841	2,297,149
6 month to 1 Year	53	554,700	-	9,583	564,283
1 to 2 Year	-	-	-	-	-
2 to 3 Years	-	-	-	-	-
3 to 5 Years	-	-	-	-	-
5 to 10 years	-	-	-	-	-
Above 10 Years	-	-	-	-	-
	<u>246</u>	<u>9,114,410</u>	<u>-</u>	<u>38,553</u>	<u>9,152,963</u>

	2006	2005
	(Rupees in '000)	
<b>25. MARK-UP / RETURN / INTEREST EARNED</b>		
a) On loans and advances to:		
i) customers	14,336,612	8,779,866
ii) financial institutions	96,517	89,513
b) On investments in:		
i) held for trading securities	10,605	1,401
ii) available for sale securities	2,513,194	574,719
iii) held to maturity securities	3,020,932	1,888,494
c) On deposits with financial institutions	740,026	420,056
d) On securities purchased under resale agreements	473,584	492,762
	<u>21,191,470</u>	<u>12,246,811</u>

25.1 These include mark-up earned of Rs. 1,265.267 million (2005: Rs. 533.489 million) of Islamic Banking Division.

	2006	2005
	(Rupees in '000)	
<b>26. MARK-UP / RETURN / INTEREST EXPENSED</b>		
Deposits	13,476,973	6,447,085
Securities sold under repurchase agreements	1,032,832	235,177
Other short term borrowings	369,911	314,856
Term Finance Certificates	353,170	207,874
	<u>15,232,886</u>	<u>7,204,992</u>
<b>27. GAIN / (LOSS) ON SALE OF SECURITIES</b>		
Market Treasury Bills	(1,324)	-
Pakistan Investment Bonds	(86)	7,673
Listed shares	182,161	231,878
	<u>180,751</u>	<u>239,551</u>

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006	2005
(Rupees in '000)			
<b>28. OTHER INCOME</b>			
Net profit on sale of property and equipment		12,999	4,309
Postage, telex service charges etc.		829,100	500,658
		842,099	504,967
<b>29. ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances, etc.		2,267,122	1,538,299
Charge for defined benefit plan		62,797	46,637
Contribution to defined contribution plan		79,535	53,281
Brokerage & commission		458,167	320,808
Rent, taxes, insurance, electricity, etc.		731,401	529,956
Legal and professional charges		66,161	48,394
Communications		263,925	209,750
Repairs and maintenance		266,002	178,312
Stationery and printing		138,420	115,982
Advertisement and publicity		357,832	283,426
Donations	29.1	3,625	117,600
Auditors' remuneration	29.2	5,124	4,311
Depreciation	13.2	691,836	468,973
Amortization of intangible assets		16,660	14,397
Entertainment, vehicle running expenses, travelling & subscription		279,415	207,161
Others		186,723	175,736
		5,874,745	4,313,023
<b>29.1 Donations</b>			
President Relief Fund for Earthquake Victims - 2005		-	100,000
Rising Sun Institute Lahore		-	8,000
Beautification of I.I. Chundrigar Road		-	7,500
M/s Zindagi Trust		-	700
M/s Patients Welfare Association		-	500
Lahore Medical & Dental College		-	400
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
The Citizen Foundation		1,500	-
Kashmir Education Foundation		1,500	-
Dar-ul-Khusnood, Karachi		25	-
Patient Welfare Association, Jinnah Hospital, Lahore		500	-
Murshid Hospital & Health Care Center, Karachi		100	-
		3,625	117,600
None of the directors or their spouses had any interest in the donees.			
<b>29.2 Auditors' remuneration</b>			
Audit fee		2,940	2,476
Half yearly review		750	600
Fee for audit of foreign branches		889	133
Special certifications and sundry advisory services		150	592
Out-of-pocket expenses		395	510
		5,124	4,311

## NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>30. OTHER CHARGES</b>		
Penalties imposed by Central Bank	<u>43,306</u>	<u>21,104</u>
<b>31. TAXATION</b>		
For the year		
Current	476,226	592,635
Prior years	(100,874)	1,037
Deferred	<u>427,902</u>	<u>267,524</u>
	<u>803,254</u>	<u>861,196</u>

The income tax assessments of the Bank have been finalised upto and including tax year 2006. 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.

	2006	2005
	(Rupees in '000)	
<b>31.1 Relationship between tax expense and accounting profit</b>		
Profit before tax	<u>2,565,945</u>	<u>2,563,290</u>
Tax at the applicable rate of 35% (2005: 38%)	898,081	974,050
Effect of:		
- change in tax rate	-	8,037
- income chargeable to tax at reduced rates	(11,218)	(17,165)
- income exempt from tax	(63,756)	(88,114)
- other differences	25,147	(8,612)
- prior year provision	<u>(45,000)</u>	<u>(7,000)</u>
Tax expense for the year	<u>803,254</u>	<u>861,196</u>
<b>32. BASIC / DILUTED EARNINGS PER SHARE</b>		
	2006	2005 (Restated)
	(Rupees in '000)	
Profit for the year	<u>1,762,691</u>	<u>1,702,094</u>
	(Number of shares in thousand)	
Weighted average number of ordinary shares	<u>456,132</u>	<u>434,208</u>
	(Rupees)	
Basic / Diluted earnings per share	<u>3.86</u>	<u>3.92</u>



## NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>33. CASH AND CASH EQUIVALENTS</b>		
Cash and balances with treasury banks	27,859,360	24,798,070
Balances with other banks	12,731,952	9,713,369
Call lendings	2,589,788	790,000
	43,181,100	35,301,439

### 34. CREDIT RATING

PACRA has assigned a long term credit rating of AA [double A] and a short-term credit rating of A1+ (A one plus) to the Bank as at June 2006 (2005: AA [Double A]) for long term and A1+ [A one plus] for short term).

	2006	2005
	(Number of employees)	
<b>35. STAFF STRENGTH</b>		
Permanent	5,266	4,183
Temporary / On contractual basis	1,277	1,035
Bank's own staff strength at the end of the year	6,543	5,218
Outsourced	1,536	1,051
Total staff strength	8,079	6,269

### 36. DEFINED BENEFIT PLAN

#### 36.1 Principal actuarial assumptions

The latest actuarial valuation was carried out as at December 31, 2006. Projected unit credit method, using the following significant assumptions, was used for the valuation of the defined benefit plan:

	2006	2005
Discount factor used	10.00%	10.00%
Expected rate of return on plan assets	10.00%	10.00%
Expected rate of salary increase	10.00%	10.00%
Normal retirement age	60 Years	60 Years

	2006	2005
	(Rupees in '000)	
<b>36.2 Reconciliation of payable to defined benefit plan</b>		
Present value of defined benefit obligations	366,308	261,191
Fair value of plan assets	(250,757)	(183,665)
Net actuarial losses not recognized	(111,306)	(71,866)
Past service cost not yet recognized	(4,245)	(5,660)
	-	-

## NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>36.3 Movement in defined benefit obligation</b>		
Obligation at the beginning of the year	261,191	176,786
Current service cost	47,911	26,908
Interest cost	26,119	15,911
Benefits paid	(14,064)	(6,146)
Actuarial (gain) / loss on obligation	45,151	29,548
Past service cost - vested benefits	-	12,523
Past service cost - non-vested benefits	-	5,661
Obligation at the end of the year	<u>366,308</u>	<u>261,191</u>
<b>36.4 Movement in fair value of plan assets</b>		
Fair value at the beginning of the year	183,665	131,193
Expected return on plan assets	18,366	11,807
Contributions	62,797	46,637
Benefits paid	(14,064)	(6,146)
Actuarial gain / (loss) on plan assets	(7)	174
Fair value at the end of the year	<u>250,757</u>	<u>183,665</u>
<b>36.5 Plan assets consist of the following:</b>		
Defence Saving Certificates	41,963	38,151
Preference shares	16,445	14,950
Term Finance Certificates	65,765	40,972
Pakistan Investment Bonds	-	35,379
Alfalah GHP Value Fund	10,002	-
Cash and bank	116,582	54,213
	<u>250,757</u>	<u>183,665</u>
<b>36.6 Movement in payable to defined benefit plan</b>		
Opening balance	-	-
Charge for the year	62,797	46,637
Bank's contribution to fund made during the year	(62,797)	(46,637)
Closing balance	<u>-</u>	<u>-</u>
<b>36.7 Charge for defined benefit plan</b>		
Current service cost	47,911	26,908
Interest cost	26,119	15,911
Expected return on plan assets	(18,366)	(11,807)
Actuarial losses	5,718	3,102
Past service cost	1,415	12,523
	<u>62,797</u>	<u>46,637</u>
<b>36.8 Actual return on plan assets</b>	<u>16,383</u>	<u>13,956</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 36.9 Historical information

	2006	2005	2004	2003	2002
	------(Rupees in '000)-----				
Defined benefit obligation	366,308	261,191	176,786	135,457	93,901
Fair value of plan assets	250,757	183,665	131,193	86,303	15,300
Surplus / (deficit)	<u>(115,551)</u>	<u>(77,526)</u>	<u>(45,593)</u>	<u>(49,154)</u>	<u>(78,601)</u>
Experience adjustments on plan liabilities	<u>(45,151)</u>	<u>(29,548)</u>	<u>(15,760)</u>	<u>(21,992)</u>	not available
Experience adjustments on plan assets	<u>(7)</u>	<u>174</u>	<u>14,052</u>	<u>1,276</u>	not available

### 37. DEFINED CONTRIBUTION PLAN

The Bank operates an approved provident fund scheme for all its permanent employees to which both the Bank and employees contributes @ 8.33% of basic salary in equal monthly contributions.

During the year, the Bank contributed Rs. 79.535 million (2005: Rs. 53.281 million) in respect of this fund.

### 38. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2006	2005	2006	2005	2006	2005
	------(Rupees in '000)-----					
Managerial remuneration	6,400	5,600	-	-	380,269	223,169
Bonus	4,616	5,312	-	-	72,659	75,150
Post employment benefits	1,066	467	-	-	42,488	23,185
Rent and house maintenance	2,560	2,706	-	-	119,917	69,046
Utilities	640	560	-	-	29,321	-
	<u>15,282</u>	<u>14,645</u>	<u>-</u>	<u>-</u>	<u>644,654</u>	<u>390,550</u>
Number of persons	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>331</u>	<u>192</u>

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

### 39. FAIR VALUE OF FINANCIAL INSTRUMENTS

#### 39.1 On-balance sheet financial instruments

	2006		2005	
	Book value	Fair value	Book value	Fair value
	-----Rupees in '000-----			
<b>Assets</b>				
Cash and balances with treasury banks	27,859,360	27,859,360	24,798,070	24,798,070
Balances with other banks	12,731,952	12,731,952	9,713,369	9,713,369
Lendings to financial institutions	12,456,653	12,456,653	27,050,493	27,050,493
Investments	56,502,210	55,571,875	57,416,255	56,350,942
Advances	149,999,325	149,999,325	118,864,010	118,864,010
Other assets	3,518,059	3,518,059	3,708,046	3,708,046
	<u>263,067,559</u>	<u>262,137,224</u>	<u>241,550,243</u>	<u>240,484,930</u>
<b>Liabilities</b>				
Bills payable	3,091,135	3,091,135	3,733,124	3,733,124
Borrowings	8,394,130	8,394,130	5,844,389	5,844,389
Deposits and other accounts	239,509,391	239,509,391	222,345,067	222,345,067
Sub-ordinated loans	3,222,106	3,222,106	3,223,355	3,223,355
Other liabilities	7,305,496	7,305,496	4,875,474	4,875,474
	<u>261,522,258</u>	<u>261,522,258</u>	<u>240,021,409</u>	<u>240,021,409</u>
<b>Off-balance sheet financial instruments</b>				
Forward purchase of foreign exchange	<u>4,303,574</u>	<u>4,331,315</u>	<u>3,224,283</u>	<u>3,195,895</u>
Forward sale of foreign exchange	<u>4,810,836</u>	<u>4,821,648</u>	<u>4,738,140</u>	<u>4,683,657</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 40. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and judgements 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.

#### 40.1 Provision against non performing loans and advances

The Bank reviews its loan portfolio to assess the 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.

#### 40.2 Classification of Investments

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

##### *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 monitors the performance of these investments and the availability of reliable fair values readily. 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.

#### 40.3 Valuation of unquoted equity investments

The Bank estimates impairment on investments in un-quoted equity securities based on factors such as:

- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- break-up values of unquoted equity investments;
- other valuation models.

#### 40.4 Income taxes

In making 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 the Bank's view differs with the view taken by the income tax department as disclosed in note 31 to these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 41. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Trading & Sales	Retail Banking	Commercial Banking	Corporate Finance
	-----Rupees in '000-----			
<b>2006</b>				
Total income	7,082,839	6,143,236	11,182,858	7,176
Total expenses	6,863,416	5,003,226	9,983,522	-
Net income	219,423	1,140,010	1,199,336	7,176
Segment assets	83,022,971	48,170,167	144,492,403	-
Segment non-performing loans	-	659,196	1,649,472	-
Segment provision required	-	1,215,502	1,020,954	-
Segment liabilities	83,494,770	43,026,160	136,922,666	-
Segment return on net assets (ROA) (%)	7.88%	16.08%	9.50%	-
Segment cost of funds (%)	7.49%	13.10%	8.28%	-
<b>2005</b>				
Total income	4,079,324	3,227,934	7,205,806	2,280
Total expenses	3,653,234	2,575,339	5,723,481	-
Net income	426,090	652,595	1,482,325	2,280
Segment assets	96,775,024	37,926,518	113,612,251	-
Segment non-performing loans	-	148,813	911,142	-
Segment provision required	-	756,258	796,723	-
Segment liabilities	96,650,534	35,319,934	108,879,199	-
Segment return on net assets (ROA) (%)	7.56%	14.04%	8.93%	-
Segment cost of funds (%)	7.07%	11.20%	8.17%	-

The Bank is required to engage in activities as allowed under the law and SBP regulations. Disclosure in the above segments of business should not be construed that all these activities are permissible.

### 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.

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 executives is determined in accordance with the terms of their appointment.

Details of transactions with related parties and balances with them as at the year-end were as follows:

## NOTES TO THE FINANCIAL STATEMENTS

	2006						Total
	Directors	Key Management Personnel	Group Companies	Associates	Subsidiaries	Strategic Investments	
	----- (Rupees in '000) -----						
<b>42.1 Deposits</b>							
Balance at the beginning of the year	4,168	15,119	16,758	685,871	10,832	6	732,754
Placements during the year	32,227	330,167	3,367,628	41,481,119	196,535	-	45,407,676
Withdrawals during the year	(32,490)	(324,819)	(3,368,291)	(41,119,764)	(200,225)	-	(45,045,589)
Balance at end of the year	<u>3,905</u>	<u>20,467</u>	<u>16,095</u>	<u>1,047,226</u>	<u>7,142</u>	<u>6</u>	<u>1,094,841</u>
<b>42.2 Financing</b>							
Balance at the beginning of the year	-	61,756	-	31,969	233,377	200,000	527,102
Disbursements during the year	-	2,620	-	3,086,143	30,608,013	-	33,696,776
Repayments during the year	-	(5,333)	-	(17,204)	(30,744,269)	(16,667)	(30,783,473)
Balance at end of the year	<u>-</u>	<u>59,043</u>	<u>-</u>	<u>3,100,908</u>	<u>97,121</u>	<u>183,333</u>	<u>3,440,405</u>
<b>42.3 Investments</b>							
Balance at the beginning of the year	-	-	32,851	1,948,804	109,600	70,000	2,161,255
Investment during the year	-	-	399,160	637,660	22,400	50,000	1,109,220
Withdrawals during the year	-	-	(82,431)	-	-	-	(82,431)
Balance at end of the year	<u>-</u>	<u>-</u>	<u>349,580</u>	<u>2,586,464</u>	<u>132,000</u>	<u>120,000</u>	<u>3,188,044</u>
<b>42.4 Call borrowings</b>							
Balance at the beginning of the year	-	-	-	-	-	-	-
Placements during the year	-	-	31,348,315	-	-	-	31,348,315
Withdrawals during the year	-	-	(31,348,315)	-	-	-	(31,348,315)
Balance at end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>42.5 Call lendings</b>							
Balance at the beginning of the year	-	-	1,565,480	-	-	-	1,565,480
Placements during the year	-	-	46,219,696	-	-	-	46,219,696
Withdrawals during the year	-	-	(46,864,532)	-	-	-	(46,864,532)
Balance at end of the year	<u>-</u>	<u>-</u>	<u>920,644</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>920,644</u>

	2006	2005
	(Rupees in '000)	
<b>42.6 Financing</b>		
<b>Running finance</b>		
- Subsidiary company	85,306	224,565
- Other related parties	3,100,908	31,969
<b>Long term loans</b>		
- Subsidiary company	11,815	8,812
- Other related parties	242,376	261,756
<b>42.7 Contingencies and commitments</b>		
Letter of credit and acceptance issued	157,048	2,289,765
Guarantees issued	169,200	-

## NOTES TO THE FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>42.8 Customer accounts</b>		
<b>PLS accounts</b>		
- Subsidiary company	5,750	9,255
- Other related parties	390,387	588,350
<b>Current accounts</b>		
- Subsidiary company	1,392	1,577
- Other related parties	112,750	96,365
<b>Fixed deposit accounts</b>		
- Subsidiary company	-	-
- Other related parties	584,562	37,207
<b>42.9 With subsidiary companies</b>		
Brokerage expense	2,142	4,104
Mark-up income	14,114	12,029
Mark-up expense	807	883
Rent income	2,866	2,194
Finance lease income	421	173
Lease rentals	3,397	2,018
Leases disbursed during the year to subsidiary companies	5,953	10,068
Contributions to employee provident fund	80,460	53,815
Receivable against trade of marketable securities	37,882	15,276
Receivable against others	761	489
Reimbursement of expenditures	-	12,923
Bank balance held with Bank Alfalah Limited	7,142	10,832
Security deposit	1,138	1,003
Bank charges recovered	188	245
Subscription towards share capital	-	34,000
<b>42.10 With associated companies</b>		
Commission income from Warid Telecom (Private) Limited	12,997	9,559
Commission income on letters of credit and letters of guarantee	2,447	4,300
Mark-up expenses on deposits	7,467	2,399
Mark-up income on advances	211,865	4,217
<b>42.11 The Key Management Personnel / Directors compensation are as follows:</b>		
Salaries and benefits	236,094	170,971

In addition, the chief executive and other executive officers are provided with Bank maintained car.

## NOTES TO THE FINANCIAL STATEMENTS

### 42.12 Net movements in the advances, letters of credit and guarantees, deposits are summarized as under:

	December 31, 2005	Disbursement	Repayment	December 31, 2006
-----Rupees in '000-----				
<b>42.12.1 Loans and advances</b>				
Running finance	256,534	33,688,204	30,758,524	3,186,214
Long term loan	270,568	8,573	24,950	254,191
	<u>527,102</u>	<u>33,696,777</u>	<u>30,783,474</u>	<u>3,440,405</u>
	December 31, 2005	Additional Facilities	Settlements	December 31, 2006
-----Rupees in '000-----				
<b>42.12.2 Contingencies and commitments</b>				
Letters of credit and acceptances	2,289,765	2,532,054	4,664,771	157,048
Guarantees	-	221,692	52,492	169,200
	December 31, 2005	Deposits	Withdrawals	December 31, 2006
-----Rupees in '000-----				
<b>42.12.3 Customer Deposit accounts</b>				
PLS accounts	597,605	20,881,610	21,083,078	396,137
Current accounts	97,942	21,809,534	21,793,334	114,142
Fixed deposit accounts	37,207	2,716,532	2,169,177	584,562
	<u>732,754</u>	<u>45,407,676</u>	<u>45,045,589</u>	<u>1,094,841</u>

## 43. CAPITAL ADEQUACY

### 43.1 Capital Management

The Bank's objectives when managing capital, which is broader concept than 'equity' on the face of the balance sheet are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

In accordance with BSD Circular No. 6 dated 28 October 2005, the State Bank of Pakistan has raised the minimum paid-up capital requirement for locally incorporated banks to Rs. 6 billion (net of losses) to be achieved in a phased manner by 31 December 2009. The minimum capital requirement to be achieved by 31 December 2006 is Rs. 3 billion. In addition all banking companies carrying on business in Pakistan are required to maintain capital and unencumbered general reserves the amount of which should at least be equivalent to 8% of the risk weighted assets of the banking company.

The adequacy of Bank Alfalah Limited capital is monitored using, among other measures, the rules and ratios established by the State Bank of Pakistan. The ratios compare the amount of eligible capital with the total of risk-weighted assets (RWAs). Bank Alfalah Limited monitors and reports its capital ratios under SBP rules, which ultimately determines the regulatory capital required to be maintained by Banks and DFIs.

Eligible capital consists of two parts. Tier 1 capital comprises share capital, share premium, reserve for bonus shares, general reserves and retained earning. Certain adjustments are made to profit and reserves, in line with SBP recommendations, as prescribed by SBP circulars. Tier 2 capital includes general provisions, revaluation reserves, exchange translation reserves and subordinated long-term debt. Total regulatory capital is to be at least 8% of RWAs and Bank Alfalah Limited's capital is well over this requirement as shown in note 43.2. Bank Alfalah Limited will continue to maintain this requirement either through its risk management strategies or by increasing the capital requirements in-line with business and capital needs.



## NOTES TO THE FINANCIAL STATEMENTS

### 43.2 Capital Adequacy Ratio

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

	2006	2005
	(Rupees in '000)	
<b>Regulatory Capital Base</b>		
<b>Tier I Capital</b>		
Shareholders' capital	5,000,000	3,000,000
Reserves	2,701,729	1,849,191
Unappropriated profits	2,823,072	1,886,845
	10,524,801	6,736,036
Less: Adjustments		
- Investments in equity of subsidiary companies engaged in banking and financial activities	132,000	109,600
- Deficit on account of revaluation of investment in associate	376,593	-
- Deficit on account of revaluation of investments classified as AFS	54,715	36,757
	563,308	146,357
<b>Total Tier I Capital</b>	9,961,493	6,589,679
<b>Tier II Capital</b>		
Subordinated debt (upto 50% of total Tier I Capital)	2,702,939	2,833,823
General provisions (subject to 1.25% of total risk weighted assets)	1,060,888	845,612
Revaluation reserve (upto 50%)	1,050,324	381,410
Foreign exchange translation reserves	47,804	2,027
<b>Total Tier II Capital</b>	4,861,955	4,062,872
<b>Eligible Tier III Capital</b>	-	-
<b>Total regulatory capital (a)</b>	14,823,448	10,652,551

		2006		2005	
		Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
		-----Rupees in '000-----			
<b>Risk-weighted exposures</b>					
<b>Credit risk</b>					
<b>Balance sheet items:</b>					
Cash and other liquid assets		53,047,965	7,329,552	61,561,932	9,246,958
Investments	43.3	55,536,833	5,754,218	56,572,054	4,748,476
Loans and advances	43.4	137,444,045	108,985,028	108,332,895	84,269,481
Fixed assets		10,502,990	10,502,990	6,620,067	6,620,067
Other assets		5,633,051	5,043,785	3,851,529	3,535,906
		262,164,884	137,615,573	236,938,477	108,420,888
<b>Off - balance sheet items:</b>					
Loan repayment guarantees & acceptances	43.5	6,586,181	6,586,181	5,835,088	4,275,602
Performance bonds, bid bonds, warranties & similar instruments etc.	43.6	3,138,478	1,242,115	4,752,016	2,194,141
Stand by letters of credit & other stand by facilities	43.7	25,139,511	9,112,710	17,721,045	7,028,186
Outstanding foreign exchange contracts					
- purchase and sales (both)		9,114,410	100,136	7,962,423	80,688
		43,978,580	17,041,142	36,270,572	13,578,617

## NOTES TO THE FINANCIAL STATEMENTS

	2006		2005	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
-----Rupees in '000-----				
Credit risk-weighted exposures		<u>154,656,715</u>		<u>121,999,505</u>
<i>Market risk</i>				
General market risk		66,670		39,439
Specific market Risk		66,670		36,607
Capital charge for foreign exchange risk		9,833		2,625
Total capital charge for market risk (b)		<u>143,173</u>		<u>78,671</u>
Market risk weighted exposure (b x 12.5)		<u>1,789,663</u>		<u>983,383</u>
Total risk-weighted exposures (c)		<u>156,446,378</u>		<u>122,982,888</u>
Capital adequacy ratio (a / c x 100)		9.48		8.66

43.3 Investments exclude investment in equity of subsidiary companies amounting to Rs. 132.000 million (2005: Rs. 109.600 million) and held-for-trading portfolio amounting to Rs. 833.377 million (2005: Rs. 734.601 million). The held-for-trading portfolio is subject to market risk and is included in the computation of capital charge for market risk.

43.4 Advances secured against government securities / own deposits and cash margins amounting to Rs. 13,616.168 million (2005: Rs. 11,376.727 million) have been deducted from gross advances. Advances are gross of general reserve for consumer financing amounting to Rs. 1,060.888 million (2005: Rs. 845.612 million). This reserve has been added to supplementary capital.

43.5 Cash margins / government securities amounting to Rs. 1,927.011 million (2005: Rs. 1,590.677 million) and expired instruments amounting to Rs. 99.458 million (2005: Rs. 187.144 million) have been deducted from loan repayment guarantees.

43.6 Cash margins / government securities amounting to Rs. 10,845.067 million (2005: Rs. 6,468.089 million) and expired instruments amounting to Rs. 2,782.718 million (2005: Rs. 2,402.721 million) have been deducted from performance bonds etc.

43.7 Cash margins / government securities amounting to Rs. 1,183.529 million (2005: Rs. 1,017.532 million) and expired instruments amounting to Rs. 1,057.508 million (2005: Rs. 1,940.056 million) have been deducted from stand by letters of credit.

#### 44. RISK MANAGEMENT

The Bank has in place an approved integrated risk management framework for managing credit risk, market risk, liquidity risk and operational risk as evidenced by its Board approved "Risk Management and Internal Control" manual.

The Board of Directors through its sub-committee called 'Board Risk Management Committee' (BRMC) oversees the overall risk of our Bank. The Risk Management Division (RMD) is the organizational arm performing the functions of identifying, measuring, monitoring and controlling the various risks and assists the Apex level committee and the various sub-committees in conversion of policies into action. As part of its mandate the Central Management Committee (CMC) is entrusted with overseeing the operational risk of the Bank.

The Bank has established a Treasury Middle Office to effectively monitor day-to-day trading activities of the dealing room. An independent risk review function exists at our Bank through our internal audit division that reports directly to the Board Audit Committee.

The Bank has completed the Basel-II GAP analysis process and is now preparing for the proper implementation of Basel-II in collaboration with external consultants and in light of SBP circulars and guidelines. The Bank has acquired Temenos T24 banking system as its core banking solution and its Risk Management system called T-Risk will be used for managing Credit, Market and Operational risks.

### 44.1 Credit risk

At Bank Alfalah Limited, we have conducted a comprehensive Basel-II GAP analysis in order to categorize all the risk areas and have also laid down the road-map to move towards the implementation of Basel-II, as per the State Bank of Pakistan directives. In our experience, a key to effective credit risk management is a well thought out business strategy and in order to achieve this we continually strive hard to gauge such factors existence and simultaneously deriving the mitigating factors to effectively manage the risk inherent to the best possible degree.

The Credit Risk Management comprises of the Credit Risk Manager who along with his staff looks after all the aspects of credit risk and conducts portfolio analysis for managing credit risk. The Credit Risk Manager reports directly to the Head of RMD.

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 our lending activities and ensuring the high quality of our asset portfolio.

The Credit Division comprises of multiple credit approvers with authorities assigned in accordance with their qualifications and experience. A comprehensive Risk Grading Index (RGI) model is used by the Bank which categorizes different aspects of risk from credit point of view and assigns a grading to the counterparty. Credit Administration Department (CAD) is working towards ensuring all the policies and procedures are implemented and followed accordingly.

Special attention is paid by the management in respect of non-performing loans. Special Asset Management (SAM) Department is functional and handles this responsibility. A "Watchlist" procedure is also functioning which identifies loans showing early warning signals of becoming non-performing.

Proactive credit-risk management practices in the form of studies, research work, Risk Grading Index (RGI), Integrated Bank-wide Risk Management and Internal Control Framework are only some of the prudent measures the Bank is engaged in for mitigating risk exposures. The current focus is on augmenting the Bank's abilities to quantify risk in a consistent, reliable and valid fashion which will ensure advanced level of sophistication in the Credit Risk measurement and management in the years ahead.

## NOTES TO THE FINANCIAL STATEMENTS

### 44.1.1 Segmental information

#### 44.1.1.1 Segments by class of business

	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agribusiness	8,589,224	5.64%	1,336,055	0.56%	350,366	0.66%
Automobile and transportation equipment	3,841,818	2.52%	1,805,445	0.75%	1,413,164	2.68%
Chemical and pharmaceuticals	1,235,329	0.81%	2,676,326	1.12%	440,433	0.83%
Cement	1,661,732	1.09%	835,700	0.35%	159,460	0.30%
Communication	4,436,496	2.91%	9,484,807	3.96%	3,194,455	6.05%
Electronics and electrical appliances	906,302	0.60%	706,887	0.30%	321,596	0.61%
Educational institutes	708,194	0.47%	4,629,625	1.93%	66,628	0.13%
Financial	3,174,254	2.09%	11,195,617	4.67%	7,442,197	14.11%
Fertilizers	1,376,523	0.90%	3,588,099	1.50%	1,133,273	2.15%
Food and allied products	1,180,216	0.78%	2,536,459	1.06%	281,827	0.53%
Glass and ceramics	116,317	0.08%	234,350	0.10%	87,552	0.17%
Ghee and edible oil	1,729,781	1.14%	897,338	0.37%	1,319,221	2.50%
Housing societies / trusts	1,029,520	0.68%	4,069,439	1.70%	532	0.01%
Insurance	37,969	0.02%	1,523,805	0.64%	17,280	0.03%
Import and export	4,680,848	3.07%	2,837,080	1.18%	5,552,136	10.52%
Iron / steel	922,776	0.61%	1,943,466	0.81%	553,277	1.05%
Oil and gas	718,170	0.47%	12,507,484	5.22%	114,497	0.22%
Paper and board	725,958	0.48%	827,265	0.35%	276,107	0.52%
Production and transmission of energy	219,203	0.14%	16,146,805	6.74%	7,941,601	15.05%
Real estate / construction	4,889,404	3.21%	6,366,661	2.66%	1,943,983	3.68%
Retail / wholesale trade	6,294,461	4.13%	5,933,500	2.48%	1,054,348	2.00%
Rice processing and trading / wheat	3,914,258	2.57%	497,158	0.21%	42,557	0.08%
Sugar	1,899,343	1.25%	1,013,901	0.42%	304,316	0.58%
Shoes and leather garments	1,095,613	0.72%	570,589	0.24%	208,213	0.41%
Sports goods	278,524	0.18%	118,643	0.05%	7,787	0.01%
Surgical goods	102,243	0.07%	7,754	0.01%	19,437	0.04%
Textile spinning	10,660,134	7.00%	1,255,925	0.52%	1,544,071	2.93%
Textile weaving	10,029,651	6.59%	1,007,630	0.42%	1,480,340	2.81%
Textile composite	5,226,503	3.43%	1,041,871	0.44%	762,153	1.44%
Welfare institutions	515,119	0.34%	4,917,025	2.05%	21,880	0.04%
Individuals	50,844,264	33.40%	83,390,959	34.82%	86,717	0.16%
Others	19,195,634	12.61%	53,605,723	22.37%	14,618,057	27.70%
	<u>152,235,781</u>	<u>100%</u>	<u>239,509,391</u>	<u>100%</u>	<u>52,759,461</u>	<u>100%</u>

## NOTES TO THE FINANCIAL STATEMENTS

	2005					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agribusiness	4,039,016	3.35%	1,531,047	0.69%	335,298	0.80%
Automobile and transportation equipment	4,518,216	3.75%	4,946,577	2.22%	1,625,303	3.88%
Chemical and Pharmaceuticals	1,808,180	1.50%	1,523,142	0.69%	1,558,254	3.72%
Cement	1,649,374	1.37%	695,187	0.31%	2,408,408	5.75%
Communication	896,358	0.74%	7,193,318	3.24%	1,834,689	4.38%
Electronic & electrical appliances	1,638,143	1.36%	696,027	0.31%	1,583,488	3.78%
Educational institutes	593,985	0.49%	3,352,905	1.51%	54,111	0.13%
Financial	2,977,027	2.47%	10,925,720	4.91%	2,812,608	6.71%
Fertilizers	460,735	0.38%	4,479,942	2.01%	588,771	1.40%
Food & allied products	3,137,503	2.61%	997,532	0.45%	210,956	0.50%
Glass & ceramics	259,746	0.22%	99,589	0.04%	547,892	1.31%
Ghee & edible oil	901,559	0.75%	656,963	0.30%	541,273	1.29%
Housing societies / trusts	1,036,194	0.86%	2,961,424	1.33%	7,997	0.02%
Insurance	91,549	0.08%	1,409,691	0.63%	100,664	0.24%
Import & export	3,709,434	3.08%	1,924,628	0.87%	463,524	1.11%
Iron / steel	1,600,289	1.33%	1,987,071	0.89%	1,878,505	4.48%
Oil & gas	1,201,261	1.00%	7,973,068	3.59%	4,663,088	11.13%
Paper & board	339,081	0.28%	427,124	0.19%	1,739,181	4.15%
Production and transmission of energy	731,283	0.61%	21,180,290	9.53%	2,450,859	5.85%
Real Estate / construction	2,805,210	2.33%	7,383,895	3.32%	1,245,080	2.97%
Retail / wholesale trade	4,732,230	3.93%	3,744,262	1.68%	1,125,326	2.68%
Rice processing and trading	3,302,822	2.74%	482,484	0.22%	26,204	0.06%
Sugar	1,610,618	1.34%	1,018,299	0.46%	127,442	0.30%
Shoes & leather garments	574,884	0.48%	725,846	0.33%	135,431	0.32%
Sports goods	295,144	0.25%	61,105	0.03%	5,596	0.01%
Surgical goods	98,958	0.08%	34,871	0.02%	43,358	0.10%
Textile spinning	11,586,298	9.62%	1,446,926	0.65%	1,676,105	4.00%
Textile weaving	4,545,694	3.77%	1,052,664	0.47%	1,059,366	2.53%
Textile composite	8,137,774	6.76%	1,463,777	0.66%	1,437,132	3.43%
Welfare institutions	663,669	0.55%	4,072,286	1.83%	8,988	0.02%
Individuals	28,674,505	23.81%	71,709,117	32.25%	1,622,044	3.87%
Others	21,800,252	18.10%	54,188,290	24.37%	7,997,427	19.08%
	<u>120,416,991</u>	<u>100%</u>	<u>222,345,067</u>	<u>100%</u>	<u>41,914,368</u>	<u>100%</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 44.1.1.2 Segment by sector

	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/ Government	9,456,984	6%	67,482,409	28%	9,279,174	18%
Private	142,778,797	94%	172,026,982	72%	43,480,287	82%
	<u>152,235,781</u>	<u>100%</u>	<u>239,509,391</u>	<u>100%</u>	<u>52,759,461</u>	<u>100%</u>
	2005					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/ Government	6,917,284	6%	64,102,676	29%	6,514,819	16%
Private	113,499,707	94%	158,242,391	71%	35,399,549	84%
	<u>120,416,991</u>	<u>100%</u>	<u>222,345,067</u>	<u>100%</u>	<u>41,914,368</u>	<u>100%</u>

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

	2006		2005	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	-----Rupees in '000-----			
Agriculture, forestry, hunting and fishing	104,222	8,905	26,102	-
Textile	494,777	198,151	202,601	144,636
Chemical and pharmaceuticals	26,410	24,718	24,394	2,066
Cement	15,464	3,500	19,158	10,581
Automobile and transportation equipment	6,666	2,471	8,317	8,317
Wholesale and retail trade	340,867	232,513	299,791	254,001
Individuals	838,573	425,397	163,557	105,048
Others	481,689	279,913	316,035	182,720
	<u>2,308,668</u>	<u>1,175,568</u>	<u>1,059,955</u>	<u>707,369</u>

### 44.1.1.4 Details of non-performing advances and specific provisions by sector

	2006		2005	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	-----Rupees in '000-----			
Public / Government	-	-	5,318	532
Private	2,308,668	1,175,568	1,054,637	706,837
	<u>2,308,668</u>	<u>1,175,568</u>	<u>1,059,955</u>	<u>707,369</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 44.1.1.5 Geographical segment analysis

	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in '000-----			
Pakistan	2,492,613	266,369,097	12,202,137	49,345,511
Asia Pacific (including South Asia)	73,332	9,301,223	39,808	3,413,950
Middle East	-	15,221	-	
	2,565,945	275,685,541	12,241,945	52,759,461
	2005			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in '000-----			
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
	2,563,290	248,313,793	7,464,126	41,914,368

### 44.2 Market risk

Market risk is the risk of losses due to on and off-balance sheet positions arising out of changes in market prices. Market risk mainly arises from trading activities undertaken by the Bank's treasury. It also includes investments and structural positions in the banking books of the Bank. To manage and control market risk, a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically.

The Bank uses the Standardized Approach to calculate capital charge for market risk as per the current regulatory framework under Basel I and the same approach is being adopted for the revised regulatory framework under Basel II. Going forward the bank is preparing to use more sophisticated systems and models and currently is evaluating various tools to enhance its capability to successfully meet the requirements of the internal models approach of Basel II.

#### 44.2.1 Foreign exchange risk

Foreign exchange 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 these instruments represents forward foreign exchange contracts on behalf of customers in import and export transactions and forward sales and purchase 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

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	-----Rupees in '000-----			
Pakistan Rupee	249,195,107	238,293,886	1,217,810	12,119,031
United States Dollar	18,574,989	17,444,785	(1,220,355)	(90,151)
Great Britain Pound	2,912,043	2,899,834	11,438	23,647
Japanese Yen	17,750	3,225	(14,367)	158
Euro	1,659,008	1,589,273	(30,017)	39,718
Other currencies	3,326,644	3,212,593	35,491	149,542
	<u>275,685,541</u>	<u>263,443,596</u>	<u>-</u>	<u>12,241,945</u>
	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	-----Rupees in '000-----			
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>

### 44.2.2 Equity position risk

Equity position risk in the trading books arises due to changes in prices of individual stocks or levels of equity indices. The Bank's equity trading book comprises of Equity Portfolio Unit's Held for Trading (HFT) & Available for Sale (AFS) portfolios. The objective of Equity Portfolio Unit's HFT portfolio is to take advantages of short-term capital gains, while the AFS portfolio is maintained with a medium term view of capital gains and dividend income. Separate product program manuals have been developed to discuss in detail the objectives / policies, risks / mitigates, limits / controls for equity trading portfolios of the Equity Portfolio Unit.

### 44.3 Interest rate risk

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, the Bank's exposure in three months to one-year time as mentioned above has no impact on the Bank's results.



44.3.1 Mismatch of Interest Rate Sensitive Assets and Liabilities

	Effective Yield/Interest Rate	Exposed to Yield/Interest risk										Non-interest bearing financial instruments
		Rupees in '000										
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
<b>On-balance sheet financial instruments</b>												
<b>Assets</b>												
Cash and balances with treasury banks	4.35%	3,304,512	-	-	183,879	-	-	-	-	-	-	24,554,848
Balances with other banks	3.37%	9745,379	-	-	-	-	-	-	-	-	-	2,802,694
Lendings to financial institutions	9.08%	12,456,653	-	-	-	-	-	-	-	-	-	-
Investments	8.30%	15,067,618	18,163,259	6,779,132	1,352,005	1,500,000	1,946,358	2,339,324	5,650,703	50,000	3,653,811	-
Advances	10.97%	149,999,325	17,535,107	19,036,037	38,221,717	9,602,798	1,449,075	29,579,307	5,152,702	7,889,098	-	-
Other assets	-	3,518,059	-	-	-	-	-	-	-	-	-	3,518,059
<b>Liabilities</b>												
Bills payable	-	52,117,646	35,698,366	25,815,169	3975,601	11,102,798	13,385,433	319,18,631	10,803,405	7,939,098	34,529,412	-
Borrowings	7.79%	991,784	681,000	-	5,950,216	-	-	-	663,053	-	3,091,135	108,077
Deposits and other accounts	6.24%	37,498,359	33,455,903	29,357,060	7,970,912	8,561,323	8,471,056	416,258	2,153,924	-	58,255,318	-
Sub-ordinated loans	10.73%	3,222,106	-	624	624	649,688	988	-	-	-	-	-
Other liabilities	-	7,305,496	-	-	-	-	-	-	-	-	-	7,305,496
<b>On-balance sheet gap</b>												
		38,490,143	34,116,903	29,357,684	28,053,280	8,620,600	8,562,311	8,887,314	36,673,997	-	687,600,26	-
<b>Total</b>		1,545,301	13,627,503	1,581,463	(3,542,515)	117,04,321	2,482,198	4,823,122	23,031,317	(25,870,592)	7,939,098	(34,230,614)
<b>Total Yield/Interest Risk Sensitivity Gap</b>		13,627,503	1,581,463	(3,542,515)	117,04,321	2,482,198	4,823,122	23,031,317	(25,870,592)	7,939,098		
<b>Cumulative Yield/Interest Risk Sensitivity Gap</b>		13,627,503	15,208,966	11,666,451	23,370,772	25,852,970	30,676,092	53,707,409	27,836,817	35,775,915		

	Effective Yield/Interest Rate	Exposed to Yield/Interest risk										Non-interest bearing financial instruments
		Rupees in '000										
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
<b>On-balance sheet financial instruments</b>												
<b>Assets</b>												
Cash and balances with treasury banks	3.29%	3,313,725	-	-	1,536,008	-	-	-	-	-	-	21,484,345
Balances with other banks	4.32%	6,178,604	-	-	-	-	-	-	-	-	-	1,998,757
Lendings to financial institutions	7.92%	22,504,493	4,546,000	-	-	-	-	-	-	-	-	-
Investments	7.67%	5,741,255	7,587,305	5,128,078	24,230,480	2,704,200	1,500,000	2,716,473	5,084,707	50,000	3,140,959	-
Advances	8.90%	118,864,010	8,348,949	27,074,597	27,074,597	13,132,978	13,132,979	13,132,979	4,308,990	4,308,991	-	-
Other assets	-	3,708,046	-	-	-	-	-	-	-	-	-	3,708,046
<b>Liabilities</b>												
Bills payable	-	45,619,824	20,482,255	32,202,675	52,841,085	15,837,178	14,632,979	15,849,452	9,393,697	4,358,991	30,332,107	-
Borrowings	7.51%	200,000	-	-	5,585,988	-	-	-	29,927	-	3,733,124	28,474
Deposits and other accounts	4.88%	37,244,395	33,735,085	25,081,758	71,58,390	71,58,390	71,58,390	71,58,390	33,877,778	-	45,849,123	-
Sub-ordinated loans	9.60%	-	-	624	624	1,247	649,688	988	2,570,184	-	-	-
Other liabilities	-	4,875,474	-	-	-	-	-	-	-	-	-	4,875,474
<b>On-balance sheet gap</b>												
		37,444,395	33,735,085	25,082,382	30,668,370	7,159,637	7,808,078	7,159,378	36,477,889	-	54,486,195	-
<b>Total</b>		8,175,429	(13,252,830)	7,120,293	22,172,715	8,677,541	6,824,901	8,690,074	(27,084,192)	4,358,991	(24,154,088)	-
<b>Total Yield/Interest Risk Sensitivity Gap</b>		8,175,429	(13,252,830)	7,120,293	22,172,715	8,677,541	6,824,901	8,690,074	(27,084,192)	4,358,991		
<b>Cumulative Yield/Interest Risk Sensitivity Gap</b>		8,175,429	(5,077,401)	2,042,892	24,215,607	32,893,148	397,18,049	48,408,123	21,323,931	25,682,922		

\* 60% of saving deposits have been distributed and classified equally in each of the categories ranging from upto one month to over 3 years upto 5 years with the remaining 40% being classified in over 5 years to 10 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

### 44.4 Liquidity risk

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

The Bank's Asset and Liability Committee (ALCO) manages the liquidity position on a regular basis and is primarily responsible for the formulation of the overall strategy and oversight of the asset liability function. ALCO monitors the maintenance of balance sheet liquidity ratios, depositor's concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits. Moreover, as core retail deposits form a considerable part of the Bank's overall funding mix therefore significant importance is being given to the stability and growth of these deposits.

The Board of Directors have approved a comprehensive liquidity management policy.

## 44.4.1 Maturities of Assets and Liabilities

2006

	Rupees in '000							Above to 10 Years
	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	
<b>Assets</b>								
Cash and balances with treasury banks	27,859,360	-	-	183,879	-	-	-	-
Balances with other banks	12,548,073	-	-	-	-	-	-	-
Lendings to financial institutions	12,406,653	50,000	-	1,352,006	1,500,000	-	-	2,189,092
Investments	56,502,210	18,163,258	6,779,131	38,227,117	9,602,798	1,946,358	2,339,324	5,770,703
Advances	149,999,325	17,535,107	19,036,037	370,134	740,267	1,480,534	29,579,307	5,152,702
Operating fixed assets	10,502,990	61,689	185,067	666,596	122,872	14,248,572	184,307	3,662,429
Other assets	5,633,051	3,901,702	218,804	40,794,332	11,905,937	33,583,472	291,499	-
	275,685,541	84,783,299	26,220,039	40,794,332	11,905,937	14,248,572	33,583,472	13,217,415
<b>Liabilities</b>								
Bills payable	3,091,135	-	-	-	-	-	-	-
Borrowings	8,394,130	681,000	-	5,950,216	-	-	-	663,052
Deposits and other accounts	239,509,391	33,435,904	29,357,060	22,102,440	7,970,912	8,561,323	8,471,055	33,857,019
Sub-ordinated loans	3,222,106	624	624	624	649,688	988	416,258	2,153,924
Deferred tax liabilities	1,921,338	-	-	-	-	-	1,921,338	-
Other liabilities	7,305,496	3,587,024	401,528	435,158	909,054	909,054	909,054	113,951
	263,443,596	103,531,699	297,592,12	28,488,438	9,529,654	9,471,365	11,717,005	36,787,946
Net assets	12,241,945	(18,748,400)	(3,539,173)	12,305,894	2,436,283	4,777,207	21,865,767	(21,910,613)
Share capital	5,000,000							
Reserves	2,749,533							
Unappropriated profit	2,823,072							
Surplus on revaluation of assets	1,669,340							
	12,241,945							

2005

	Rupees in '000							Above to 10 Years
	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	
<b>Assets</b>								
Cash and balances with treasury banks	24,798,070	-	-	1,536,008	-	-	-	-
Balances with other banks	8,177,361	-	-	-	-	-	-	-
Lendings to financial institutions	22,404,493	100,000	-	24,469,682	2,464,997	1,500,000	2,716,473	5,154,707
Investments	6,386,608	7,587,305	5,128,079	27,074,597	13,132,978	13,132,979	13,132,979	4,308,990
Advances	118,864,010	8,348,949	27,074,597	924,693	613,634	614,228	726,297	1,943,030
Operating fixed assets	6,620,067	436,375	872,008	287,683	93,627	93,627	93,627	176,905
Other assets	3,851,529	80,415	145,200	54,292,663	16,305,236	15,340,834	16,669,376	11,383,632
	248,313,793	73,432,301	33,319,884	54,292,663	16,305,236	15,340,834	16,669,376	6,317,395
<b>Liabilities</b>								
Bills payable	3,733,124	-	-	-	-	-	-	-
Borrowings	5,844,389	-	-	5,585,988	-	-	-	29,927
Deposits and other accounts	222,345,067	33,735,085	25,081,758	25,081,758	7,158,390	7,158,390	7,158,390	33,877,777
Sub-ordinated loans	3,223,355	370	1,665	1,665	1,248	643,284	484,066	2,374,135
Deferred tax liabilities	484,066	-	-	-	-	-	-	-
Other liabilities	5,219,666	33,959	299,843	331,154	630,775	630,775	630,775	790,068
	240,849,667	89,638,804	25,383,266	31,000,565	7,990,413	8,432,449	8,274,219	36,560,907
Net assets	7,464,126	(16,206,503)	(7,936,618)	23,292,098	8,514,823	6,908,385	8,395,157	(24,977,275)
Share capital	3,000,000							
Reserves	1,851,218							
Unappropriated profit	1,886,845							
Surplus on revaluation of assets	726,063							
	7,464,126							

\* 60% of saving deposits have been distributed and classified equally in each of the categories ranging from upto one month to over 3 years upto 5 years with the remaining 40% being classified in over 5 years to 10 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

### 44.5 Operational risk

Basel II defines Operational risk as, “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.” In compliance with the Risk Management Guidelines, issued by SBP, an Operational Risk Function has been established within RMD, which directly reports to Head of RMD.

The Operational risk management policy of the Bank is incorporated in the Board-approved Risk Management & Internal Control Manual, which covers the strategies, processes, structure and functions of Operational risk management and provide guidelines to identify, assess, monitor, control & report operational risk in a consistent & transparent manner across the bank.

At Bank Alfalah, risk awareness culture is being encouraged by communicating the principles of proper risk management to all Bank employees. Operational Risk Function and business units are involved and regularly collaborate in determining and reviewing the strategy, in order to use it as an action plan in improving the operational risk & control system at the organizational and business unit levels. All the policies and procedures of the Bank are reviewed from the risk perspective, and the recommendations of RMD are taken into consideration before their approval at the appropriate level. An Operational Loss Database, Risk & Control Self Assessment (RCSA) exercise and Key Risk Indicators (KRIs) are being developed and will soon be implemented.

### 45. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 26, 2007 has announced a bonus issue of 30 percent. This appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2006 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending December 31, 2007.

### 46. DATE OF AUTHORIZATION

These financial statements were authorized for issue on February 26, 2007 by the Board of Directors of the Bank.

### 47. GENERAL

#### 47.1 Revised form of annual financial statements

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

## NOTES TO THE FINANCIAL STATEMENTS

### 47.2 Amendments to published standards and new interpretations effective in 2006

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

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

### 47.3 Comparatives

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

\_\_\_\_\_  
Chief Executive Officer

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Director

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Director

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Chairman

NOTES TO THE FINANCIAL STATEMENTS

Annexure-I

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

(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, 2006				Total (5+6+7)	Principal written-off	Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Mark-up	Others	8					
1	2	3	4	5	6	7	8	9	10	11	12	
1	S.Essa 603, Business Centre Mumtaz Hassan Road, Off I.I.Chundrigar Road, Karachi.	Mohammad Arif Kapadia Mohammad Saleem Kapadia	S/o Ismail Kapadia S/o Ismail Kapadia	993	3	-	996	993	3	-	996	
2	Bexshim Corporation Room No.9, Mezanine Floor, Hamilton Courts Plot G/2, Block -7 Clifton Main, Karachi	Feroze Punjwani Mehrunnissa Bawany Abdul Razzak	S/o Abdul Razzak W/o Younus Bawany S/o Abdul Sattar	2,425	408	-	2,833	2,425	408	-	2,833	
3	International Business Centre 123-Garden Block, Garden Town, Lahore	Mehmood Khan	Ghulam Rasool	1,012	-	-	1,012	1,012	-	-	1,012	
4	Saif Nadeem Kawasaki Industrial Estate, Kalapat District Haripur, Hazara	Mr.Zakaria Ghani Mr. Muhammad Omer Mr.Yousuf Dacla Mr.Abdul Wahab Ghani Mr.Ikrees Ghani		5,686	10,586	-	16,272	5,686	10,586	-	16,272	
5	Ghazi Paper Mills 31-KM Lahore Sheekhupura Road, Sheekhupura	Sh.Ghulam Hussain Sh.Niaz Hussain Mr.Rizwan Raza Mst. Najma Azhar Sh.Najam-ul-Hassan Mehmood Hussain Mst. Ghulam Fatima		12,702	7,101	-	19,803	1,302	7,101	-	8,403	
6	Paradise Trading	Basir Ahmed Mumtaza Jabeen		2,573	327	-	2,900	573	327	-	900	
			Total	25,591	18,425	-	43,816	11,991	18,425	-	30,416	

Annuxure - 2  
**ISLAMIC BANKING BUSINESS**

The bank is operating 23 Islamic banking branches at the end of current year as compared to 15 Islamic banking branches at the end of Prior year.

	2006	2005
	(Rupees in '000)	
<b>ASSETS</b>		
Cash and balances with treasury banks	3,210,942	2,502,913
Balances with and Due from Financial Institutions	4,631,442	2,007,817
Investments	833,203	97,973
Financing and Receivables		
-Murahaba	2,979,948	2,191,028
-Ijara	6,869,769	5,368,691
-Musharaka	293,656	97,173
-Diminishing Musharaka	2,371,423	1,905,182
-Salam	100,000	-
-Other Islamic Modes	210,834	554,649
Other assets	1,995,042	594,256
<b>Total Assets</b>	<b>23,496,259</b>	<b>15,319,682</b>
<b>LIABILITIES</b>		
Bills payable	165,580	254,085
Due to Financial Institutions	-	5,000
Deposits and other accounts		
-Current Accounts	5,057,425	4,477,525
-Saving Accounts	3,701,738	2,984,505
Term Deposits	6,808,727	3,996,656
-Others	116,796	87,434
-Deposit from Financial Institutions -Remunerative	3,275,330	925,612
-Deposits from Financial Institutions-Non-Remunerative	-	-
Due to Head Office	-	-
Deferred Tax Laibilities	215,936	-
Other liabilities	2,280,394	1,269,103
	<u>21,621,926</u>	<u>13,999,920</u>
<b>NET ASSETS REPRESENTED BY</b>	<u>1,874,333</u>	<u>1,319,762</u>
Islamic Banking Fund	1,200,000	1,200,000
Reserves	-	-
Unappropriated profit	190,586	42,792
	<u>1,390,586</u>	<u>1,242,792</u>
Surplus/ (Deficit) on revaluation of assets	483,747	76,970
	<u>1,874,333</u>	<u>1,319,762</u>
<b>Remuneration to Shariah Advisor/Board</b>	1,019	1,196
<b>CHARITY FUND</b>		
Opening Balance	2,908	7,109
Additions during the year	13,703	2,908
Payments / utilization during the year	-	(7,109)
Closing Balance	<u>16,611</u>	<u>2,908</u>

Note : The bank has not recognised separate income tax charge and resulting tax liability on the Islamic Banking Business for the purpose of this disclosure.

**CONSOLIDATED FINANCIAL STATEMENTS  
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 as at December 31, 2006 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, for the year then ended. These financial statements include unaudited certified returns from the branches, except for 26 branches, which have been audited by us in 5 branches audited by auditors abroad. The financial statements of subsidiary company Alfalah GHP Investment Management Limited were audited by another firm of chartered accountants, whose report has been furnished to us and our opinion in so far as it relates to the amounts included for the Alfalah GHP Investment Management Limited, is based solely on the report of other auditor.

These financial statements are responsibility of the Bank's management. 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 present fairly the financial position of Bank Alfalah Limited as at December 31, 2006 and the results of their operations, its 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  
February 26, 2007  
Karachi

# CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2006

	Note	2006	2005 (Restated)
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with treasury banks	8	27,859,360	24,798,070
Balances with other banks	9	12,735,607	9,716,206
Lendings to financial institutions	10	12,456,653	27,050,493
Investments	11	56,128,577	56,907,918
Advances	12	149,942,717	118,639,706
Operating fixed assets	13	10,548,441	6,660,158
Deferred tax assets		-	-
Other assets	14	5,840,128	4,449,794
		<u>275,511,483</u>	<u>248,222,345</u>
<b>LIABILITIES</b>			
Bills payable	15	3,091,135	3,733,124
Borrowings	16	8,408,327	5,844,389
Deposits and other accounts	17	239,480,772	222,335,585
Sub-ordinated loans	18	3,222,106	3,223,355
Liabilities against assets subject to finance lease	19	1,137	1,510
Deferred tax liabilities	20	2,124,118	484,066
Other liabilities	21	7,356,679	5,507,817
		<u>263,684,274</u>	<u>241,129,846</u>
<b>NET ASSETS</b>		<u>11,827,209</u>	<u>7,092,499</u>
<b>REPRESENTED BY</b>			
Share capital	22	5,000,000	3,000,000
Reserves		2,749,533	1,851,218
Unappropriated profit		1,979,360	1,473,076
		<u>9,728,893</u>	<u>6,324,294</u>
Minority Interest		52,383	42,142
		<u>9,781,276</u>	<u>6,366,436</u>
Surplus on revaluation of assets	23	2,045,933	726,063
		<u>11,827,209</u>	<u>7,092,499</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	24		

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

\_\_\_\_\_  
Chief Executive Officer

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Director

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Director

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Chairman

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006	2005 (Restated)
(Rupees in '000)			
Mark-up / Return / Interest Earned	26	21,194,254	12,242,627
Mark-up / Return / Interest Expensed	27	15,235,688	7,204,551
Net Mark-up / Interest Income		5,958,566	5,038,076
Provision against non-performing loans and advances	124	(697,690)	(402,298)
Provision for diminution in value of investments		-	-
Bad debts written off directly	12.5	(1,537)	(512)
		(699,227)	(402,810)
Net Mark-up / Interest Income after provisions		5,259,339	4,635,266
<b>NON MARK-UP / INTEREST INCOME</b>			
Fee, commission and brokerage income		1,864,584	1,196,419
Dividend income		37,523	53,153
Income from dealing in foreign currencies		386,997	290,091
Gain on sale of securities	28	188,971	250,057
Unrealized (loss) / gain on revaluation of investments classified as held for trading		(28,372)	23,176
Other income	29	840,920	503,005
Total Non-Mark-up / Interest Income		3,290,623	2,315,901
		8,549,962	6,951,167
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	30	5,952,637	4,364,367
Other provisions / write offs		-	10,125
Other charges	31	43,306	21,104
Total Non-Mark-up / Interest Expenses		5,995,943	4,395,596
		2,554,019	2,555,571
Share of loss of associates		(647,347)	(520,880)
Extra ordinary / unusual items		-	-
<b>PROFIT BEFORE TAXATION</b>		1,906,672	2,034,691
Taxation	32		
- Current		481,150	595,154
- Prior years		(100,874)	973
- Deferred		427,902	267,704
Share of tax of associated undertaking		(226,895)	(115,707)
		581,283	748,124
<b>PROFIT AFTER TAXATION</b>		1,325,389	1,286,567
<b>Profit / (loss) attributable to:</b>			
Equity holders of the parent		1,332,748	1,292,328
Minority interests		(7,359)	(5,761)
		1,325,389	1,286,567
<b>Basic/Diluted earnings per share</b>	33	2.92	2.98

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

Chief Executive Officer

Director

Director

Chairman

# CONSOLIDATED CASH FLOW STATEMENT

## FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006	2005
(Rupees in '000)			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		1,906,672	2,034,691
Share of loss of associates		647,347	520,880
Less: Dividend income		(37,523)	(53,153)
		<u>2,516,496</u>	<u>2,502,418</u>
Adjustments:			
Depreciation		703,228	475,886
Amortisation		19,042	15,042
Provision against non-performing advances		697,690	402,298
Unrealized loss / (gain) on revaluation of investments classified as held for trading		28,372	(23,176)
Provision against other assets		-	452
Bad debts written-off directly		1,537	512
(Gain) on sale of operating fixed assets		(12,994)	(4,322)
Provision for gratuity		62,797	46,637
		<u>1,499,672</u>	<u>913,329</u>
		4,016,168	3,415,747
(Increase) / Decrease in operating assets			
Lendings to financial institutions		16,393,628	(26,260,493)
Held-for-trading securities		(125,329)	(436,974)
Advances		(32,002,238)	(30,203,692)
Other assets - net of provision against other assets		(1,066,512)	(719,619)
		<u>(16,800,451)</u>	<u>(57,620,778)</u>
Increase / (Decrease) in operating liabilities			
Bills payable		(641,989)	1,499,453
Borrowings		2,563,938	(6,879,441)
Deposits and other accounts		17,145,187	92,681,024
Other liabilities		1,848,861	2,619,814
		<u>20,915,997</u>	<u>89,920,850</u>
		8,131,714	35,715,819
Gratuity paid		(62,797)	(46,637)
Income tax paid		(218,756)	(809,828)
Net cash flow from operating activities		<u>7,850,161</u>	<u>34,859,354</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investment in available-for-sale securities		(16,597,505)	(3,650,843)
Net investment in held-to-maturity securities		17,676,636	(17,172,695)
Investment in associated companies		(637,660)	(810,628)
Proceeds from the issue of share capital of subsidiary		-	6,000
Dividend income received		36,640	53,506
Investments in operating fixed assets		(2,520,362)	(2,857,847)
Proceeds from sale of operating fixed assets		28,414	9,547
Net cash used in investing activities		<u>(2,013,837)</u>	<u>(24,422,960)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Issue of sub-ordinated loans		-	1,324,615
Redemption of sub-ordinated loans		(1,249)	(740)
Proceeds from issue of rights shares		2,000,000	999,600
Payments against lease obligations		(373)	(919)
Dividend paid		-	(360,000)
Net cash flow from financing activities		<u>1,998,378</u>	<u>1,962,556</u>
Effects of exchange rate changes in cash and cash equivalents		45,777	2,027
Increase in cash and cash equivalents		<u>7,880,479</u>	<u>12,400,977</u>
Cash and cash equivalents at the beginning of the year		35,304,276	22,903,299
Cash and cash equivalents at the end of the year	34	<u>43,184,755</u>	<u>35,304,276</u>

The annexed notes 1 to 48 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, 2006

	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, 2005	2,500,000	-	1,008,772	-	-	856,297	41,903	4,406,972
<b>Changes in equity for 2005</b>								
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	24,870	-	24,870
Exchange differences on translation of net investment in foreign branches	-	-	-	-	2,027	-	-	2,027
Profit attributable to equity holders of the parent	-	-	-	-	-	1,292,328	-	1,292,328
Loss attributable to minority shareholders	-	-	-	-	-	-	(5,761)	(5,761)
Total recognized income and expense for the year	-	-	-	-	2,027	1,317,198	(5,761)	1,313,464
Capital contribution by minority shareholders	-	-	-	-	-	-	6,000	6,000
Transfer to statutory reserve	-	-	340,419	-	-	(340,419)	-	-
Issue of right shares	500,000	500,000	-	-	-	-	-	1,000,000
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 as previously reported	3,000,000	-	1,349,191	1,000,000	2,027	973,076	42,142	6,366,436
Effect of change in accounting policy with respect to bonus shares declared after balance sheet date - Note 6	-	500,000	-	(1,000,000)	-	500,000	-	-
Balance at December 31, 2005 as restated	3,000,000	500,000	1,349,191	-	2,027	1,473,076	42,142	6,366,436
Transfer to reserve for issue of bonus shares	-	(500,000)	-	1,000,000	-	(500,000)	-	-
Issue of bonus shares	1,000,000	-	-	(1,000,000)	-	-	-	-
<b>Changes in equity for 2006</b>								
Transfer from surplus on revaluation of fixed assets - current year net of tax	-	-	-	-	-	26,074	-	26,074
Profit attributable to equity holders of the parent	-	-	-	-	-	1,332,748	-	1,332,748
Exchange differences on translation of net investment in foreign branches	-	-	-	-	45,777	-	-	45,777
Loss attributable to minority shareholders	-	-	-	-	-	-	(7,359)	(7,359)
Total recognized income and expense for the year	-	-	-	-	45,777	1,358,822	(7,359)	1,397,240
Receivable against shares from minority	-	-	-	-	-	-	17,600	17,600
Transfer to statutory reserve	-	-	352,538	-	-	(352,538)	-	-
Issue of right shares	1,000,000	1,000,000	-	-	-	-	-	2,000,000
<b>Balance at December 31, 2006</b>	<b>5,000,000</b>	<b>1,000,000</b>	<b>1,701,729</b>	<b>-</b>	<b>47,804</b>	<b>1,979,360</b>	<b>52,383</b>	<b>9,781,276</b>

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

\_\_\_\_\_  
Chief Executive Officer

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Director

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Director

\_\_\_\_\_  
Chairman

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED DECEMBER 31, 2006

### 1. STATUS AND NATURE OF BUSINESS

Bank Alfalah Limited (holding company and the Bank) is a banking company incorporated in Pakistan on June 21, 1992 as a public limited company under the Companies Ordinance, 1984. It commenced its banking operations on November 1, 1992. The Bank's registered office is at B.A. Building, I. I. Chundrigar Road, Karachi and is listed on the Karachi and Lahore Stock Exchanges. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962 and is operating through 166 conventional banking branches (2005: 128 branches), 5 overseas branches (2005:4 branches), 23 Islamic banking branches (2005: 15 branches) and 1 offshore banking unit (2005: Nil).

The Bank has invested in 76 percent (December 2005: 76 percent) shares of Alfalah Securities (Private) Limited. The principal objective of the company is to undertake the business of brokerage. Alfalah Securities (Private) Limited was incorporated on September 23, 2003 and its registered office is 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 2005: 56 percent) shares of Alfalah GHP Investment Management Limited. The principal activity of the company is to act as an asset management company, investment advisor / fund manager and to constitute, float and manage open-ended and closed-ended funds. Alfalah GHP Investment Management Limited was incorporated on October 18, 2004 as a public limited company under the Companies Ordinance, 1984 and its registered office is 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.

### 2. BASIS OF PRESENTATION

2.1 In accordance with the Islamic Banking System, trade related mode of financing includes purchase of goods by the Bank from its customers and simultaneous re-sale to them at an 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 the facility actually utilized and the appropriate portion of mark-up thereon.

#### 2.2 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 or indirectly, owns or holds more than 20 percent of the voting securities beneficially and / or has the ability to exercise significant influence over their financial or operating policies of the investee.

The Bank has the following associates:	Percentage of shareholding
Warid Telecom (Private) Limited	16.38 percent
Alfalah GHP Value Fund	25 percent
Wateen Telecom (Private) Limited	20 percent
Alfalah Insurance Limited	30 percent

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 the equity method of accounting.

### 3. STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962, directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. 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, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, 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, vide its BSD Circular No.10 dated August 26, 2002, for banks in Pakistan till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

During the period, the Securities and Exchange Commission of Pakistan notified the Islamic Financial Accounting Standard 1 issued by the Institute of Chartered Accountants of Pakistan relating to accounting for murahaba transactions undertaken by the Bank. The said Standard is effective for financial statements of banks for the financial period beginning on or after 1 January 2006. The Bank has not adopted the above Standard as it considers that this Standard should be applicable to the dedicated Islamic banks preparing their financial statements in accordance with Islamic Financial Reporting Standard rather than to certain transactions carried out on an Islamic basis by Islamic Banking branches of traditional commercial banks. Further, the Bank also considers that adoption of the Standard may expose the Bank to certain additional tax liabilities which may need to be resolved before this Standard can be adopted.

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

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

IAS 1 - Presentation of Financial Statements - amendments relating to Capital disclosures

IFRS 2 - Share based payments

IFRS 3 - Business Combinations

IFRS 5 - Non - current assets held for sale and discontinued operations

IFRS 6 - Exploration for and evaluation of mineral resources

IFRIC 8 - Scope of IFRS 2 share based payments

IFRIC 9 - Reassessment of Embedded Derivatives

IFRIC 10 - Interim Financial Reporting and Impairment

IFRIC 11 - Group and Treasury Shares Transactions

IFRIC 12 - Services Concession Arrangements



## NOTES TO THE CONSOLIDATED 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 the Bank's plan to remain competitive with the ever increasing competition in the local market and to 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, 2006, the Islamic Banking Division's assets were Rs. 23.496 billion and its liabilities were Rs. 21.622 billion. During 2006, Islamic Banking Division earned revenue of Rs. 1,362.884 million, incurred expenses of Rs. 1,215.086 million and earned a pre-tax profit of Rs. 147.798 million with a related tax expense of Rs. 53.299 million. During 2006, Islamic Banking Division's cash inflow from operating activities was Rs. 4,012.995 million, cash outflow from investing activities was Rs. 681.337 million and cash inflow from financing activities was Rs. nil.

### 5. BASIS OF MEASUREMENT

5.1 These financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts, trading and available for sale investments and derivative financial instruments are measured at fair value.

5.2 The financial statements are presented in Pakistan Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to nearest thousand.

5.3 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets, 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 forms the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year are discussed in note 41.

### 6. CHANGE IN ACCOUNTING POLICY

During the current year, the Bank has changed its policy whereby appropriations to the reserve for issue of bonus shares is now recognized in the period in which it is approved. Previously, the financial statements were adjusted for appropriations approved subsequent to the year-end. The change has been made to comply with the directive of the Institute of Chartered Accountants of Pakistan, through circular No. 06 of 19 June 2006. The change in accounting policy has been applied retrospectively and comparative information have been restated in accordance with the treatment specified by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). Had there been no change in accounting policy, the unappropriated profit for the year ended 31 December 2005 would have been lower and reserves as at that date would have been higher by Rs. 500 million respectively.

The effect of change in accounting policy has been reflected in the statement of changes in equity. However, the change in accounting policy has not resulted in any change in the profit for the current and previous years.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 7.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks, balances with other banks and call lendings for the purpose of the cash flow statement.

#### 7.2 Revenue recognition

Mark-up income and expense and profit on murabaha and musharika financing are recognized on a time proportion basis taking into account the effective yield on the instrument. Fee, commission and brokerage income except income from guarantees are accounted for on receipt basis.

Dividend income is recognized at the time when the Bank's right to receive the dividend 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 the lease. Gains / losses on termination of leased contracts, documentation charges, front end fee and other lease income are recognized as income on receipt basis.

Unrealised lease income and mark-up / return on non-performing advances are suspended, where necessary, in accordance with the requirements of the Prudential Regulations of the State Bank of Pakistan and recognised on receipt basis.

Brokerage, commission and other income are recognized as and when such services are provided.

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. Income on continuous funding system is recognised on an accrual basis.

#### 7.3 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 against domestic advances are made 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. Provisions pertaining to overseas advances are made in accordance with the requirements of regulatory authorities of the respective countries. Advances are written off when there are no realistic prospects of recovery.

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. Finance lease receivables are included in advances to customers.

#### 7.4 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### *Held for trading*

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

### *Held to maturity*

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

### *Available for sale*

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

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

On derecognition or impairment in quoted available for sale investments, the cumulative gain or loss previously reported as surplus / (deficit) on revaluation of assets below equity is included in the profit and loss account for the period.

Quoted securities where ready quotes are available on Reuters Page (PKRV) or Stock Exchange 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 profit and loss account and that relating to the 'available for sale' portfolio is kept in a separate account, which is shown in the balance sheet below equity.

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

Premium or discount on debt securities classified as 'available for sale' and 'held to maturity' securities is amortised using effective interest method and taken to the profit and loss account.

The carrying values of investments are reviewed for impairment at each balance sheet date. When any such indication exists where the carrying values exceed the estimated recoverable amounts, provision for impairment is made through the profit and loss account.

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.

### 7.5 Sale and repurchase agreements

The Group enters into purchase / (sale) of investments under agreements to resale / (repurchase) investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resale them at future dates (reverse repo) are not recognized, as the Group does not obtain control over the assets. The amounts paid are recognized in lendings to financial institutions.

Investments sold under repurchase agreements (repo) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### 7.6 Operating fixed assets

#### *Tangible*

Fixed assets except office premises are shown at cost less accumulated depreciation and impairment loss, if any. Office premises are shown at revalued amount less accumulated depreciation.

Depreciation is charged to income applying the straight-line method using the rates specified in note 13.2 to these financial statements. Depreciation on additions is charged from the date on which the assets are available for use and ceases on the date on which they are disposed off.

Maintenance and normal repairs are charged to income as and when incurred. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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. Gain and losses on disposal of fixed assets are taken to the profit and loss account except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to retained earnings. Valuations are carried out by professionally qualified valuers, with sufficient regularity, to ensure that carrying amounts do not differ materially from their fair values.

#### *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.

#### **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

### 7.7 Capital work in progress

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

### 7.8 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 and any adjustment to tax payable in respect of previous years.

#### *Deferred*

Deferred tax is recognised using the balance sheet liability method on all temporary differences arising between the carrying amounts of assets and liabilities for 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. A deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group also recognized a deferred tax asset / liability on the surplus / deficit on revaluation of fixed assets and securities, which is adjusted against the related surplus / deficit in accordance with the requirements of the International Accounting Standard 12 - Income Taxes.

Deferred tax liability is not recognised in respect of taxable temporary differences associated with exchange translation reserves of foreign branches, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

### 7.9 Employee 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 valuations. The results of the current actuarial valuation are summarized in note 37. Actuarial gains / losses in excess of 10 percent of actuarial liabilities or plan assets are recognized over the average remaining lives of employees.

#### *Defined contribution plan*

The Bank and its subsidiaries operate a recognised provident fund scheme for all its permanent employees to which equal monthly contributions are made by the Bank 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.

### 7.10 Borrowings / deposits and their cost

- a) Borrowings / deposits are recorded at the proceeds received.
- b) Borrowing / deposit costs are recognised as an expense in the period in which these are incurred using effective mark-up / interest rate method.

### 7.11 Foreign operations and foreign currencies

#### Foreign operations

##### *Initial recognition*

The assets and liabilities of foreign branches are initially recognised at cost.

##### *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 into rupees at the average rate of conversion for the period. Translation gains and losses are taken to the Exchange Translation Reserve in equity.

#### Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Pakistan Rupees at rates of exchange prevailing at the balance sheet date. Foreign currency transactions are converted at the rates prevailing on the transaction dates.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Forward purchase contracts with the State Bank of Pakistan 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.

### 7.12 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

#### Business segments

##### Corporate finance

Corporate banking includes services provided in connection with mergers and acquisitions, underwriting, privatization, securitization, research, debts (government, high yield), equity, syndication, IPO and secondary private placements.

##### Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, funding, lending and repos and brokerage debt.

##### Retail banking

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

##### Commercial banking

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

##### Geographical segments

The Bank operates in three geographical regions being:

- Pakistan
- Asia Pacific (including South Asia)
- Middle East

### 7.13 Provisions

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

Other provisions are recognized 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7.14 Derivative financial instruments

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

### 7.15 Acceptances

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

### 7.16 Off-setting

Financial assets and financial liabilities are only off-set and the net amount 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.

### 7.17 Impairment

The carrying amount of the Group's assets other than deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's 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.

### 7.18 Dividend and appropriation to reserves

Dividend and appropriations to reserves, except appropriations which are required by law, after the balance sheet date, are recognised as a liability in the Group's financial statements in the year in which these are approved.

### 7.19 Earnings per share

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. CASH AND BALANCES WITH TREASURY BANKS	Note	2006	2005
		(Rupees in '000)	
<b>In hand</b>			
Local currency (including in transit Rs.73.673 million)		3,387,226	3,542,352
Foreign currency (including in transit Rs. 6.038 million)		1,469,879	897,695
<b>With State Bank of Pakistan in</b>			
Local currency current account	8.1	16,077,606	14,334,985
Foreign currency current account	8.2	939,560	939,111
Foreign currency deposit account	8.3	2,318,183	2,365,555
<b>With other central banks in</b>			
Foreign currency current account	8.4	1,515,185	428,064
Foreign currency deposit account	8.5	986,329	948,170
<b>With National Bank of Pakistan in</b>			
Local currency current account		1,151,358	1,332,693
<b>National Prize Bonds</b>		<u>14,034</u>	<u>9,445</u>
		<u>27,859,360</u>	<u>24,798,070</u>

- 8.1 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in the current account opened with the SBP at a sum not less than such percentage of its time and demand liabilities in Pakistan as may be prescribed by SBP.
- 8.2 Cash reserve of 5% is required to be maintained with State Bank Pakistan on deposits held under the New Foreign Currency Accounts Scheme vide BSD Circular No. 18 dated March 31, 2001.
- 8.3 Special cash reserve of 15% is required to be maintained with State Bank of Pakistan on deposits held under the New Foreign Currency Accounts Scheme vide BSD Circular No.18 dated March 31, 2001. Profit rates on these deposits are fixed by SBP on a monthly basis. It carries profit ranging between 3.63% to 4.39% (2005: 1.40% to 3.29%) per annum.
- 8.4 This includes an amount of USD 5.009 million equivalent to AFS 249.430 million placed with Da Afghan Bank of Afghanistan to comply with the capital requirements of the country's regulatory authority.
- 8.5 This represents an amount of USD 15.880 million (Taka 1.12 billion) placed with Central Bank of Bangladesh to meet the minimum capital requirement for Bangladesh operations at varying interest rates ranging from 4.22% to 5.07% (2005: 2.91% to 3.79%) per annum.

9. BALANCES WITH OTHER BANKS	Note	2006	2005
		(Rupees in '000)	
<b>In Pakistan</b>			
On current account		234,775	136,962
On deposit account	9.1	3,415,659	1,205,005
<b>Outside Pakistan</b>			
On current account		2,544,191	1,864,632
On deposit account	9.2	<u>6,540,982</u>	<u>6,509,607</u>
		<u>12,735,607</u>	<u>9,716,206</u>

- 9.1 This represents funds deposited with various banks at profit rates ranging from 7.8% to 8% (2005: 8% to 9%) per annum.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9.2 This represents placements of funds generated through foreign currency deposits scheme (FE-25), at interest rates ranging from 3.15% to 5.36% (2005: 2.0% to 4.83%) per annum with maturities upto July 2007.

10. LENDINGS TO FINANCIAL INSTITUTIONS	Note	2006	2005
(Rupees in '000)			
Call money lendings		2,589,788	790,000
Repurchase agreement lendings (Reverse Repo)	10.1 & 10.3	9,866,865	26,260,493
		<u>12,456,653</u>	<u>27,050,493</u>

10.1 These represent short term lendings to financial institutions against investment securities at interest rates ranging from 842% to 9.25% (2005: 6.75% to 8.75%) per annum with maturities upto January 2007.

10.2 PARTICULARS OF LENDINGS TO FINANCIAL INSTITUTIONS	2006	2005
(Rupees in '000)		
In local currency	12,456,653	27,050,493
In foreign currencies	-	-
	<u>12,456,653</u>	<u>27,050,493</u>

### 10.3 SECURITIES HELD AS COLLATERAL AGAINST LENDINGS TO FINANCIAL INSTITUTIONS

	2006			2005		
	Held by the Group	Given as collateral	Total	Held by the Group	Given as collateral	Total
-----Rupees in '000-----						
Market Treasury Bills	8,576,865	-	8,576,865	18,361,493	-	18,361,493
Pakistan Investment Bonds	1,290,000	-	1,290,000	7,899,000	-	7,899,000
	<u>9,866,865</u>	<u>-</u>	<u>9,866,865</u>	<u>26,260,493</u>	<u>-</u>	<u>26,260,493</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note	2006			2005		
	Held by the Group	Given as collateral	Total	Held by the Group	Given as collateral	Total
-----Rupees in '000-----						
11.	<b>INVESTMENTS</b>					
11.1	<b>INVESTMENTS BY TYPES:</b>					
	<b>Held-for-trading securities</b>					
	Market Treasury Bills	-	-	276,775	-	276,775
	Fully paid up ordinary shares / units - listed	845,355	-	443,251	-	443,251
		845,355	-	720,026	-	720,026
	<b>Available-for-sale securities</b>					
	Market Treasury Bills	19,981,883	1,681,213	5,534,534	-	5,534,534
	Pakistan Investment Bonds	1,859,240	-	2,151,343	-	2,151,343
	Fully paid up ordinary shares / units - listed	615,886	-	597,738	-	597,738
	Fully paid up ordinary shares / units - unlisted	129,821	-	76,979	-	76,979
	Term Finance Certificates	1,291,660	-	326,423	-	326,423
	Certificates of Investment	-	-	105,259	-	105,259
		23,878,490	1,681,213	8,792,276	-	8,792,276
	<b>Held-to-maturity securities</b>					
	Government Bonds	85,341	-	85,341	-	85,341
	Pakistan Investment Bonds	8,085,321	-	9,635,243	255,327	9,890,570
	Market Treasury Bills	17,197,812	-	33,967,529	-	33,967,529
	Term Finance Certificates	1,975,432	-	1,937,522	-	1,937,522
	Sukook Bonds	690,498	-	-	-	-
		28,034,404	-	45,625,635	255,327	45,880,962
	<b>Associates</b>					
	Warid Telecom (Private) Limited	2,000,000	-	1,848,804	-	1,848,804
	Wateen Telecom (Private) Limited	417,474	-	-	-	-
	Alfalsh Insurance Limited	68,990	-	-	-	-
	Alfalsh GHP Value Fund	100,000	-	100,000	-	100,000
	Loss on Associates	(825,624)	-	(405,173)	-	(405,173)
		1,760,840	-	1,543,631	-	1,543,631
	<b>Investment at cost</b>	<b>54,519,089</b>	<b>1,681,213</b>	<b>56,200,302</b>	<b>255,327</b>	<b>56,936,895</b>
	<b>Less: Provision for diminution in value of investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>Investments (net of provisions)</b>	<b>54,519,089</b>	<b>1,681,213</b>	<b>56,200,302</b>	<b>255,327</b>	<b>56,936,895</b>
	(Deficit) / Surplus on revaluation of held-for-trading securities	11.14	(7,361)	-	(7,361)	21,011
	(Deficit) on revaluation of available-for-sale securities	23.2	(63,548)	(816)	(64,364)	(49,988)
	<b>Total investments at market value</b>	<b>54,448,180</b>	<b>1,680,397</b>	<b>56,128,577</b>	<b>255,327</b>	<b>56,907,918</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Note	2006	2005
(Rupees in '000)			
<b>11.2 INVESTMENTS BY SEGMENTS:</b>			
<b>Federal Government Securities:</b>			
- Market Treasury Bills	11.3	38,860,908	39,778,838
- Pakistan Investment Bonds	11.4	9,944,561	12,041,913
- Government Bonds	11.5	85,341	85,341
- WAPDA Sukook Bonds	11.6	500,000	-
		49,390,810	51,906,092
<b>Fully Paid up Ordinary Shares:</b>			
- Listed companies	11.8	1,461,241	1,040,989
- Unlisted companies	11.9	129,821	76,979
		1,591,062	1,117,968
<b>Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:</b>			
- Listed TFCs	11.10	1,291,660	326,423
- Unlisted TFCs	11.11	1,975,432	1,937,522
		3,267,092	2,263,945
Investment in associated companies	11.12	1,760,840	1,543,631
Certificates of Investment		-	105,259
Sitara Chemical Sukook Bonds	11.6	190,498	-
<b>Total investment at cost</b>		<b>56,200,302</b>	<b>56,936,895</b>
(Deficit) / Surplus on revaluation of held-for-trading securities	11.14	(7,361)	21,011
(Deficit) on revaluation of available-for-sale securities	23.2	(64,364)	(49,988)
<b>Total investments at market value</b>		<b>56,128,577</b>	<b>56,907,918</b>

11.3 Market Treasury Bills are for the periods of six months and one year. The effective rates of profit on Market Treasury Bills range between 848 % to 879 % (2005: 5.51% to 847%) per annum with maturities upto July 2007.

11.4 Pakistan Investment Bonds are for periods of three, five, ten and fifteen years. The rates of profit range from 6% to 14% (2005: 6% to 14%) per annum with maturities from January 2007 to June 2019. These also include PIBs having face value of Rs. 35 million (2005: Rs. 35 million) pledged with the National Bank of Pakistan as security to facilitate Telegraphic Transfer discounting facility.

11.5 This represents bonds issued by the Federal Government to settle the dues of Heavy Mechanical Complex at the rate of 6% (2005: 6%) per annum redeemable on maturity in March 2009.

11.6 This represents bonds issued by Wapda for a period of ten years. The rates of profit ranges between 9.36% to 11.23% per annum. This also includes bonds issued by Sitara Chemicals for a tenure of five years with a grace period of two years. The rate of profit is KIBOR plus 1.65% per annum.

11.7 The market value of securities classified as 'held to maturity' amounted to Rs. 27.063 billion (2005: Rs. 44.656 billion) as at December 31, 2006.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11.8 Particulars of investments in listed companies / funds include the following:

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

2006	2005		2006	2005
(Number of shares) certificate / units			(Rupees in '000)	
<b>MUTUAL FUNDS</b>				
-	1,090,000	AKD Index Tracker Fund	-	10,900
465,640	369,500	Pakistan Capital Market Fund	4,881	4,881
2,637,500	1,898,500	Pakistan Premier Fund	36,555	25,728
-	4,495,290	ABAMCO Composite Fund	-	44,953
2,500,000	2,500,000	Meezan Balanced Fund	25,000	25,000
400,000	400,000	Pakistan Strategic Allocation Fund	4,000	4,000
104,144	-	AMZ Plus Income Fund (Paid up value of each unit : Rs. 100)	10,000	-
217,000	-	PICIC Growth Fund	9,229	-
2,854,794	-	United Money Market Fund (Paid up value of each unit : Rs. 100)	300,000	-
<b>INSURANCE</b>				
90,000	2,000	Adamjee Insurance	15,032	275
<b>FERTILIZER</b>				
-	10,000	Engro Chemical Pakistan Limited	-	1,618
50,000	-	Fauji Fertilizer Bin Qasim Limited	1,509	-
<b>TEXTILE WEAVING</b>				
484	-	Nakshbandi Industries Limited	6	-
<b>SYNTHETIC AND RAYON</b>				
25,000	-	Dewan Salman Fibre Limited	330	-
<b>INVESTMENT COMPANIES &amp; BANKS</b>				
3,519,602	502,500	Askari Commercial Bank Limited	305,089	27,574
-	925,000	Faysal Bank Limited	-	69,109
75,800	-	National Bank of Pakistan	17,710	-
95,000	150,000	Pakistan Industrial Credit and Investment Corporation	6,513	10,827
101,600	-	Allied Bank Limited	9,408	-
636,250	-	The Bank of Punjab	59,547	-
-	200,000	MCB Bank Limited	-	33,950
600,000	-	Soneri Bank Limited	27,271	-
-	690,000	Standard Chartered Bank (Pakistan) Limited (Formerly Union Bank Limited)	-	43,234
400,000	350,000	United Bank Limited	49,580	32,851
<b>CEMENT</b>				
695,000	695,000	D.G.Khan Cement Limited (Preference Shares)	7,660	7,660
759,500	700,000	D.G.Khan Cement Limited	54,104	76,969
797,300	900,000	Lucky Cement Limited	63,446	71,336
605,000	-	Maple Leaf Cement Factory Limited	13,980	-
200,000	-	Fauji Cement Limited	3,952	-
182,500	-	Fecto Cement Limited	12,324	-
323,000	-	Kohat Cement Company Limited	17,766	-
67,000	-	Dewan Hattar Cement Company Limited	1,196	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2006	2005		2006	2005
(Number of shares) certificate / units			(Rupees in '000)	
<b>FUEL, ENERGY &amp; OIL &amp; GAS</b>				
924,000	1,414,000	Hub Power Company Limited	30,853	50,935
25,000	15,000	Pakistan State Oil Company Limited	7,069	6,437
87,000	142,700	Pakistan Oil Fields Limited	29,727	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
3,402,000	3,802,500	Kohinoor Energy Limited	108,001	120,548
660,000	-	Oil and Gas Development Company Limited	80,257	-
10,000	-	Sui Southern Gas Company Limited	338	-
<b>AUTOMOBILE ASSEMBLERS</b>				
316,500	1,558,500	Dewan Farooque Motors Limited	10,847	49,721
<b>TEXTILE COMPOSITE</b>				
452,100	625,000	Nishat Mills Limited	39,377	67,850
-	87,000	Azgard Nine Limited	-	3,615
50,000	-	Nishat (Chunian) Limited	3,353	-
<b>TECHNOLOGY &amp; COMMUNICATION</b>				
150,000	-	Pakistan Telecommunication Company Limited	6,917	-
-	10,000	Call Mate Telips Telecom Limited	-	804
<b>CHEMICALS &amp; FERTILIZERS</b>				
500,000	348,100	ICI Pakistan Limited	88,414	49,032
-	3,200,000	Pakistan PTA Limited	-	25,098
			<u>1,461,241</u>	<u>1,040,989</u>

### 11.9 Investments in unlisted companies

2006	2005		2006	2005
(Number of shares)			(Rupees in '000)	
572,531	572,531	Pakistan Export Finance Guarantee Agency Limited Chief Executive : Mr. S.M. Zaeem	5,725	5,725
16	8	Society for Worldwide Interbank Fund Transfer Chief Executive : Mr. Pascal Deman	4,096	1,254
7,000,000	7,000,000	Al-Hamra Hills (Private) Limited Chief Executive : Mr. Habib Ahmed	70,000	70,000
5,000,000	-	Al-Hamra Avenue (Private) Limited Chief Executive : Mr. Habib Ahmed	50,000	-
			<u>129,821</u>	<u>76,979</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>11.10 Particulars of Term Finance Certificates - Quoted, Secured</b>		
<b>Gulistan Textile Mills Limited</b>	-	9,982
Nil (2005: 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		
Rating: A- (PACRA)		
Chief Executive: Mr. Saifee Zakiuddin		
<b>Askari Commercial Bank Limited (2nd Issue)</b>	99,960	100,000
20,000 (2005: 20,000) units of Rs.5,000 each		
Mark up: 6 Months KIBOR (Ask Side) + 150 basis points per annum (no floor no cap)		
Redemption: Bullet payment at maturity		
Maturity: 8 years from date of disbursement i.e October 31, 2013		
Rating: AA (PACRA)		
Chief Executive : Mr. Sheharyar Ahmad		
<b>Standard Chartered Bank (Pakistan) Limited</b>		
(Formerly Union Bank Limited - 3rd Issue)	49,990	50,000
10,000 (2005: 10,000) 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.		
Rating: AA (PACRA)		
Chief Executive : Mr. Badar Kazmi		
<b>Bank Al Habib Limited</b>	46,713	46,731
9,350 (2005: 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		
Rating: AA- (PACRA)		
Chief Executive : Mr. Abbas D. Habib		
<b>Prime Commercial Bank Limited</b>	32,870	32,884
6,578 (2005: 6,578) 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.		
Rating: A (PACRA)		
Chief Executive : Mr. Saeed I. Chaudry		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>Trust Leasing Corporation Limited</b>	33,408	44,544
11,136 (2005: 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		
Rating: AA (PACRA)		
Chief Executive : Mr. Rashid Ahmad		
<b>First Dawood Investment Bank Limited</b>	-	31,485
Nil (2005: 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 payment 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		
Rating: AA- (PACRA)		
Chief Executive : Mr. Rafiq Dawood		
<b>First Dawood Investment Bank Limited</b>	10,289	10,797
2,000 (2005: 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 payment 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		
Rating: AA- (PACRA)		
Chief Executive : Mr. Rafiq Dawood		
<b>Allied Bank Limited</b>	338,430	-
67,686 (2005: Nil) certificates of Rs.5,000 each		
Mark up: Six months KIBOR + 1.90 percent per annum with no floor & cap		
Redemption: The instrument is structured to redeem 0.24% of principal in the first 72 months and the remaining principal in 4 equal semi-annual installments of 24.94% each of the Issue amount respectively starting from the 78th month		
Maturity: September 2014		
Rating: A (JCR - VIS)		
Chief Executive : Mr. Khalid A. Sherwani		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>Pakistan Mobile Communication (Private) Limited</b>	400,000	-
80,000 (2005: Nil) units of Rs.5,000 each		
Mark up: 6 Months KIBOR (Ask Side) + 285 basis points per annum		
Redemption: 6 monthly installments of principal amount after 4 years of grace period		
Maturity: 7 years from date of issue.		
Rating: AA- (PACRA)		
Chief Executive : Mr. Zuhair A. Khaliq		
<b>ORIX Leasing Pakistan Limited</b>	185,000	-
37,000 (2005:Nil) certificates of Rs.5,000 each		
Mark up: Six months KIBOR + 1.50 per annum with no floor & cap		
Redemption: The instrument is structured to redeem 0.08% of principal in the first 24 months in 4 equal semi-annual installments and the remaining 99.22% of the principal would be redeemed during the last 36 months in six equal semi-annual installments		
Maturity: September 2012*		
* Pre-IPO amount disbursed. Maturity date to be determined upon finalization of IPO date.		
Rating: AA+ (PACRA)		
Chief Executive : Mr. Humayun Murad		
<b>Jahangir Siddiqui &amp; Company Limited</b>	50,000	-
10,000 (2005:Nil) certificates of Rs.5,000 each		
Mark up: Six months KIBOR + 2.50% with a floor of 6.0% per annum and ceiling of 16% per annum		
Redemption: The instrument is structured to redeem 0.18% of principal in the first 54 months 49.91% in the 60th month and the remaining 49.91% in the last six months		
Maturity: September 2011		
Rating: AA+ (PACRA)		
Chief Executive : Mr. Munaf Ibrahim		
<b>Financial Receivables Securitization Company Limited</b>	45,000	-
9,000 (2005:Nil) certificates of Rs.5,000 each		
Mark up: Six months KIBOR + 2.00 p.a. with a floor of 8.0% per annum and cap of 16% per annum		
Redemption: Principal redemption will be carried out in 12 and 8 equal semi-annual installments in arrears, with a grace period of 1 year and 3 years for Class A TFCs and Class B TFCs respectively.		
Maturity: 7th January 2014		
Rating: AA- (PACRA)		
Chief Executive : Mr. S. M. Nasir Raza		
	1,291,660	326,423



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>11.11 Particular of Term Finance Certificates - Unquoted, Secured</b>		
<b>Pakistan International Airlines Corporation</b>	462,482	487,481
100,000 (2005: 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		
Chief Executive : Mr. Tariq Kirmani		
<b>Al-Abbas Sugar Mills (Private) Limited</b>	-	28,720
Nil (2005: 10,000) certificates of Rs.5,000 each		
Mark up: Cut-off yield of the last successful SBP auction of 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		
Chief Executive : Mr. Shunaid Qureshi		
<b>Gulshan Spinning Mills Limited</b>	42,822	49,970
10,000 (2005: 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		
Chief Executive : Mr. Mian Abdul Shakoor		
<b>Crescent Leasing Corporation Limited</b>	30,000	40,000
10,000 (2005: 10,000) certificates of Rs.5,000 each		
Mark up: Six months KIBOR (Average, Ask Side) + 175 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		
Chief Executive : Mr. Javed A. Callea		



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>Paramount Spinning Mills Limited</b>	68,530	79,952
16,000 (2005: 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 Chief Executive : Mr. Tanveer Ahmad		
<b>Pakistan Mobile Communication (Private) Limited</b>	150,000	150,000
30,000 (2005: 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 March 2007; 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 Chief Executive : Mr. Zuhair A. Khaliq		
<b>Pakistan Mobile Communication (Private) Limited</b>	200,908	251,439
50,000 (2005: 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 Chief Executive : Mr. Zuhair A. Khaliq		
<b>Pakistan Mobile Communication (Private) Limited</b>	-	250,000
Nil (2005: 50) 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. Chief Executive : Mr. Zuhair A. Khaliq		
<b>Azgard Nine Limited</b>	37,500	50,000
10,000 (2005: 10,000) certificates of Rs.5,000 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 Chief Executive : Mr. Ahmed H. Shaikh		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<p><b>Bosicor Pakistan Limited</b>            20,000 (2005: 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            Chief Executive : Mr. M. Wasi Khan</p>	85,714	100,000
<p><b>Security Leasing Corporation Limited</b>            10,000 (2005: 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 from the issue date only on profit payment date subject to a 30 days notice period.            Maturity: April 2008            Chief Executive : Mr. M. R. Khan</p>	37,500	49,960
<p><b>Security Leasing Corporation Limited (2nd Issue)</b>            20,000 (2005: 20,000) units of Rs.5,000 each            Mark up: 6 Months KIBOR (Ask Side) + 165 basis point per annum (no floor &amp; 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.            Chief Executive : Mr. M. R. Khan</p>	59,976	100,000
<p><b>Reliance Exports (Private) Limited</b>            30 (2005: 30) units of Rs.10,000,000 each            Mark up: 6 Months KIBOR (Ask Side) + 250 basis point per annum (no floor &amp; 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.            Chief Executive : Mr. Fawad Ahmed Mukhtar</p>	300,000	300,000

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>Dominion Fertilizers (Pvt) Limited</b>	500,000	-
500 (2005: Nil) units of Rs.1,000,000 each		
Mark up: 6 Months KIBOR (Ask Side) + 325 basis point per annum (no floor & no cap)		
Redemption: Redemption after a grace period of one year in 24 equal quarterly installments The issuer has a Call Option exercisable from six months from the date of disbursement at any mark-up payment date subject to a prepayment amount of at least PKR 500 million or in multiples thereof in its entirety		
Maturity: 7 years from the date of disbursement i.e. July 2013.		
Chief Executive : Mr. Ahmed Hummayun Shaikh		
	1,975,432	1,937,522

### 11.12 Particulars of investments in associated companies

The paid up value of these shares / units is Rs.10 except where stated.

	2006	2005		2006	2005
(Number of shares)				(Rupees in '000)	
199,999,500	184,880,000		Warid Telecom (Private) Limited	2,000,000	1,848,804
41,747,460	-		Wateen Telecom (Private) Limited	417,474	-
6,899,000	-		Alfalah Insurance Limited	68,990	-
2,000,000	2,000,000		Alfalah GHP Value Fund	100,000	100,000
			Share of loss on associates	(825,624)	(405,173)
				1,760,840	1,543,631

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Market value		Cost		Long/Medium Term Credit Rating	Rated by
	2006	2005	2006	2005		
-----Rupees in '000-----						
11.13 Quality of Available for sale securities						
Market Treasury Bills	21,649,928	5,525,315	21,663,096	5,534,534	(Unrated - Government Securities)	
Pakistan Investment Bonds	1,842,473	2,111,081	1,859,240	2,151,343	(Unrated - Government Securities)	
Listed Term Finance Certificates						
Gulistan Textile Mills Limited	-	10,138	-	9,982	A-	PACRA
Bank Al-Habib Limited	45,026	44,413	46,713	46,731	AA-	PACRA
Trust Leasing Corporation Limited	33,652	43,952	33,408	44,544	AA	PACRA
First Dawood Investment Bank Limited	10,065	40,667	10,289	42,282	AA-	PACRA
Prime Commercial Bank Limited	32,808	32,518	32,870	32,884	AA	PACRA
Askari Commercial Bank Limited (2nd Issue)	99,060	98,960	99,960	100,000	AA	PACRA
Standard Chartered Bank (Pakistan) Limited (formerly Union Bank Limited)	50,810	50,000	49,990	50,000	A+	PACRA
Pakistan Mobile Communication (Pvt) Limited	402,400	-	400,000	-	AA-	PACRA
Orix Leasing Limited	185,000	-	185,000	-	AA+	PACRA
Allied Bank Limited	338,667	-	338,430	-	A	PACRA
Jahangir Siddiqui & Company Limited	50,000	-	50,000	-	AA+	PACRA
Financial Receivables Securitization Company Limited	45,000	-	45,000	-	AA-	PACRA
	1,292,488	320,648	1,291,660	326,423		
Shares in Listed Companies / Certificates / Units						
ABAMCO Composite Fund	-	42,930	-	44,953	-----Unrated)-----	
AMZ Plus Income Fund	11,065	-	10,000	-	A(f)	JCRVIS
Askari Commercial Bank Limited	157,425	63,400	118,923	27,256	AA+	PACRA
The Bank of Punjab	51,258	-	45,697	-	AA	PACRA
DG.Khan Cement Limited	-	74,620	-	76,969	-----Unrated)-----	
DG.Khan Cement Limited (Preference Shares)	6,497	5,838	7,660	7,660	-----Unrated)-----	
Faysal Bank Limited	-	68,542	-	69,109	-----Unrated)-----	
Dewan Farooque Motors Limited	4,906	-	10,847	-	-----Unrated)-----	
Fecto Cement Limited	4,918	-	12,324	-	-----Unrated)-----	
Hub Power Company Limited	18,198	33,936	24,279	50,935	-----Unrated)-----	
ICI Pakistan Limited	57,750	-	88,414	-	-----Unrated)-----	
Kohat Cement Company Limited	10,271	-	17,766	-	A	PACRA
Kohinoor Energy Limited	84,710	104,218	108,001	119,843	-----Unrated)-----	
Lucky Cement Limited	-	75,510	-	71,336	-----Unrated)-----	
MCB Bank Limited	-	33,560	-	33,950	AA	PACRA
Meezan Balanced Fund	21,500	24,375	25,000	25,000	5 Star	PACRA
Nishat (Chunian) Limited	1,908	-	3,353	-	-----Unrated)-----	
Nishat Mills Limited	39,694	36,888	39,377	36,118	A+	PACRA
Pakistan Capital Market Fund	5,332	5,480	4,881	4,881	5 Star	PACRA
Pakistan Premier Fund	34,288	29,333	36,555	25,728	5 Star	PACRA
Pakistan Strategic Allocation Fund	3,400	4,680	4,000	4,000	5 Star	PACRA
PICIC Growth Fund	6,109	-	9,229	-	MFR 4 Star	JCRVIS
United Bank Limited	61,400	-	49,580	-	AA	JCRVIS
	580,629	603,310	615,886	597,738		
Shares in Un-listed Companies						
Pakistan Export Finance Guarantee Agency Limited	Not Applicable		5,725	5,725	-----Unrated)-----	
Society for Worldwide Interbank Fund Transfer	Not Applicable		4,096	1,254	-----Unrated)-----	
Al-Hamra Hills (Private) Limited	Not Applicable		70,000	70,000	-----Unrated)-----	
Al-Hamra Avenue (Private) Limited	Not Applicable		50,000	-	-----Unrated)-----	
			129,821	76,979		
Certificates of Investment						
Pak Libya Holding Company (Private) Limited	Not Applicable		-	105,259	AA-	PACRA
	25,365,518	8,560,354	25,559,703	8,792,276		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11.14 Unrealized gain on revaluation of investments classified as held for trading - net

Investee Company	Unrealised gain / (loss)		Cost	
	2006	2005	2006	2005
	-----Rupees in '000-----			
<b>Fully paid up ordinary shares / units - Listed</b>				
Allied Bank Limited	92	-	9,408	-
Askari Commercial Bank Limited	25,792	(2)	186,166	319
Adamjee Insurance Company Limited	(1,487)	(1)	15,032	275
AKD Index Trackker Fund	-	(926)	-	10,900
Azgard Nine Limited	-	431	-	3,615
The Bank of Punjab	(689)	-	13,850	-
Callmate Telips Telecom Limited	-	(8)	-	804
DG Khan Cement Limited	(6,293)	-	54,104	-
Dewan Hattar Cement Company Limited	(526)	-	1,196	-
Dewan Farooque Motors Limited	-	2,333	-	49,721
Dewan Salman Fibre Limited	(139)	-	330	-
Engro Chemical (Pakistan) Limited	-	26	-	1,618
Fauji Fertilizer Bin Qasim Limited	(84)	-	1,509	-
Fauji Cement Limited	(932)	-	3,952	-
Hub Power Company Limited	176	-	6,574	-
ICI Pakistan Limited	-	(122)	-	49,030
Kot Addu Power Company Limited	-	2,186	-	59,652
Kohinoor Energy Limited	-	26	-	705
Lucky Cement Limited	(15,687)	-	63,446	-
Maple Leaf Cement Factory Limited	(3,453)	-	13,980	-
Nakshbandi Industries Limited	(2)	-	6	-
National Bank of Pakistan Limited	(712)	-	17,710	-
Nishat Mills Limited	-	2,318	-	31,732
Oil and Gas Development Company Limited	(4,555)	-	80,257	-
PICIC Energy Fund	-	-	-	2,000
Pakistan Oil Fields Limited	701	1,729	29,727	59,347
Pakistan Industrial Credit and Investment Corporation	(862)	(1,107)	6,513	10,827
Pakistan Petroleum Limited	-	(28)	-	5,284
Pakistan PTA Limited	-	661	-	25,099
Pakistan State Oil Company Limited	281	(185)	7,069	6,437
Pakistan Telecommunication Limited	(272)	-	6,917	-
Soneri Bank Limited	1,319	-	27,271	-
Southern Electric Power Company Limited	-	3,609	-	49,801
Standard Chartered Bank (Formerly Union Bank Limited)	-	4,272	-	43,234
Sui Southern Gas Company Limited	(103)	-	338	-
United Bank Limited	-	5,562	-	32,851
United Money Market Fund	74	-	300,000	-
<b>Market Treasury Bills</b>	-	237	-	276,775
	(7,361)	21,011	845,355	720,026

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Note	2006	2005
(Rupees in '000)			
<b>12. ADVANCES</b>			
Loans, cash credits, running finances, etc.			
In Pakistan		128,009,414	99,610,701
Outside Pakistan		3,552,842	1,361,725
		<u>131,562,256</u>	<u>100,972,426</u>
Net investment in finance lease			
In Pakistan	12.2	14,278,002	12,149,319
Outside Pakistan		-	-
		<u>14,278,002</u>	<u>12,149,319</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,687,954	2,222,723
Payable outside Pakistan		4,650,961	4,848,219
		<u>6,338,915</u>	<u>7,070,942</u>
		<u>152,179,173</u>	<u>120,192,687</u>
Provision for non-performing advances	124	(2,236,456)	(1,552,981)
		<u>149,942,717</u>	<u>118,639,706</u>

### 12.1 Particulars of advances

12.1.1 In local currency	142,168,710	113,675,874
In foreign currencies	10,010,463	6,516,813
	<u>152,179,173</u>	<u>120,192,687</u>
12.1.2 Short Term (upto one year)	86,303,763	70,622,790
Long Term (over one year)	65,875,410	49,569,897
	<u>152,179,173</u>	<u>120,192,687</u>

### 12.2 Net investment in Finance Lease / Ijarah Financing

	2006				2005			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
------(Rupees in '000)-----								
Lease rentals receivable	3,179,454	10,135,226	47,765	13,362,445	2,009,696	9,757,589	55,173	11,822,458
Residual value	373,072	2,908,809	11,966	3,293,847	202,752	1,998,626	3,997	2,205,375
Minimum lease payments	3,552,526	13,044,035	59,731	16,656,292	2,212,448	11,756,215	59,170	14,027,833
Financial charges for future periods	(558,733)	(1,811,557)	(8,000)	(2,378,290)	(346,586)	(1,528,074)	(3,854)	(1,878,514)
Present value of minimum lease payments	<u>2,993,793</u>	<u>11,232,478</u>	<u>51,731</u>	<u>14,278,002</u>	<u>1,865,862</u>	<u>10,228,141</u>	<u>55,316</u>	<u>12,149,319</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12.3 Advances include Rs.2.31 billion (2005: Rs.1.06 billion) which have been placed under non-performing status as detailed below:-

	2006								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	------(Rupees in '000)-----								
Category of Classification									
Other Assets Especially Mentioned (Agri Financing)	60,158	-	60,158	-	-	-	-	-	-
Substandard	489,955	-	489,955	87,025	-	87,025	87,025	-	87,025
Doubtful	503,524	-	503,524	143,706	-	143,706	143,706	-	143,706
Loss	1,209,360	45,671	1,255,031	923,979	20,858	944,837	923,979	20,858	944,837
	<u>2,262,997</u>	<u>45,671</u>	<u>2,308,668</u>	<u>1,154,710</u>	<u>20,858</u>	<u>1,175,568</u>	<u>1,154,710</u>	<u>20,858</u>	<u>1,175,568</u>
	-----								
	2005								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	------(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	6,975	-	6,975
Doubtful	48,787	-	48,787	11,006	-	11,006	11,006	-	11,006
Loss	776,116	41,275	817,391	668,601	20,787	689,388	668,601	20,787	689,388
	<u>1,018,680</u>	<u>41,275</u>	<u>1,059,955</u>	<u>686,582</u>	<u>20,787</u>	<u>707,369</u>	<u>686,582</u>	<u>20,787</u>	<u>707,369</u>

### 12.4 Particulars of provision against non-performing advances

	Note	2006			2005		
		Specific	General	Total	Specific	General	Total
		------(Rupees in '000)-----					
Opening balance		707,369	845,612	1,552,981	851,119	508,938	1,360,057
Opening balance of foreign branch acquired		-	-	-	20,787	16,629	37,416
Exchange adjustments		70	(1,650)	(1,580)	-	-	-
Charge for the year		652,227	217,069	869,296	206,704	320,269	526,973
		<u>1,359,666</u>	<u>1,061,031</u>	<u>2,420,697</u>	<u>1,078,610</u>	<u>845,836</u>	<u>1,924,446</u>
Amounts written off	12.5	(12,635)	-	(12,635)	(250,427)	-	(250,427)
Reversals / recoveries		(171,463)	(143)	(171,606)	(124,451)	(224)	(124,675)
Other movements		-	-	-	3,637	-	3,637
Closing balance		<u>1,175,568</u>	<u>1,060,888</u>	<u>2,236,456</u>	<u>707,369</u>	<u>845,612</u>	<u>1,552,981</u>

12.4.1 General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan. General provision for overseas branches are maintained in accordance with the guidelines of the authorities in the respective countries.

### 12.4.2 Particulars of provisions against non-performing advances

	2006			2005		
	Specific	General	Total	Specific	General	Total
	------(Rupees in '000)-----					
In local currency	1,154,710	1,020,511	2,175,221	686,582	828,983	1,515,565
In foreign currencies	20,858	40,377	61,235	20,787	16,629	37,416
	<u>1,175,568</u>	<u>1,060,888</u>	<u>2,236,456</u>	<u>707,369</u>	<u>845,612</u>	<u>1,552,981</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Note	2006	2005
(Rupees in '000)			
<b>12.5 Particulars of write-offs</b>			
<b>12.5.1 Against provisions</b>		12,635	250,427
Directly charged to Profit & Loss account		<u>1,537</u>	<u>512</u>
		<u>14,172</u>	<u>250,939</u>
<b>12.5.2 Write Offs of Rs. 500,000 and above</b>	12.6	11,991	248,808
Write Offs of Below Rs. 500,000		<u>2,181</u>	<u>2,131</u>
		<u>14,172</u>	<u>250,939</u>

### 12.6 Details of loans written-off of Rs. 500,000/- and above

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

	Note	2006	2005
(Rupees in '000)			
<b>12.7 Particulars of loans and advances to directors, executives, associated companies, etc.</b>			
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons			
Balance at beginning of year		153,675	121,097
Loans granted during the year		316,729	160,500
Repayments		<u>(261,340)</u>	<u>(127,922)</u>
Balance at end of year		<u>209,064</u>	<u>153,675</u>
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			
Balance at beginning of year		31,969	-
Loans granted during the year		3,086,144	35,000
Repayments		<u>(17,204)</u>	<u>(3,031)</u>
Balance at end of year		<u>3,100,909</u>	<u>31,969</u>
		<u>3,309,973</u>	<u>185,644</u>

### 13. OPERATING FIXED ASSETS

Capital work-in-progress	13.1	1,370,175	1,044,921
Property and equipment	13.2	9,134,464	5,580,047
Intangible assets	13.3	<u>43,802</u>	<u>35,190</u>
		<u>10,548,441</u>	<u>6,660,158</u>
<b>13.1 Capital work-in-progress</b>			
Advances to suppliers and contractors		<u>1,370,175</u>	<u>1,044,921</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13.2 Property and equipment

Description	2006									
	Cost / revaluation at January 1, 2006	Additions / (disposals) / *adjustments	Revaluation surplus	Cost/ Revaluation as at December 31, 2006	Accumulated depreciation at January 1, 2006	Depreciation for the year/ (on disposal)/ *adjustments	Accumulated depreciation on Revaluation as at Dec 31, 2006	Accumulated depreciation at December 31, 2006	Net Book Value at December 31, 2006	Rate of depreciation % per annum
(Rupees in '000)										
Office premises	2,849,274	778,636	-	3,605,728	51,330	39,151	(83,070)	-	3,605,728	2.5% - 5.5%
Revaluation	1,138,799	(22,182)	1,902,201	3,041,000	80,226	(7411)	(120,339)	-	3,041,000	2.5% - 5.5%
	3,988,073	778,636	1,902,201	6,646,728	131,556	79,264	(203,409)	-	6,646,728	
		(22,182)				(7411)				
Lease hold improvements	481,899	224,655	-	702,109	177,669	112,536	-	291,180	410,929	20%
		(1,754)				(313)				
		(2,691)				1,288				
Furniture and Fixtures	381,300	148,920	-	531,445	107,706	48,633	-	154,841	376,604	10% - 25%
		(1,866)				(903)				
		3,091				(595)				
Office equipment	1,553,989	889,215	-	2,418,248	624,484	372,043	-	986,847	1,431,401	20% - 25%
		(7,542)				(5,509)				
		(17,414)				(4,171)				
Vehicles	370,035	155,386	-	480,316	156,639	89,485	-	213,052	267,264	25%
		(42,887)				(31,904)				
		(2,218)				(1,168)				
Leased Vehicles	5,069	-	-	5,069	2,264	1,267	-	3,531	1,538	25%
	6,780,365	2,196,812	1,902,201	10,783,915	1,200,318	703,228	(203,409)	1,649,451	9,134,464	
		(54,049)				(38,629)				
		(41,414)				(12,057)				
2005										
Description	Cost / revaluation at January 1, 2006	Additions / (disposals) / *adjustments	Revaluation surplus	Cost/ Revaluation as at December 31, 2006	Accumulated depreciation at January 1, 2006	Depreciation for the year/ (on disposal)/ *adjustments	Accumulated depreciation on Revaluation as at Dec 31, 2006	Accumulated depreciation at December 31, 2006	Net Book Value at December 31, 2006	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	
		(23,983)				2,895				
Lease hold improvements	295,292	163,023	-	481,899	105,960	74,971	-	177,669	304,230	20%
		(399)				(367)				
		23,983				(2,895)				
Furniture and fixtures	261,480	121,811	-	381,300	74,694	33,807	-	107,706	273,594	10% - 25%
		(1,991)				(795)				
		-				-				
Office equipment	894,698	663,671	-	1,553,989	389,737	237,395	-	624,484	929,505	20% - 25%
		(4,380)				(2,648)				
		-				-				
Vehicles	212,447	166,056	-	370,035	108,569	54,273	-	156,639	213,396	25%
		(8,468)				(6,203)				
		-				-				
Leased Vehicles	5,069	-	-	5,069	997	1,267	-	2,264	2,805	25%
	4,499,449	2,296,154	-	6,780,365	734,445	475,886	-	1,200,318	5,580,047	
		(15,238)				(10,013)				
		-				-				

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- 13.3 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs. 303419 million (2005: Rs. 229.195 million).
- 13.4 The fair value of property and equipment as per management estimate is not materially different from the carrying amount.
- 13.5 Office premises have been revalued on 31 December 2006 on the basis of market value by Harvester Services (Private) Limited, engineers, surveyors, inspectors, valuers, loss assessors. Had there been no revaluation, the figures would have been as follows:

	Cost as at December 31, 2006	Accumulated depreciation as at December 31, 2006	Book value as at December 31, 2006
Office premises	<u>3,605,728</u>	<u>83,070</u>	<u>3,522,658</u>

- 13.6 The above balance of owned operating assets represents the value of assets subsequent to revaluation on December 30, 1999, December 31, 2003 and December 31, 2006 which had resulted in surplus of Rs. 830.950 million, Rs. 516.802 million and Rs. 2.106 billion respectively and additions thereafter at cost.
- 13.7 As at December 31, 2006, un-depreciated balance of revaluation surplus included in the carrying value of fixed assets, amounted to Rs. 3,124 million (2005: Rs.1,058.573 million).
- 13.8 Intangible assets

	2006						Book value at closing 2006	Rate of amortization %
	COST			AMORTIZATION				
	Opening Balance 2006	Additions/ (Deletions)/	Closing Balance 2006	Opening Balance 2006	Amortization	Closing Balance 2006		
	----- (Rupees in '000) -----							
Computer software	<u>70,633</u>	<u>27,654</u>	<u>98,287</u>	<u>35,443</u>	<u>19,042</u>	<u>54,485</u>	<u>43,802</u>	<u>20</u>
2005	<u>53,543</u>	<u>17,090</u>	<u>70,633</u>	<u>20,401</u>	<u>15,042</u>	<u>35,443</u>	<u>35,190</u>	<u>20</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13.9 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)-----					
<b>Leasehold improvements</b>						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	1,754	313	1,441	76	Various	Various
<b>Furniture and fixtures</b>						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	1,866	903	963	968	Various	Various
<b>Office equipment</b>						
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	7,542	5,509	2,033	2,672	Various	Various
<b>Vehicles</b>						
Vehicle	795	389	406	406	As per Bank's policy	Mr.Abdul Qayum
Vehicle	943	601	342	341	As per Bank's policy	Mr.Shahid Murtaza
Vehicle	785	525	260	260	As per Bank's policy	Mr.Mumtaz Hasan
Vehicle	795	370	425	442	As per Bank's policy	Mr.Ibrahim M. Siddique
Vehicle	555	232	323	334	As per Bank's policy	Mr.Munaf Tai
Vehicle	555	255	300	416	Auction	Mr.Umar Farooq Wadiwala
Vehicle	795	431	364	703	Auction	Mr.Irfan Raza
Vehicle	795	431	364	626	Auction	Mr.Mohammad Bilal
Vehicle	555	233	322	422	Auction	Mr.Mohammad Bilal
Vehicle	595	203	392	407	Auction	Mr.Irfan Raza
Vehicle	595	203	392	432	Auction	Mr.Adnan Hasan Khan
Vehicle	555	189	366	390	Auction	Capt. Riffaqt Ali
Vehicle	555	189	366	430	Auction	Capt. Riffaqt Ali
Vehicle	604	151	453	517	Auction	Mr.Rehan Mithani
Vehicle	835	17	818	835	Insurance Claim	M/s. Adamjee Insurance Co. Ltd.
Vehicle	831	-	831	831	Insurance Claim	M/s. Adamjee Insurance Co. Ltd.
Vehicle	795	432	363	700	Insurance Claim	M/s. Adamjee Insurance Co. Ltd.
Vehicle	795	302	493	725	Insurance Claim	M/s. Adamjee Insurance Co. Ltd.
Vehicle	884	148	736	881	Insurance Claim	M/s. Adamjee Insurance Co. Ltd.
Vehicle	835	281	554	652	Insurance Claim	M/s. Adamjee Insurance Co. Ltd.
	<u>14,452</u>	<u>5,582</u>	<u>8,870</u>	<u>10,750</u>		
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	28,435	26,322	2,113	13,948	Various	Various

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Note	2006	2005
(Rupees in '000)			
<b>14. OTHER ASSETS</b>			
Income / mark-up accrued in local currency		3,407,048	2,423,624
Income / mark-up accrued in foreign currency		162,588	107,158
Advances, deposits, advance rent and other prepayments		1,629,559	1,298,386
Membership card		31,000	31,000
Advance taxation		447,824	142,483
Unrealized gain on forward foreign exchange contracts		25,002	26,095
Dividend receivable		943	60
Receivable against sale of shares		-	422,606
Prepaid exchange risk fee		5,277	1,628
Stationery & stamps on hand		66,771	49,258
Receivable against issue of rights		160	400
Receivable from brokers	14.1	342,135	101,015
		<u>6,118,307</u>	<u>4,603,713</u>
Mark-up held in suspense account		(268,505)	(144,245)
Less: Provision held against other assets		(9,674)	(9,674)
		<u>5,840,128</u>	<u>4,449,794</u>
14.1 This represents amounts receivable from brokers against sale of shares.			
<b>15. BILLS PAYABLE</b>			
In Pakistan		3,059,519	3,458,499
Outside Pakistan		31,616	274,625
		<u>3,091,135</u>	<u>3,733,124</u>
<b>16. BORROWINGS</b>			
In Pakistan		8,300,250	5,815,915
Outside Pakistan		108,077	28,474
		<u>8,408,327</u>	<u>5,844,389</u>
<b>16.1 Particulars of borrowings with respect to currencies</b>			
In local currency		8,300,250	5,815,915
In foreign currencies		108,077	28,474
		<u>8,408,327</u>	<u>5,844,389</u>
<b>16.2 Details of borrowings secured / unsecured</b>			
<i>Secured</i>			
Borrowings from financial institutions		14,197	-
Borrowings from State Bank of Pakistan under:			
Export refinance scheme	16.3	5,950,216	5,585,988
Long Term Finance for Export Oriented Projects scheme (LTFEOP)	16.4	663,053	29,927
Repurchase agreement borrowings	16.5	1,672,784	100,000
		8,300,250	5,715,915
<i>Unsecured</i>			
Call borrowings		-	100,000
Overdrawn nostro accounts		108,077	28,474
		<u>108,077</u>	<u>128,474</u>
		<u>8,408,327</u>	<u>5,844,389</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- 16.3 This facility is secured against a demand promissory note executed in favour of the State Bank of Pakistan. The mark-up rate on this facility is 6.5 % (2005: 7.5%) per annum payable on a quarterly basis.
- 16.4 This facility is secured against a demand promissory note executed in favour of the State Bank of Pakistan. The mark-up rate on this facility is 5 % (2005: 5%) per annum payable on a quarterly basis.
- 16.5 This represents repurchase agreement borrowings from other banks at rates ranging from 8.72 % to 9.10% (2005: 6.5%) per annum maturing by February 16, 2007.

	2006	2005
	(Rupees in '000)	
<b>17. DEPOSITS AND OTHER ACCOUNTS</b>		
<b>Customers</b>		
Fixed deposits	88,851,222	80,167,779
Savings deposits	78,888,612	81,048,878
Current accounts - non-remunerative	58,210,263	45,813,931
Others	3,616,936	3,509,310
	229,567,033	210,539,898
<b>Financial institutions</b>		
Remunerative deposits	9,892,433	11,760,879
Non-remunerative deposits	21,306	34,808
	9,913,739	11,795,687
	239,480,772	222,335,585
<b>17.1 Particulars of deposits</b>		
In local currency	214,795,425	202,071,404
In foreign currencies	24,685,347	20,264,181
	239,480,772	222,335,585

### 18. SUB-ORDINATED LOANS

Term Finance Certificates 1 - Quoted, Unsecured	648,960	649,220
Mark up	Base Rate + 1.33% (Base Rate is defined as the cut-off yield on the last successful auction of the 5 year Pakistan Investment Bonds (PIB) conducted by SBP with a floor of 10% per annum and a cap of 15% per annum)	
Subordination	The TFCs are subordinated to all other indebtedness of the Bank including deposits.	
Issue Date	June 2002	
Rating	AA-	
Tenor	Six years	
Redemption	2 equal semi-annual instalments commencing 66th month after the issue date.	
Maturity	December 2008	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
Term Finance Certificates II - Quoted, Unsecured	1,249,040	1,249,520
Mark up	Base rate + 1.50 percent (Base Rate is defined as the simple average (average of the KIBOR Rate quoted by banks for that day) of the ask rate of the six months Karachi Interbank Offer rate (KIBOR) prevailing on the first day of the start of each half yearly period for mark up due at the end of that period)	
Subordination	The TFCs are subordinated as to the payment of principal & profit. In case of occurrence of default, the TFC holder will rank below the senior unsecured creditors and depositors and other creditors of the Bank.	
Issue Date	December 2004	
Rating	AA-	
Tenor	Eight years	
Redemption	3 equal semi-instalments commencing 84th month after the issue date.	
Maturity	December 2012.	
Term Finance Certificates III - Quoted, Unsecured	1,324,106	1,324,615
Mark up	Base rate + 1.50% (Base Rate is defined as 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 & profit to all other indebtedness of the bank.	
Issue Date	November 2005	
Rating	AA-	
Tenor	Eight years	
Redemption	3 equal semi-instalments commencing 84th month after the issue date.	
Maturity	November 2013.	
	<u>3,222,106</u>	<u>3,223,355</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2006			2005		
	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	62	759	821	151	670
Over 1 years to 4 years	379	1	378	903	63	840
	<u>1,200</u>	<u>63</u>	<u>1,137</u>	<u>1,724</u>	<u>214</u>	<u>1,510</u>

- 19.1 A subsidiary has entered into leasing arrangement with Faysal Bank Limited for vehicles. These lease liabilities are payable in equal monthly installments upto September 2010. Financial charges included in the lease rentals are determined on the basis of discount factors applied at rates ranging from 7% to 12.53 % (2005: 7% - 12.50%) per annum.

	Note	2006	2005
		(Rupees in '000)	
<b>20. DEFERRED TAX LIABILITIES</b>			
<b>Deferred credits arising due to</b>			
Write offs / reversals of provision for bad debts		688,974	563,178
Leasing operations		665,463	356,921
Excess of accounting net book value over tax written down value of fixed assets		837,272	72,414
Surplus on revaluation of operating fixed assets		1,130,553	407,629
		<u>3,322,262</u>	<u>1,400,142</u>
<b>Deferred debits arising due to</b>			
Provision for doubtful debts		(1,187,667)	(883,798)
Deficit on revaluation of securities		(10,477)	(18,803)
License fee charged off		-	(13,475)
		<u>(1,198,144)</u>	<u>(916,076)</u>
		<u>2,124,118</u>	<u>484,066</u>
<b>21. OTHER LIABILITIES</b>			
Mark-up/ return/ interest payable in local currency		2,733,823	1,783,199
Mark-up/ return/ interest payable in foreign currency		205,197	97,558
Unearned commission and income on bills discounted		119,971	118,326
Accrued expenses		164,216	146,664
Payable against redemption of credit card reward points		136,224	102,793
Branch adjustment account		296,512	344,186
Security deposits against lease		3,317,158	2,301,834
Exchange difference payable to SBP		8	13,099
Payable against purchase of shares		-	283,752
Payable to brokers	21.1	11,279	98,917
Others		372,291	217,489
		<u>7,356,679</u>	<u>5,507,817</u>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 22. SHARE CAPITAL

#### 22.1 Authorized Capital

2006	2005		2006	2005
(Number of shares)			(Rupees in '000)	
<u>800,000,000</u>	<u>400,000,000</u>	Ordinary shares of Rs. 10/- each	<u>8,000,000</u>	<u>4,000,000</u>

#### 22.2 Issued, subscribed and paid up Ordinary Shares of Rs.10 each

225,000,000	125,000,000	Fully paid in cash	2,250,000	1,250,000
<u>275,000,000</u>	<u>175,000,000</u>	Issued as bonus shares	<u>2,750,000</u>	<u>1,750,000</u>
<u>500,000,000</u>	<u>300,000,000</u>		<u>5,000,000</u>	<u>3,000,000</u>

22.3 The right shares include 8,000 shares, representing rights relating to applications rejected and missing from the offer for sale of shares. These right shares will be offered to those applicants who were allotted/ offered shares in accordance with the directives / guidance of the Securities and Exchange Commission of Pakistan. These shares are subject to all corporate actions applicable to all other ordinary shares.

		2006	2005
		(Rupees in '000)	
<b>23. SURPLUS ON REVALUATION OF ASSETS</b>			
Surplus / (deficit) arising on revaluation of:			
- Fixed assets	23.1	2,099,820	757,248
- Securities	23.2	(53,887)	(31,185)
		<u>2,045,933</u>	<u>726,063</u>
<b>23.1 Surplus on revaluation of fixed assets</b>			
Surplus on revaluation of fixed assets		3,453,605	1,347,995
Less: related deferred tax liability		(1,205,963)	(468,999)
Transferred to retained earnings relating to incremental depreciation (net of tax)		<u>(147,822)</u>	<u>(121,748)</u>
		<u>2,099,820</u>	<u>757,248</u>
<b>23.2 Surplus / (deficit) on revaluation of available-for-sale securities</b>			
Government securities		(29,935)	(49,481)
Quoted shares		(35,257)	5,572
Term Finance Certificates - quoted		828	(6,079)
		<u>(64,364)</u>	<u>(49,988)</u>
Related deferred tax asset		<u>10,477</u>	<u>18,803</u>
		<u>(53,887)</u>	<u>(31,185)</u>
<b>24. CONTINGENCIES AND COMMITMENTS</b>			
<b>24.1 Direct credit substitutes</b>			
i) Government		1,060,022	964,712
ii) Banking companies & other financial institutions		50,077	44,214
iii) Others		<u>1,607,806</u>	<u>975,229</u>
		<u>2,717,905</u>	<u>1,984,155</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>24.2 Transaction-related contingent liabilities</b>		
i) Government	11,477,550	8,957,823
ii) Banking companies & other financial institutions	617,392	662,917
iii) Others	5,603,788	5,004,954
	17,698,730	14,625,694
<b>24.3 Trade-related contingent liabilities</b>		
Letters of credit	27,080,933	20,490,078
Acceptances	5,261,893	4,814,441
	27,080,933	20,490,078
<b>24.4 Other contingencies</b>		
Claims against Bank not acknowledged as debts	643,384	540,749
	643,384	540,749
<b>24.5 Commitments in respect of forward lendings</b>		
Forward repurchase agreement lendings	922,102	-
Commitments to extend credit	6,106,000	2,046,000
	6,106,000	2,046,000
<b>24.6 Commitments in respect of forward exchange contracts</b>		
Purchase	4,331,315	3,195,895
Sale	4,821,648	4,683,657
	4,331,315	3,195,895
	4,821,648	4,683,657
<b>24.7 Commitments for the acquisition of operating fixed assets</b>	520,565	122,942
	520,565	122,942
<b>24.8 Commitments in respect of repo transactions</b>		
Repurchase	1,777,650	206,743
Resale	9,924,099	26,457,918
	1,777,650	206,743
	9,924,099	26,457,918
<b>24.9 Commitments in respect of CFS transactions</b>		
CFS transaction (including transactions to be rolled over) entered into by the company in respect of which the purchase transactions have not been settled at year end	443	-
	443	-
CFS transaction (including transactions to be rolled over) entered into by the company in respect of which the sale transactions have not been settled at year end	7,255	-
	7,255	-

These transactions have been settled subsequent to the year end.

## 25. DERIVATIVE INSTRUMENTS

The derivative activities of the Bank are primarily restricted to Forward Rate Agreements which are mainly conducted with banks, financial institutions and other entities. These off-balance sheet instruments are contracts, the characteristics of which are derived from those of underlying assets, these include forward 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25.1 Product analysis

Counterparties	2006					
	Interest Rate Swaps		Forward Rate Agreements		FX Options	
	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal
	------(Rupees in '000)-----					
With Banks for						
Hedging	-	-	116	8,713,216	-	-
Market Making	-	-	-	-	-	-
With FIs other than banks						
Hedging	-	-	-	-	-	-
Market Making	-	-	-	-	-	-
With other entities for						
Hedging	-	-	130	401,194	-	-
Market Making	-	-	-	-	-	-
Total						
Hedging	-	-	246	9,114,410	-	-
Market Making	-	-	-	-	-	-

### 25.2 Maturity analysis

#### Forward Rate Agreements

Remaining Maturity	2006				
	No. of Contracts	Notional Principal (Rupees in '000)	Mark to Market		
			Negative	Positive	Net (Rupees in '000)
Upto 1 month	64	3,695,882	-	6,129	3,702,011
1 to 3 months	80	2,579,520	-	10,000	2,589,520
3 to 6 months	49	2,284,308	-	12,841	2,297,149
6 month to 1 Year	53	554,700	-	9,583	564,283
1 to 2 Year	-	-	-	-	-
2 to 3 Years	-	-	-	-	-
3 to 5 Years	-	-	-	-	-
5 to 10 years	-	-	-	-	-
Above 10 Years	-	-	-	-	-
	<u>246</u>	<u>9,114,410</u>	<u>-</u>	<u>38,553</u>	<u>9,152,963</u>

2006                      2005  
(Rupees in '000)

### 26. MARK-UP / RETURN / INTEREST EARNED

a) On loans and advances to:		
i) customers	14,339,396	8,775,650
ii) financial institutions	96,517	89,513
b) On investments in:		
i) held for trading securities	10,605	1,401
ii) available for sale securities	2,513,194	574,719
iii) Held to Maturity Securities	3,020,932	1,888,494
c) On deposits with financial institutions	740,026	420,088
d) On securities purchased under resale agreements	473,584	492,762
	<u>21,194,254</u>	<u>12,242,627</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26.1 These include mark-up earned of Rs. 1,265.267 million (2005: Rs. 533.489 million) of Islamic Banking Division.

	Note	2006	2005
(Rupees in '000)			
<b>27. MARK-UP / RETURN / INTEREST EXPENSED</b>			
Deposits		13,476,166	6,446,202
Securities sold under repurchase agreements		1,032,832	235,177
Other short term borrowings		373,369	315,129
Term Finance Certificates		353,170	207,874
Lease obligation		151	169
		15,235,688	7,204,551
<b>28. GAIN / (LOSS) ON SALE OF SECURITIES</b>			
Market Treasury Bills		(1,324)	-
Pakistan Investment Bonds		(86)	7,673
Listed shares		190,381	242,384
		188,971	250,057
<b>29. OTHER INCOME</b>			
Net profit on sale of property and equipment		12,994	4,322
Postage, telex service charges etc.		827,926	498,683
		840,920	503,005
<b>30. ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances, etc.		2,305,468	1,563,377
Charge for defined benefit plan		62,797	46,637
Contribution to defined contribution plan		81,395	54,797
Brokerage & commission		456,347	321,122
Rent, taxes, insurance, electricity, etc.		734,796	533,096
Legal and professional charges		73,396	48,606
Communications		269,488	213,472
Repairs and maintenance		267,342	179,063
Stationery and printing		139,623	117,504
Advertisement and publicity		358,957	285,158
Donations	30.1	3,635	117,600
Auditors' remuneration	30.2	5,451	4,659
Depreciation	13.2	703,228	475,886
Amortization of intangible assets		19,042	15,042
Entertainment, vehicle running expenses, travelling & subscription		282,506	207,885
Others		189,166	180,463
		5,952,637	4,364,367

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>30.1 Donations</b>		
President Relief Fund for Earthquake Victims - 2005	-	100,000
Rising Sun Institute Lahore	-	8,000
Beautification of I.I. Chundrigar Road	-	7,500
M/s Zindagi Trust	-	700
M/s Patients Welfare Association	-	500
Lahore Medical & Dental College	-	400
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
The Citizen Foundation	1,500	-
Kashmir Education Foundation	1,500	-
Dar-ul-Khusnood, Karachi	25	-
Patient Welfare Association, Jinnah Hospital, Lahore	500	-
Murshid Hospital & Health Care Center, Karachi	100	-
Others	10	-
	<u>3,635</u>	<u>117,600</u>
None of the directors or their spouses had any interest in the donees.		
<b>30.2 Auditors' remuneration</b>		
Audit fee	3,150	2,641
Half yearly review	785	600
Fee for audit of foreign branches	889	133
Special certifications and sundry advisory services	217	756
Tax services	-	19
Out-of-pocket expenses	410	510
	<u>5,451</u>	<u>4,659</u>
<b>31. OTHER CHARGES</b>		
Penalties imposed by Central Bank	<u>43,306</u>	<u>21,104</u>
<b>32. TAXATION</b>		
For the year		
Current	481,150	595,154
Prior Years	(100,874)	973
Deferred	<u>427,902</u>	<u>267,704</u>
	808,178	863,831
Share of tax of associated undertaking	<u>(226,895)</u>	<u>(115,707)</u>
	<u>581,283</u>	<u>748,124</u>

The income tax assessments of the Bank have been finalised upto and including tax year 2006. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
<b>32.1 Relationship between tax expense and accounting profit</b>		
Profit before tax	<u>1,906,672</u>	<u>2,034,691</u>
Tax at the applicable rate of 35% (2005: 38%)	667,335	773,183
Effect of:		
- change in tax rate	-	8,037
- income chargeable to tax at reduced rates	(11,218)	(17,165)
- income exempt from tax	(63,756)	(88,114)
- other differences	25,147	(8,612)
- tax effect of items that are not included in determining taxable profit	8,775	87,795
- prior year provision	(45,000)	(7,000)
Tax expense for the year	<u>581,283</u>	<u>748,124</u>

	2006	2005 (Restated)
	(Rupees in '000)	
<b>33. BASIC / DILUTED EARNINGS PER SHARE</b>		
Profit for the year	<u>1,332,748</u>	<u>1,292,328</u>
	(Number of shares in thousand)	
Weighted average number of ordinary shares	<u>456,132</u>	<u>434,208</u>
	(Rupees)	
Basic / Diluted earnings per share	<u>2.92</u>	<u>2.98</u>

	2006	2005
	(Rupees in '000)	
<b>34. CASH AND CASH EQUIVALENTS</b>		
Cash and balances with treasury banks	27,859,360	24,798,070
Balances with other banks	12,735,607	9,716,206
Call lendings	<u>2,589,788</u>	<u>790,000</u>
	<u>43,184,755</u>	<u>35,304,276</u>

### 35. CREDIT RATING

PACRA has assigned a long term credit rating of AA [double A] and a short-term credit rating of A1+ (A one plus) to the Bank as at June 2006 (2005: AA [Double A]) for long term and A1+ [A one plus] for short term).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005
	(Number of employees)	
<b>36. STAFF STRENGTH</b>		
Permanent	5,374	4,266
Temporary / On contractual basis	1,277	1,035
Bank's own staff strength at the end of the year	<u>6,651</u>	<u>5,301</u>
Outsourced	1,536	1,051
Total staff strength	<u><u>8,187</u></u>	<u><u>6,352</u></u>
<b>37. DEFINED BENEFIT PLAN</b>		
<b>37.1 Principal actuarial assumptions</b>		
The latest actuarial valuation was carried out as at December 31, 2006. Projected unit credit method, using the following significant assumptions, was used for the valuation of the defined benefit plan:		
	2006	2005
Discount factor used	10.00%	10.00%
Expected rate of return on plan assets	10.00%	10.00%
Expected rate of salary increase	10.00%	10.00%
Normal retirement age	60 Years	60 Years
	2006	2005
	(Rupees in '000)	
<b>37.2 Reconciliation of payable to defined benefit plan</b>		
Present value of defined benefit obligations	366,308	261,191
Fair value of plan assets	(250,757)	(183,665)
Net actuarial losses not recognized	(111,306)	(71,866)
Past service cost not yet recognized	(4,245)	(5,660)
	<u>-</u>	<u>-</u>
<b>37.3 Movement in defined benefit obligation</b>		
Obligation at the beginning of the year	261,191	176,786
Current service cost	47,911	26,908
Interest cost	26,119	15,911
Benefits paid	(14,064)	(6,146)
Actuarial (gain) / loss on obligation	45,151	29,548
Past service cost - vested benefits	-	12,523
Past service cost - non-vested benefits	-	5,661
Obligation at the end of the year	<u><u>366,308</u></u>	<u><u>261,191</u></u>
<b>37.4 Movement in fair value of plan assets</b>		
Fair value at the beginning of the year	183,665	131,193
Expected return on plan assets	18,366	11,807
Contributions	62,797	46,637
Benefits paid	(14,064)	(6,146)
Actuarial gain / (loss) on plan assets	(7)	174
Fair value at the end of the year	<u><u>250,757</u></u>	<u><u>183,665</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005			
	(Rupees in '000)				
<b>37.5 Plan assets consist of the following:</b>					
Defence Saving Certificates	41,963	38,151			
Preference shares	16,445	14,950			
Term Finance Certificates	65,765	40,972			
Pakistan Investment Bonds	-	35,379			
Alfalah GHP Value Fund	10,002	-			
Cash and bank	116,582	54,213			
	250,757	183,665			
<b>37.6 Movement in payable to defined benefit plan</b>					
Opening balance	-	-			
Charge for the year	62,797	46,637			
Bank's contribution to fund made during the year	(62,797)	(46,637)			
Closing balance	-	-			
<b>37.7 Charge for defined benefit plan</b>					
Current service cost	47,911	26,908			
Interest cost	26,119	15,911			
Expected return on plan assets	(18,366)	(11,807)			
Actuarial losses	5,718	3,102			
Past service cost	1,415	12,523			
	62,797	46,637			
<b>37.8 Actual return on plan assets</b>	16,383	13,956			
<b>37.9 Historical information</b>					
	2006	2005	2004	2003	2002
	----- (Rupees in '000) -----				
Defined benefit obligation	366,308	261,191	176,786	135,457	93,901
Fair value of plan assets	250,757	183,665	131,193	86,303	15,300
Surplus / (deficit)	(115,551)	(77,526)	(45,593)	(49,154)	(78,601)
Experience adjustments on plan liabilities	(45,151)	(29,548)	(15,760)	(21,992)	not available
Experience adjustments on plan assets	(7)	174	14,052	1,276	not available
<b>38. DEFINED CONTRIBUTION PLAN</b>					
<p>The Bank and its subsidiaries operate recognised provident fund schemes for all their permanent employees to which equal monthly contributions are made by the holding company 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.</p> <p>During the year, the Group contributed Rs. 81.395 million (2005: Rs. 54.797 million) in respect of this fund.</p>					

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 39. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2006	2005	2006	2005	2006	2005
	------(Rupees in '000)-----					
Managerial remuneration	7,729	7,110	-	-	388,304	225,854
Bonus	4,616	5,812	-	-	72,659	75,150
Retirement benefit Plan	1,179	543	-	-	43,210	23,299
Rent and house maintenance	3,053	3,199	-	-	123,104	69,975
Utilities	763	683	-	-	30,118	232
Medical	31	31	-	-	119	-
Others	298	67	-	-	626	7
	<u>17,669</u>	<u>17,445</u>	<u>-</u>	<u>-</u>	<u>658,140</u>	<u>394,517</u>
Number of persons	<u>3</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>345</u>	<u>196</u>

### 40. FAIR VALUE OF FINANCIAL INSTRUMENTS

#### 40.1 On-balance sheet financial instruments

	2006		2005	
	Book value	Fair value	Book value	Fair value
	-----Rupees in '000-----			
<b>Assets</b>				
Cash and balances with treasury banks	27,859,360	27,859,360	24,798,070	24,798,070
Balances with other banks	12,735,607	12,735,607	9,716,206	9,716,206
Lendings to financial institutions	12,456,653	12,456,653	27,050,493	27,050,493
Investments	56,128,577	55,198,242	56,907,918	55,723,456
Advances	149,942,717	149,942,717	118,639,706	118,639,706
Other assets	5,480,128	5,480,128	4,449,794	4,449,794
	<u>264,603,042</u>	<u>263,672,707</u>	<u>241,562,187</u>	<u>240,377,725</u>
<b>Liabilities</b>				
Bills payable	3,091,135	3,091,135	3,733,124	3,733,124
Borrowings	8,408,327	8,408,327	5,844,389	5,844,389
Deposits and other accounts	239,480,772	239,480,772	222,335,585	222,335,585
Sub-ordinated loans	3,222,106	3,222,106	3,223,355	3,223,355
Liabilities against assets subject to finance lease	1,137	1,137	1,510	1,510
Other liabilities	7,356,679	7,356,679	5,507,817	5,507,817
	<u>261,560,156</u>	<u>261,560,156</u>	<u>240,645,780</u>	<u>240,645,780</u>
<b>Off-balance sheet financial instruments</b>				
Forward purchase of foreign exchange	<u>4,303,574</u>	<u>4,331,315</u>	<u>3,224,283</u>	<u>3,195,895</u>
Forward sale of foreign exchange	<u>4,810,836</u>	<u>4,821,648</u>	<u>4,738,140</u>	<u>4,683,657</u>

### 41. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and judgements 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 41.1 Provision against non performing loans and advances

The Group reviews its loan portfolio to assess the 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.

### 41.2 Classification of Investments

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

#### *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 monitors the performance of these investments and the availability of reliable fair values readily. 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.

### 41.3 Valuation of unquoted equity investments

The Group estimates impairment on investments in un-quoted equity securities based on factors such as:

- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- break-up values of unquoted equity investments;
- other valuation models.

### 41.4 Income taxes

In making 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 the Bank's view differs with the view taken by the income tax department as disclosed in note 32 to these financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 42. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Trading & Sales	Retail Banking	Commercial Banking	Corporate Finance	Retail Brokerage	Asset Management
	------(Rupees in '000)-----					
Total income	7,082,839	6,143,236	11,159,577	7,176	72,499	19,550
Total expenses	6,863,416	5,003,226	9,960,242	-	68,114	35,860
Net income	219,423	1,140,010	1,199,335	7,176	4,385	(16,310)
Segment assets	83,602,344	48,170,167	143,368,856	-	299,159	70,957
Segment non-performing loans	-	659,196	1,649,472	-	-	-
Segment provision required	-	1,215,502	1,020,954	-	-	-
Segment liabilities	83,494,770	43,026,160	136,959,523	-	194,967	8,854
Segment return on net assets (ROA) (%)	7.88%	16.08%	9.50%	-	15.46%	10.35%
Segment cost of funds (%)	7.49%	13.10%	8.28%	-	14.53%	9.00%

2005

Total income	4,079,324	3,227,934	7,186,903	2,280	58,321	3,766
Total expenses	3,653,234	2,575,339	5,704,578	-	48,675	21,131
Net income	426,090	652,595	1,482,325	2,280	9,646	(17,365)
Segment assets	96,775,024	37,926,518	112,833,320	-	638,580	48,903
Segment non-performing loans	-	148,813	911,142	-	-	-
Segment provision required	-	756,258	796,723	-	-	-
Segment liabilities	96,650,534	35,319,934	108,615,040	-	534,115	10,223
Segment return on net assets (ROA) (%)	7.56%	14.04%	8.93%	-	10.99%	9.51%
Segment cost of funds (%)	7.07%	11.20%	8.17%	-	9.17%	9.00%

### 43. 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, group companies, 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 executives is determined in accordance with the terms of their appointment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Details of transactions with related parties and balances with them as at the year-end were as follows:

	2006					
	Directors	Key Management Personnel	Group Companies	Associates	Strategic Investments	Total
------(Rupees in '000)-----						
<b>43.1 Deposits</b>						
Balance at the beginning of the year	4,168	15,119	16,758	685,871	6	721,922
Placements during the year	32,227	330,167	3,367,628	41,481,119	-	45,211,141
Withdrawals during the year	(32,490)	(324,819)	(3,368,291)	(41,119,764)	-	(44,845,364)
Balance at end of the year	<u>3,905</u>	<u>20,467</u>	<u>16,095</u>	<u>1,047,226</u>	<u>6</u>	<u>1,087,699</u>
<b>43.2 Financing</b>						
Balance at the beginning of the year	-	61,756	-	31,969	200,000	293,725
Disbursements during the year	-	2,620	-	3,086,143	-	3,088,763
Repayments during the year	-	(5,333)	-	(17,204)	(16,667)	(39,204)
Balance at end of the year	<u>-</u>	<u>59,043</u>	<u>-</u>	<u>3,100,908</u>	<u>183,333</u>	<u>3,343,284</u>
<b>43.3 Investments</b>						
Balance at the beginning of the year	-	-	32,851	1,948,804	70,000	2,051,655
Investment during the year	-	-	399,160	637,660	50,000	1,086,820
Withdrawals during the year	-	-	(82,431)	-	-	(82,431)
Balance at end of the year	<u>-</u>	<u>-</u>	<u>349,580</u>	<u>2,586,464</u>	<u>120,000</u>	<u>3,056,044</u>
<b>43.4 Call borrowings</b>						
Balance at the beginning of the year	-	-	-	-	-	-
Placements during the year	-	-	31,348,315	-	-	31,348,315
Withdrawals during the year	-	-	(31,348,315)	-	-	(31,348,315)
Balance at end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>43.5 Call lendings</b>						
Balance at the beginning of the year	-	-	1,565,480	-	-	1,565,480
Placements during the year	-	-	46,219,696	-	-	46,219,696
Withdrawals during the year	-	-	(46,864,532)	-	-	(46,864,532)
Balance at end of the year	<u>-</u>	<u>-</u>	<u>920,644</u>	<u>-</u>	<u>-</u>	<u>920,644</u>

	2006	2005
(Rupees in '000)		
<b>43.6 Financing</b>		
<b>Running finance</b>		
- Other related parties	3,100,908	31,969
<b>Long term loans</b>		
- Other related parties	242,376	261,756
<b>43.7 Contingencies and commitments</b>		
Letter of credit and acceptance issued	157,048	2,289,765
Guarantees issued	169,200	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006	2005
	(Rupees in '000)	
43.8 Customer accounts		
<b>PLS accounts</b>		
- Other related parties	390,387	588,350
<b>Current accounts</b>		
- Other related parties	112,750	96,365
<b>Fixed deposit accounts</b>		
- Other related parties	584,562	37,207
43.9 With associated companies		
Commission income from Warid Telecom (Private) Limited	12,997	9,559
Commission income on letters of credit and letters of guarantee	2,447	4,300
Mark-up expenses on deposits	7,467	2,399
Mark-up income on advances	211,865	4,217
43.10 The Key Management Personnel / Directors compensation are as follows:		
Salaries and benefits - Parent company	236,094	170,971
Salaries and benefits - Subsidiary companies	15,873	6,770

In addition, the chief executive and other executive officers are provided with Bank maintained car.

### 43.11 Net movements in the advances, letters of credit and guarantees, deposits are summarized as under:

#### 43.11.1 Loans and advances

	December 31, 2005	Disbursement	Repayment	December 31, 2006
	-----Rupees in '000-----			
Running finance	31,969	3,086,143	17,204	3,100,908
Long term loan	261,756	2,620	22,000	242,376
	<u>293,725</u>	<u>3,088,763</u>	<u>39,204</u>	<u>3,343,284</u>
	December 31, 2005	Additional Facilities	Settlements	December 31, 2006
	-----Rupees in '000-----			

#### 43.11.2 Contingencies and commitments

Letters of credit and acceptances	2,289,765	2,532,054	4,664,771	157,048
Guarantees	-	221,692	52,492	169,200
	<u>2,289,765</u>	<u>2,753,746</u>	<u>4,717,263</u>	<u>326,248</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2005	Deposits	Withdrawals	December 31, 2006
-----Rupees in '000-----				
<b>43.11.3 Customer Deposit accounts</b>				
PLS accounts	588,350	20,743,292	20,941,255	390,387
Current accounts	96,365	21,751,317	21,734,932	112,750
Fixed deposit accounts	<u>37,207</u>	<u>2,716,532</u>	<u>2,169,177</u>	<u>584,562</u>
	<u>721,922</u>	<u>45,211,141</u>	<u>44,845,364</u>	<u>1,087,699</u>

### 44. CAPITAL ADEQUACY

#### 44.1 Capital Management

The Group's objectives when managing capital, which is broader concept than the 'equity' on the face of the balance sheet are:

- To comply with the capital requirements set by the regulators of the banking markets where the Group operates;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

In accordance with BSD Circular No. 6 dated 28 October 2005, the State Bank of Pakistan has raised the minimum paid-up capital requirement for locally incorporated banks to Rs. 6 billion (net of losses) to be achieved in a phased manner by 31 December 2009. The minimum capital requirement to be achieved by 31 December 2006 is Rs. 3 billion. In addition all banking companies carrying on business in Pakistan are required to maintain capital and unencumbered general reserves the amount of which should at least be equivalent to 8% of the risk weighted assets of the banking company.

The adequacy of Group's capital is monitored using, among other measures, the rules and ratios established by the State Bank of Pakistan. The ratios compare the amount of eligible capital with the total of risk-weighted assets (RWAs). The Group monitors and reports its capital ratios under SBP rules, which ultimately determines the regulatory capital required to be maintained by Group and DFIs.

Eligible capital consists of two parts. Tier 1 capital comprises share capital, share premium, reserve for bonus shares, general reserves and retained earnings. Certain adjustments are made to profit and reserves, in line with SBP recommendations, as prescribed by SBP circulars. Tier 2 capital includes general provisions, revaluation reserves, exchange translation reserves and subordinated long-term debt. Total regulatory capital is to be at least 8% of RWAs and Group's capital is well over this requirement as shown in note 44.2. The Group will continue to maintain this requirement either through its risk management strategies or by increasing the capital requirements in-line with business and capital needs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 44.2 Capital Adequacy Ratio

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

	2006	2005 (Restated)
	(Rupees in '000)	
<b>Regulatory Capital Base</b>		
<i>Tier I Capital</i>		
Shareholders capital	5,000,000	3,000,000
Reserves	2,701,729	2,349,191
Unappropriated profits (Net of Losses)	1,979,360	973,076
Minority interest	52,383	42,142
	<u>9,733,472</u>	<u>6,364,409</u>
Less: Adjustments		
- Investments in equity of subsidiary companies engaged in banking and financial activities	-	-
- Deficit on account of revaluation of investments classified as AFS	54,715	36,757
	<u>54,715</u>	<u>36,757</u>
<b>Total Tier I Capital</b>	<u>9,678,757</u>	<u>6,327,652</u>
<i>Tier II Capital</i>		
Subordinated debt (upto 50% of total Tier I Capital)	2,702,939	2,833,823
General provisions (subject to 1.25% of total risk weighted assets)	1,060,888	845,612
Revaluation reserve (upto 50%)	1,050,324	381,410
Foreign exchange translation reserves	47,804	2,027
<b>Total Tier II Capital</b>	<u>4,861,955</u>	<u>4,062,872</u>
<b>Eligible Tier III Capital</b>	-	-
<b>Total regulatory capital (a)</b>	<u>14,540,712</u>	<u>10,390,524</u>

#### Risk-weighted exposures

	Note	2006		2005	
		Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
-----Rupees in '000-----					
<i>Credit risk</i>					
<b>Balance sheet items:</b>					
Cash and other liquid assets		53,051,620	7,330,283	61,564,769	9,247,525
Investments	43.2.1	55,290,583	5,507,969	56,166,881	4,343,302
Loans and advances	43.2.2	137,387,437	108,928,420	108,108,591	84,045,177
Fixed assets		10,548,440	10,548,440	6,660,158	6,660,158
Other assets		5,840,129	5,249,830	4,449,794	4,134,171
		<u>262,118,209</u>	<u>137,564,942</u>	<u>236,950,193</u>	<u>108,430,333</u>
<b>Off - balance sheet items:</b>					
Loan repayment guarantees & acceptances	43.2.3	6,586,181	6,586,181	5,835,088	4,275,602
Performance bonds, bid bonds, warranties & similar instr.etc	43.2.4	3,138,478	1,242,115	4,752,016	2,194,141
Stand by letters of credit & other stand by facilities	43.2.5	25,139,511	9,112,710	17,721,045	7,028,186
Outstanding foreign exchange contracts					
-Purchase & sales (both)		9,114,410	100,136	7,962,423	80,688
		<u>43,978,580</u>	<u>17,041,142</u>	<u>36,270,572</u>	<u>13,578,617</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006		2005	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
	-----Rupees in '000-----			
<b>Credit risk-weighted exposures</b>	<u>154,606,084</u>		<u>122,008,950</u>	
<i>Market risk</i>				
General market risk		67,040		39,954
Specific market Risk		67,040		37,122
Capital charge for foreign exchange risk		9,833		2,625
Total capital charge for market risk (b)		<u>143,913</u>		<u>79,701</u>
 Market risk weighted exposure (b x 12.5)		<u>1,798,913</u>		<u>996,257</u>
 Total risk-weighted exposures (c)		<u>156,404,997</u>		<u>123,005,207</u>
 Capital adequacy ratio (a / c x 100)		<span style="border: 1px solid black; padding: 2px;">9.30</span>		<span style="border: 1px solid black; padding: 2px;">845</span>

44.2.1 Investments exclude held-for-trading portfolio amounting to Rs. 837,994 million (2005: Rs. 741,037 million). The held-for-trading portfolio is subject to market risk and is included in the computation of capital charge for the market risk.

44.2.2 Advances secured against government securities / own deposits and cash margins amounting to Rs. 13,616.168 million (2005: Rs. 11,376,727 million) have been deducted from gross advances. Advances are gross of general reserve for consumer financing amounting to Rs. 1,060.888 million (2005: Rs. 845.612 million). This reserve has been added to supplementary capital.

44.2.3 Cash margins / government securities amounting to Rs. 1,927,011 million (2005: Rs. 1,590,677 million) and expired instruments amounting to Rs. 99,458 million (2005: Rs. 187,144 million) have been deducted from loan repayment guarantees.

44.2.4 Cash margins / government securities amounting to Rs. 10,845,067 million (2005: Rs. 6,468,089 million) and expired instruments amounting to Rs. 2,782,718 million (2005: Rs. 2,402,721 million) have been deducted from performance bonds etc.

44.2.5 Cash margins / government securities amounting to Rs. 1,183,529 million (2005: Rs. 1,017,532 million) and expired instruments amounting to Rs. 1,057,508 million (2005: Rs. 1,940,056 million) have been deducted from stand by letters of credit.

### 45. RISK MANAGEMENT

The Bank has in place an approved integrated risk management framework for managing credit risk, market risk, liquidity risk and operational risk as evidenced by its Board approved "Risk Management and Internal Control" manual.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors through its sub-committee called 'Board Risk Management Committee' (BRMC) oversees the overall risk of our Bank. The Risk Management Division (RMD) is the organizational arm performing the functions of identifying, measuring, monitoring and controlling the various risks and assists the Apex level committee and the various sub-committees in conversion of policies into action. As part of its mandate the Central Management Committee (CMC) is entrusted with overseeing the operational risk of the Bank.

The Bank has established a Treasury Middle Office to effectively monitor day-to-day trading activities of the dealing room. An independent risk review function exists at our Bank through our internal audit division that reports directly to the Board Audit Committee.

The Bank has completed the Basel-II GAP analysis process and is now preparing for the proper implementation of Basel-II in collaboration with external consultants and in light of SBP circulars and guidelines. The Bank has acquired Temenos T24 banking system as its core banking solution and its Risk Management system called T-Risk will be used for managing Credit, Market and Operational risks.

### 45.1 Credit risk

At Bank Alfalah Limited, we have conducted a comprehensive Basel-II GAP analysis in order to categorize all the risk areas and have also laid down the road-map to move towards the implementation of Basel-II, as per the State Bank of Pakistan directives. In our experience, a key to effective credit risk management is a well thought out business strategy and in order to achieve this we continually strive hard to gauge such factors existence and simultaneously deriving the mitigating factors to effectively manage the risk inherent to the best possible degree.

The Credit Risk Management comprises of the Credit Risk Manager who along with his staff looks after all the aspects of credit risk and conducts portfolio analysis for managing credit risk. The Credit Risk Manager reports directly to the Head of RMD.

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.

The Credit Division comprises of multiple credit approvers with authorities assigned in accordance with their qualifications and experience. A comprehensive Risk Grading Index (RGI) model is used by the Bank which categorizes different aspects of risk from credit point of view and assigns a grading to the counterparty. Credit Administration Department (CAD) is working towards ensuring all the policies and procedures are implemented and followed accordingly.

Special attention is paid by the management in respect of non-performing loans. Special Asset Management (SAM) Department is functional and handles this responsibility. A "Watchlist" procedure is also functioning which identifies loans showing early warning signals of becoming non-performing.

Proactive credit-risk management practices in the form of studies, research work, Risk Grading Index (RGI), Integrated Bank-wide Risk Management and Internal Control Framework are only some of the prudent measures the Bank is engaged in for mitigating risk exposures. The current focus is on augmenting the Bank's abilities to quantify risk in a consistent, reliable and valid fashion which will ensure advanced level of sophistication in the Credit Risk measurement and management in the years ahead.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 45.1.1 Segmental information

#### 45.1.1.1 Segments by class of business

	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agribusiness	8,589,224	5.64%	1,336,055	0.56%	350,366	0.66%
Automobile and transportation equipment	3,841,818	2.52%	1,805,445	0.75%	1,413,164	2.68%
Chemical and pharmaceuticals	1,235,329	0.81%	2,676,326	1.12%	440,433	0.83%
Cement	1,661,732	1.09%	835,700	0.35%	159,460	0.30%
Communication	4,436,496	2.92%	9,484,807	3.96%	3,194,455	6.05%
Electronics and electrical appliances	906,302	0.60%	706,887	0.30%	321,596	0.61%
Educational institutes	708,194	0.47%	4,629,625	1.93%	66,628	0.13%
Financial	3,174,254	2.09%	11,195,617	4.67%	7,442,197	14.11%
Fertilizers	1,376,523	0.09%	3,588,099	1.50%	1,133,273	2.15%
Food and allied products	1,180,216	0.78%	2,536,459	1.06%	281,827	0.53%
Glass and ceramics	116,317	0.08%	234,350	0.10%	87,552	0.17%
Ghee and edible oil	1,729,781	1.14%	897,338	0.37%	1,319,221	2.50%
Housing societies / trusts	1,029,520	0.68%	4,069,439	1.70%	532	0.01%
Insurance	37,969	0.02%	1,523,805	0.64%	17,280	0.03%
Import and export	4,680,848	3.08%	2,837,080	1.18%	5,552,136	10.52%
Iron / steel	922,776	0.61%	1,943,466	0.81%	553,277	1.05%
Oil and gas	718,170	0.47%	12,507,484	5.22%	114,497	0.22%
Paper and board	725,958	0.48%	827,265	0.35%	276,107	0.52%
Production and transmission of energy	219,203	0.14%	16,146,805	6.74%	7,941,601	15.05%
Real estate / construction	4,889,404	3.21%	6,366,661	2.66%	1,943,983	3.68%
Retail / wholesale trade	6,294,461	4.14%	5,933,500	2.48%	1,054,348	2.00%
Rice processing and trading / wheat	3,914,258	2.57%	497,158	0.21%	42,557	0.08%
Sugar	1,899,343	1.25%	1,013,901	0.42%	304,316	0.58%
Shoes and leather garments	1,095,613	0.72%	570,589	0.24%	208,213	0.41%
Sports goods	278,524	0.18%	118,643	0.05%	7,787	0.01%
Surgical goods	102,243	0.07%	7,754	0.01%	19,437	0.04%
Textile spinning	10,660,134	7.00%	1,255,925	0.52%	1,544,071	2.93%
Textile weaving	10,029,651	6.59%	1,007,630	0.42%	1,480,340	2.81%
Textile composite	5,226,503	3.43%	1,041,871	0.44%	762,153	1.44%
Welfare institutions	515,119	0.34%	4,917,025	2.05%	21,880	0.04%
Individuals	50,844,264	33.41%	83,390,959	34.82%	86,717	0.16%
Others	19,139,026	13.38%	53,577,104	22.37%	14,618,057	27.70%
	<u>152,179,173</u>	<u>100%</u>	<u>239,480,772</u>	<u>100%</u>	<u>52,759,461</u>	<u>100%</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2005					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agribusiness	4,039,016	3.35%	1,531,047	0.69%	335,298	0.80%
Automobile and transportation equipment	4,518,216	3.75%	4,946,577	2.22%	1,625,303	3.88%
Chemical and Pharmaceuticals	1,808,180	1.50%	1,523,142	0.69%	1,558,254	3.72%
Cement	1,649,374	1.37%	695,187	0.31%	2,408,408	5.75%
Communication	896,358	0.74%	7,193,318	3.24%	1,834,689	4.38%
Electronic & electrical appliances	1,638,143	1.36%	696,027	0.31%	1,583,488	3.78%
Educational institutes	593,985	0.49%	3,352,905	1.51%	54,111	0.13%
Financial	2,752,723	2.47%	10,916,238	4.91%	2,812,608	6.71%
Fertilizers	460,735	0.38%	4,479,942	2.01%	588,771	1.40%
Food & allied products	3,137,503	2.61%	997,532	0.45%	210,956	0.50%
Glass & ceramics	259,746	0.22%	99,589	0.04%	547,892	1.31%
Ghee & edible oil	901,559	0.75%	656,963	0.30%	541,273	1.29%
Housing societies / trusts	1,036,194	0.86%	2,961,424	1.33%	7,997	0.02%
Insurance	91,549	0.08%	1,409,691	0.63%	100,664	0.24%
Import & export	3,709,434	3.08%	1,924,628	0.87%	463,524	1.11%
Iron / steel	1,600,289	1.33%	1,987,071	0.89%	1,878,505	4.48%
Oil & gas	1,201,261	1.00%	7,973,068	3.59%	4,663,088	11.13%
Paper & board	339,081	0.28%	427,124	0.19%	1,739,181	4.15%
Production and transmission of energy	731,283	0.61%	21,180,290	9.53%	2,450,859	5.85%
Real Estate / construction	2,805,210	2.33%	7,383,895	3.32%	1,245,080	2.97%
Retail / wholesale trade	4,732,230	3.93%	3,744,262	1.68%	1,125,326	2.68%
Rice processing and trading	3,302,822	2.74%	482,484	0.22%	26,204	0.06%
Sugar	1,610,618	1.34%	1,018,299	0.46%	127,442	0.30%
Shoes & leather garments	574,884	0.48%	725,846	0.33%	135,431	0.32%
Sports goods	295,144	0.25%	61,105	0.03%	5,596	0.01%
Surgical goods	98,958	0.08%	34,871	0.02%	43,358	0.10%
Textile spinning	11,586,298	9.62%	1,446,926	0.65%	1,676,105	4.00%
Textile weaving	4,545,694	3.77%	1,052,664	0.47%	1,059,366	2.53%
Textile composite	8,137,774	6.76%	1,463,777	0.66%	1,437,132	3.43%
Welfare institutions	663,669	0.55%	4,072,286	1.83%	8,988	0.02%
Individuals	28,674,505	23.81%	71,709,117	32.25%	1,622,044	3.87%
Others	21,800,252	18.10%	54,188,290	24.37%	7,997,427	19.08%
	<u>120,192,687</u>	<u>100%</u>	<u>222,335,585</u>	<u>100%</u>	<u>41,914,368</u>	<u>100%</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 45.1.1.2 Segment by sector

	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/ Government	9,456,984	6%	67,482,409	28%	9,279,174	18%
Private	142,722,189	94%	171,998,363	72%	43,480,287	82%
	<u>152,179,173</u>	<u>100%</u>	<u>239,480,772</u>	<u>100%</u>	<u>52,759,461</u>	<u>100%</u>
	2005					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/ Government	6,917,284	6%	64,102,676	29%	6,514,819	16%
Private	113,275,403	94%	158,232,909	71%	35,399,549	84%
	<u>120,192,687</u>	<u>100%</u>	<u>222,335,585</u>	<u>100%</u>	<u>41,914,368</u>	<u>100%</u>

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

	2006		2005	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	-----Rupees in '000-----			
Agriculture, forestry, hunting and fishing	104,222	8,905	26,102	-
Textile	494,777	198,151	202,601	144,636
Chemical and pharmaceuticals	26,410	24,718	24,394	2,066
Cement	15,464	3,500	19,158	10,581
Automobile and transportation equipment	6,666	2,471	8,317	8,317
Wholesale and retail trade	340,867	232,513	299,791	254,001
Individuals	838,573	425,397	163,557	105,048
Others	481,689	279,913	316,035	182,720
	<u>2,308,668</u>	<u>1,175,568</u>	<u>1,059,955</u>	<u>707,369</u>

### 45.1.1.4 Details of non-performing advances and specific provisions by sector

	2006		2005	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	-----Rupees in '000-----			
Public / Government	-	-	5,318	532
Private	2,308,668	1,175,568	1,054,637	706,837
	<u>2,308,668</u>	<u>1,175,568</u>	<u>1,059,955</u>	<u>707,369</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 45.1.1.5 Geographical segment analysis

	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in '000-----			
Pakistan	1,832,696	266,195,039	11,787,401	49,345,511
Asia Pacific (including South Asia)	73,332	9,301,223	39,808	3,413,950
Middle East	-	15,221	-	-
	<u>1,906,028</u>	<u>275,511,483</u>	<u>11,827,209</u>	<u>52,759,461</u>
	2005			
	Profit before taxation	Total assets 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>

### 45.2 Market risk

Market risk is the risk of losses due to on and off-balance sheet positions arising out of changes in market prices. Market risk mainly arises from trading activities undertaken by the Bank's treasury. It also includes investments and structural positions in the banking books of the Bank. To manage and control market risk, a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically.

The Bank uses the Standardized Approach to calculate capital charge for market risk as per the current regulatory framework under Basel I and the same approach is being adopted for the revised regulatory framework under Basel II. Going forward the bank is preparing to use more sophisticated systems and models and currently is evaluating various tools to enhance its capability to successfully meet the requirements of the internal models approach of Basel II.

#### 45.2.1 Foreign exchange risk

Foreign exchange 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 these instruments represents forward foreign exchange contracts on behalf of customers in import and export transactions and forward sales and purchase 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 CONSOLIDATED FINANCIAL STATEMENTS

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	-----Rupees in '000-----			
Pakistan Rupee	249,021,049	238,534,564	1,217,810	11,704,295
United States Dollar	18,574,989	17,444,785	(1,220,355)	(90,151)
Great Britain Pound	2,912,043	2,899,834	11,438	23,647
Japanese Yen	17,750	3,225	(14,367)	158
Euro	1,659,008	1,589,273	(30,017)	39,718
Other currencies	3,326,644	3,212,593	35,491	149,542
	<u>275,511,483</u>	<u>263,684,274</u>	<u>-</u>	<u>11,827,209</u>
	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	-----Rupees in '000-----			
Pakistan Rupee	227,682,959	220,465,008	(158,268)	7,059,683
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>248,222,345</u>	<u>241,129,846</u>	<u>-</u>	<u>7,092,499</u>

### 45.2.2 Equity position risk

Equity position risk in the trading books arises due to changes in prices of individual stocks or levels of equity indices. The Bank's equity trading book comprises of Equity Portfolio Unit's Held for Trading (HFT) & Available for Sale (AFS) portfolios. The objective of Equity Portfolio Unit's HFT portfolio is to take advantages of short-term capital gains, while the AFS portfolio is maintained with a medium term view of capital gains and dividend income. Separate product program manuals have been developed to discuss in detail the objectives / policies, risks / mitigates, limits / controls for equity trading portfolios of the Equity Portfolio Unit.

### 45.3 Interest rate risk

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, the Bank's exposure in three months to one-year time as mentioned above has no impact on the Bank's results.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 45.3.1 Mismatch of Interest Rate Sensitive Assets and Liabilities

2006

	Effective Yield/Interest Rate	Exposed to Yield/Interest risk						Non-interest bearing financial instruments	
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 3 Years	Over 3 to 5 Years		Over 5 to 10 Years
<b>On-balance sheet financial instruments</b>									
<i>Assets</i>									
Cash and balances with treasury banks	4.350%	2,318,183	-	-	-	-	-	-	25,541,177
Balances with other banks	3.345%	972,762	-	-	183,879	-	-	-	2,778,966
Lendings to financial institutions	9.081%	12,406,653	50,000	-	-	-	-	-	-
Investments	8.296%	15,067,618	18,163,259	6,779,132	1,352,005	1,946,358	2,339,324	5,650,703	3,280,178
Advances	12.500%	149,942,717	175,284,889	19,028,853	38,207,293	9,599,174	11,434,738	5,150,737	7,886,121
Other assets	-	5,480,128	-	-	-	-	-	-	5,480,128
		264,603,042	35,741,474	25,807,985	39,743,177	11,099,174	13,381,116	31,907,468	7,936,121
<i>Liabilities</i>									
Bills payable	-	-	-	-	-	-	-	-	-
Borrowings	7.793%	99,1784	681,000	-	5,964,413	-	-	-	3,091,135
Deposits and other accounts	6.241%	37,474,609	33,431,034	29,357,060	22,102,440	7,970,912	8,561,323	8,471,056	108,077
Sub-ordinated loans	10.734%	3,222,106	624	624	624	649,688	988	416,258	58,255,318
Liabilities against assets subject to finance lease	9.751%	1,137	64	103	205	183	183	367	-
Other liabilities	-	7,356,679	-	-	-	-	-	-	7,356,679
		3,091,135	8,408,327	2,998,807	3,222,106	1,137	7,356,679	8,887,681	68,811,209
<b>On-balance sheet gap</b>		38,466,425	34,112,098	29,357,787	28,067,682	8,620,783	8,562,494	23,019,877	36,673,997
<b>Total Yield/Interest Risk Sensitivity Gap</b>		12,637,919	1,629,650	(3,549,802)	11,675,495	2,478,391	4,818,622	23,019,877	(25,872,537)
<b>Cumulative Yield/Interest Risk Sensitivity Gap</b>		12,637,919	1,4,267,569	10,717,767	22,393,262	24,871,653	29,690,275	52,710,062	26,837,525

2005

	Effective Yield/Interest Rate	Exposed to Yield/Interest risk						Non-interest bearing financial instruments	
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 3 Years	Over 3 to 5 Years		Over 5 to 10 Years
<b>On-balance sheet financial instruments</b>									
<i>Assets</i>									
Cash and balances with treasury banks	3.290%	2,365,555	-	-	-	-	-	-	22,432,515
Balances with other banks	4.315%	8,180,198	-	-	1,536,008	-	-	-	-
Lendings to financial institutions	7.921%	22,504,493	4,546,000	-	-	-	-	-	-
Investments	7.665%	56,907,918	7,587,305	5,128,078	24,230,480	2,704,200	1,500,000	2,716,473	50,000
Advances	8.900%	118,639,706	8,236,798	2,074,597	2,074,597	13,132,978	13,132,978	13,132,978	4,308,991
Other assets	-	4,497,94	-	-	-	-	-	-	4,497,94
		241,562,187	46,561,097	32,202,675	52,841,085	15,837,178	14,632,978	15,849,451	9,393,698
<i>Liabilities</i>									
Bills payable	-	-	-	-	-	-	-	-	-
Borrowings	7.511%	200,000	-	-	5,585,988	-	-	-	3,733,124
Deposits and other accounts	4.880%	37,239,462	33,730,537	25,081,758	25,081,758	7,158,390	7,158,390	7,158,390	28,474
Sub-ordinated loans	9.600%	3,223,355	624	624	624	1,247	649,688	988	45,849,124
Liabilities against assets subject to finance lease	12.500%	1,510	112	167	335	210	210	420	-
Other liabilities	-	5,507,817	-	-	-	-	-	-	5,507,817
		44,968,744	37,730,649	25,082,549	30,668,705	7,159,847	7,808,288	7,159,798	55,118,539
<b>On-balance sheet gap</b>		196,603,443	9,830,448	7,125,126	22,172,380	8,677,331	6,824,690	8,689,653	4,358,991
<b>Total Yield/Interest Risk Sensitivity Gap</b>		9,121,579	(13,360,546)	7,120,126	22,172,380	8,677,331	6,824,690	8,689,653	4,358,991
<b>Cumulative Yield/Interest Risk Sensitivity Gap</b>		9,121,579	(4,238,967)	2,881,159	25,053,539	33,730,870	40,555,560	49,245,213	26,520,015

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- \* 60% of saving deposits have been distributed and classified equally in each of the categories ranging from upto one month to over 3 years upto 5 years with the remaining 40% being classified in over 5 years to 10 years category based on management's experience with such class of deposits. However, contractually these deposits are payable on demand.

### 454 Liquidity risk

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

The Bank's Asset and Liability Committee (ALCO) manages the liquidity position on a regular basis and is primarily responsible for the formulation of the overall strategy and oversight of the asset liability function. ALCO monitors the maintenance of balance sheet liquidity ratios, depositor's concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits. Moreover, as core retail deposits form a considerable part of the Bank's overall funding mix therefore significant importance is being given to the stability and growth of these deposits.

The Board of Directors have approved a comprehensive liquidity management policy.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 454.1 Maturities of Assets and Liabilities

	2006									
	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
Total	Rupees in '000									
<b>Assets</b>										
Cash and balances with treasury banks	27,859,360	-	-	183,879	-	-	-	-	-	-
Balances with other banks	12,551,728	50,000	-	-	-	-	-	-	-	-
Lending to financial institutions	12,406,653	18,163,258	6,779,132	1,332,006	1,500,000	1,946,358	2,339,324	5,770,703	1,810,840	-
Investments	56,128,577	16,466,956	19,028,853	38,207,293	9,599,174	11,434,758	29,568,144	5,150,577	7,886,121	-
Advances	149,942,717	17,328,489	186,635	373,270	749,774	1,490,544	14,905,544	3,672,666	3,139,226	-
Operating fixed assets	10,548,441	62,184	124,959	669,964	124,431	749,774	1,866,647	2,033,837	31,000	-
Other assets	5,840,128	4,062,716	222,143	669,964	124,431	124,431	1,866,647	2,033,837	31,000	-
	84,948,725	35,991,074	26,216,763	40,786,412	11,973,379	14,255,321	33,584,059	14,887,963	12,867,187	-
<b>Liabilities</b>										
Bills payable	3,091,135	-	-	-	-	-	-	-	-	-
Borrowings	8,408,327	690,465	-	5,950,216	7,970,912	8,561,323	8,471,055	663,051	-	-
Deposits and other accounts	239,480,772	33,431,035	29,357,060	22,102,440	649,688	988	416,258	33,857,020	-	-
Sub-ordinated loans	3,222,106	624	624	624	183	183	367	2,153,924	-	-
Liabilities against assets subject to finance lease	1,137	64	103	205	183	183	367	-	-	-
Deferred tax liabilities	2,124,118	40,942	402,542	436,170	908,645	908,645	2,124,118	113,682	-	-
Other liabilities	7,356,679	3,637,408	29,603,329	28,489,655	9,529,428	9,471,139	11,920,443	36,787,677	-	-
	263,684,274	103,563,097	29,603,329	12,296,737	2,443,951	4,784,182	21,664,216	21,899,714	12,867,187	-
<b>Net assets</b>	11,827,209	1,828,568	(5,343,566)	12,296,737	2,443,951	4,784,182	21,664,216	21,899,714	12,867,187	-
Share capital	5,000,000	-	-	-	-	-	-	-	-	-
Reserves	2,749,533	-	-	-	-	-	-	-	-	-
Unappropriated profit	1,979,360	-	-	-	-	-	-	-	-	-
Minority Interest	9728,893	-	-	-	-	-	-	-	-	-
	52,383	-	-	-	-	-	-	-	-	-
Surplus on revaluation of assets	9781,276	-	-	-	-	-	-	-	-	-
	2,045,933	-	-	-	-	-	-	-	-	-
	11,827,209	-	-	-	-	-	-	-	-	-
<b>Assets</b>	24,798,070	4,546,000	5,128,079	1,536,008	2,704,200	1,500,000	2,716,473	5,154,707	1,492,095	-
Balances with other banks	8,180,198	7,587,305	27,074,597	24,230,479	13,132,978	13,132,978	13,132,978	4,308,991	4,308,991	-
Lending to financial institutions	27,050,493	8,236,798	8,776,639	27,074,597	9,307,655	618,028	730,861	1,953,016	-	-
Investments	56,907,918	8,236,798	8,776,639	9,307,655	618,028	618,028	730,861	1,953,016	-	-
Advances	118,639,706	493,265	1,694,794	311,962	112,511	112,511	112,511	201,184	31,000	-
Operating fixed assets	6,660,158	439,260	877,639	930,765	617,324	618,028	730,861	1,953,016	-	-
Other assets	4,449,794	3,302,035	1,694,794	311,962	112,511	112,511	112,511	201,184	31,000	-
	248,222,345	20,959,969	33,249,794	54,083,811	16,567,013	15,363,517	16,692,823	11,617,898	5,832,086	-
<b>Liabilities</b>										
Bills payable	3,733,124	-	-	-	-	-	-	-	-	-
Borrowings	5,844,389	33,730,537	25,081,758	5,585,988	7,158,390	7,158,390	7,158,390	29,927	-	-
Deposits and other accounts	222,355,583	624	624	25,081,758	1,248	649,688	988	33,877,776	-	-
Sub-ordinated loans	3,223,355	112	167	624	335	210	420	2,570,183	-	-
Liabilities against assets subject to finance lease	1,510	112	167	335	210	210	420	-	-	-
Deferred tax liabilities	484,066	-	-	-	-	-	-	-	-	-
Other liabilities	5,507,817	33,496	299,633	330,170	630,499	630,499	484,066	79,032	-	-
	241,129,846	33,764,145	25,382,182	30,998,875	7,990,347	8,438,787	8,274,363	36,556,918	-	-
<b>Net assets</b>	7,092,499	(12,804,176)	7,867,612	23,084,936	8,776,666	6,924,730	8,418,460	(24,939,020)	5,832,086	-
Share capital	3,000,000	-	-	-	-	-	-	-	-	-
Reserves	1,851,218	-	-	-	-	-	-	-	-	-
Unappropriated profit	1,473,076	-	-	-	-	-	-	-	-	-
	6,324,294	-	-	-	-	-	-	-	-	-
Minority Interest	42,142	-	-	-	-	-	-	-	-	-
Surplus on revaluation of assets	6,366,436	-	-	-	-	-	-	-	-	-
	7,092,499	-	-	-	-	-	-	-	-	-

\* 60% of saving deposits have been distributed and classified equally in each of the categories ranging from upto one month to over 3 years upto 5 years with the remaining 40% being classified in over 5 years to 10 years category based on management's experience with such class of deposits. However contractually these deposits are payable on demand.



### 45.5 Operational risk

Basel II defines Operational risk as, “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.” In compliance with the Risk Management Guidelines, issued by SBP, an Operational Risk Function has been established within RMD, which directly reports to Head of RMD.

The Operational risk management policy of the Bank is incorporated in the Board-approved Risk Management & Internal Control Manual, which covers the strategies, processes, structure and functions of Operational risk management and provide guidelines to identify, assess, monitor, control & report operational risk in a consistent & transparent manner across the bank.

At Bank Alfalah, risk awareness culture is being encouraged by communicating the principles of proper risk management to all Bank employees. Operational Risk Function and business units are involved and regularly collaborate in determining and reviewing the strategy, in order to use it as an action plan in improving the operational risk & control system at the organizational and business unit levels. All the policies and procedures of the Bank are reviewed from the risk perspective, and the recommendations of RMD are taken into consideration before their approval at the appropriate level. An Operational Loss Database, Risk & Control Self Assessment (RCSA) exercise and Key Risk Indicators (KRIs) are being developed and will soon be implemented.

### 46. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 26, 2007 has announced a bonus issue of 30 percent. This appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2006 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending December 31, 2007.

### 47. DATE OF AUTHORIZATION

These financial statements were authorized for issue on February 26, 2007 by the Board of Directors of the Bank.

### 48. GENERAL

#### 48.1 Revised form of annual financial statements

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 48.2 Amendments to published standards and new interpretations effective in 2006

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

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

### 48.3 Comparatives

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

\_\_\_\_\_  
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, 2006**

(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, 2006				Total (5+6+7)	Principal written-off	Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Mark-up	Others	8					
1	2	3	4	5	6	7	8	9	10	11	12	
1	S.Essa 603, Business Centre Mumtaz Hassan Road, Off I.I.Chundrigar Road, Karachi.	Mohammad Arif Kapadia Mohammad Saleem Kapadia	S/o Ismael Kapadia S/o Ismael Kapadia	993	3	-	996	993	3	-	996	
2	Bexshim Corporation Room No.9, Mezzanine Floor, Hamilton Cours Plot G/2, Block -7 Clifton Main, Karachi	Feroze Punjwani Mehrunnissa Bawany Abdul Razzak	S/o Abdul Razzak W/o Younus Bawany S/o Abdul Sattar	2,425	408	-	2,833	2,425	408	-	2,833	
3	International Business Centre 123-Garden Block, Garden Town, Lahore	Mehmood Khan	Ghulam Rasool	1,012	-	-	1,012	1,012	-	-	1,012	
4	Saif Nadeem Kawasaki Industrial Estate, Kalapat District Haaripur, Hazara	Mr.Zakaria Ghani Mr. Muhammad Omer Mr.Yousuf Dada Mr.Abbul Wahab Ghani Mr.Abdres Ghani		5,686	10,586	-	16,272	5,686	10,586	-	16,272	
5	Ghazi Paper Mills 31-KM Lahore Shekhpura Road, Shekhpura	Sh Ghulam Hussain Sh.Niaz Hussain Mr.Rizwan Raza Mst. Najma Azhar Sh.Najam-ul-Hassan Mehmood Hussain Mst. Ghulam Fatima		12,702	7,101	-	19,803	1,302	7,101	-	8,403	
6	Paradise Trading	Basim Ahmed Munnaza Jabben		2,573	327	-	2,900	573	327	-	900	
			Total	25,391	18,425	-	43,816	11,991	18,425	-	30,416	

## COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS

AS AT DECEMBER 31, 2006

Number of Share Holders	From		To	Number of Shares Held
644	1	-	100	38,364
4,612	101	-	500	1,686,424
3,463	501	-	1,000	2,929,984
8,736	1,001	-	5,000	20,892,476
898	5,001	-	10,000	6,751,047
306	10,001	-	15,000	3,840,287
182	15,001	-	20,000	3,225,782
98	20,001	-	25,000	2,298,691
61	25,001	-	30,000	1,676,636
61	30,001	-	35,000	2,003,884
24	35,001	-	40,000	864,464
28	40,001	-	45,000	1,202,049
47	45,001	-	50,000	2,256,528
19	50,001	-	55,000	994,315
13	55,001	-	60,000	751,431
19	60,001	-	65,000	1,199,870
1	55,001	-	60,000	59,435
14	65,001	-	70,000	938,702
7	70,001	-	75,000	506,332
5	75,001	-	80,000	389,706
9	80,001	-	85,000	738,723
1	80,001	-	85,000	84,485
9	85,001	-	90,000	794,278
9	90,001	-	95,000	835,155
18	95,001	-	100,000	1,789,582
4	100,001	-	105,000	413,618
3	105,001	-	110,000	323,015
5	110,001	-	115,000	559,632
4	115,001	-	120,000	472,660
6	120,001	-	125,000	739,165
4	125,001	-	130,000	513,789
8	130,001	-	135,000	1,063,891
3	135,001	-	140,000	415,582
2	140,001	-	145,000	285,625
6	145,001	-	150,000	894,070
2	150,001	-	155,000	303,189
6	155,001	-	160,000	948,540
3	160,001	-	165,000	492,483
2	165,001	-	170,000	334,541
1	170,001	-	175,000	172,000
2	175,001	-	180,000	355,916
3	180,001	-	185,000	547,832
3	185,001	-	190,000	560,999
6	190,001	-	195,000	1,153,120
11	195,001	-	200,000	2,190,996
2	200,001	-	205,000	402,600

COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS

AS AT DECEMBER 31, 2006

Number of Share Holders	From		To	Number of Shares Held
3	205,001	-	210,000	627,289
4	210,001	-	215,000	843,070
1	215,001	-	220,000	215,460
1	220,001	-	225,000	224,000
2	225,001	-	230,000	452,832
1	235,001	-	240,000	237,000
3	240,001	-	245,000	728,500
2	245,001	-	250,000	500,000
1	250,001	-	255,000	250,375
5	255,001	-	260,000	1,291,164
3	275,001	-	280,000	831,678
1	290,001	-	295,000	293,000
2	295,001	-	300,000	600,000
1	300,001	-	305,000	302,500
2	320,001	-	325,000	646,147
1	325,001	-	330,000	325,416
2	330,001	-	335,000	666,332
1	335,001	-	340,000	337,398
1	345,001	-	350,000	350,000
1	360,001	-	365,000	361,734
1	365,001	-	370,000	366,666
1	385,001	-	390,000	390,000
2	395,001	-	400,000	796,000
1	140,001	-	145,000	141,666
3	400,001	-	405,000	1,205,979
1	410,001	-	415,000	412,000
1	415,001	-	420,000	418,500
1	440,001	-	445,000	443,300
1	445,001	-	450,000	445,500
2	450,001	-	455,000	902,416
1	465,001	-	470,000	470,000
2	475,001	-	480,000	960,000
1	480,001	-	485,000	483,998
1	485,001	-	490,000	487,500
1	495,001	-	500,000	500,000
1	500,001	-	505,000	500,005
1	550,001	-	555,000	550,500
1	570,001	-	575,000	572,951
1	625,001	-	630,000	625,757
1	655,001	-	660,000	655,013
2	665,001	-	670,000	1,336,166
1	670,001	-	675,000	672,000
1	680,001	-	685,000	682,000
1	695,001	-	700,000	700,000
1	705,001	-	710,000	708,332
1	715,001	-	720,000	717,500

**COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS**  
**AS AT DECEMBER 31, 2006**

Number of Share Holders	From	To	Number of Shares Held
1	775,001	- 780,000	780,000
1	785,001	- 790,000	787,000
2	790,001	- 795,000	1,586,569
1	800,001	- 805,000	802,832
1	805,001	- 810,000	809,500
1	820,001	- 825,000	821,000
1	835,001	- 840,000	837,500
1	855,001	- 860,000	857,500
1	815,001	- 820,000	816,674
1	900,001	- 905,000	902,569
1	920,001	- 925,000	920,617
1	945,001	- 950,000	947,000
1	1,175,001	- 1,180,000	1,179,166
1	1,220,001	- 1,225,000	1,224,000
1	1,240,001	- 1,245,000	1,242,392
1	1,340,001	- 1,345,000	1,344,033
1	1,390,001	- 1,395,000	1,395,000
1	1,495,001	- 1,500,000	1,497,737
1	1,750,001	- 1,755,000	1,751,500
1	2,010,001	- 2,015,000	2,014,500
1	2,025,001	- 2,030,000	2,027,562
1	2,230,001	- 2,235,000	2,230,726
1	2,430,001	- 2,435,000	2,433,000
2	2,465,001	- 2,470,000	4,939,163
1	2,690,001	- 2,695,000	2,694,230
1	1,150,001	- 1,155,000	1,150,771
1	7,085,001	- 7,090,000	7,088,972
1	11,910,001	- 11,915,000	11,914,835
1	16,155,001	- 16,160,000	16,156,581
1	3,265,001	- 3,270,000	3,266,696
1	3,720,001	- 3,725,000	3,725,000
1	4,635,001	- 4,640,000	4,638,547
1	5,630,001	- 5,635,000	5,633,455
1	10,080,001	- 10,085,000	10,085,000
1	14,275,001	- 14,280,000	14,279,902
1	17,400,001	- 17,405,000	17,404,662
1	20,395,001	- 20,400,000	20,398,541
1	22,945,001	- 22,950,000	22,949,452
1	25,495,001	- 25,500,000	25,499,391
1	28,045,001	- 28,050,000	28,049,816
1	29,995,001	- 30,000,000	30,000,000
2	38,245,001	- 38,250,000	76,498,172
1	66,295,001	- 66,300,000	66,298,900
<b>19,486</b>			<b>500,000,000</b>

**COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS**  
**AS AT DECEMBER 31, 2006**

S. No.	Shareholder's Category	Number of Shareholders	Number of Shares Held	Percentage
1	Individuals	19,122	401,984,300	80.397
2	Financial Institutions	54	34,957,201	6.991
3	Insurance Companies	21	2,034,153	0.407
4	Investment Companies	15	5,299,854	1.060
5	Joint Stock Companies	197	17,197,010	3.439
6	Leasing Companies	3	81,791	0.016
7	Modarabas	11	209,781	0.042
8	Mutual Fund	27	10,220,939	2.044
9	Charitable Trusts	2	52,500	0.011
10	Cooperative Societies	1	1,000	0.000
11	Others	33	27,961,471	5.592
		19,486	500,000,000	100.000

## COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS

AS AT DECEMBER 31, 2006

Shareholder's Category	Number of Shareholders	Number of Shares Held	Category wise No. of Shares Held	Percentage
<b>1 Associated Companies, Undertakings and related Parties</b>	<b>1</b>		<b>160,666</b>	<b>0.03</b>
CDC - Trustee Alfalah GHP Value Fund		160,666		
<b>2 NIT &amp; ICP</b>	<b>2</b>		<b>2,043</b>	<b>0.00</b>
National Bank of Pakistan, Trustee Deptt. Investment Corporation of Pakistan		1,210 833		
<b>3 Directors, Chief Executive Officer and their Spouse and Minor Children</b>	<b>6</b>		<b>85,793,208</b>	<b>17.16</b>
H.E. Sheikh Hamdan Bin Mubarak Al Nahayan		50,163,921		
Mr. Abdulla Nasser Hawaileel Al-Mansoori		34,355,863		
Mr. Abdulla Khalil Al Mutawa		4,200		
Mr. Khalid Mana Saeed Al Otaiba		25,000		
Mr. Ikram Ul-Majeed Sehgal		1,242,392		
Mr. Mohammad Saleem Akhtar		1,832		
<b>4 Executives</b>	<b>112</b>		<b>1,078,954</b>	<b>0.22</b>
<b>5 Public Sector Companies and Corporation</b>	<b>1</b>		<b>15,333</b>	<b>0.00</b>
<b>6 Banks, DFIs, NBFIs, Insurance Companies, Modarabas and Mutual Funds</b>	<b>126</b>		<b>45,988,746</b>	<b>9.20</b>
<b>Trading in shares by Directors, CEO, CFO &amp; Company Secretary</b>		<b>Shares Purchased 2006</b>	<b>Shares Sold 2006</b>	
Mr. Abdulla Nasser Hawaileel Al-Mansoori, - Director		1,288,500	1,288,500	
Mr. Mohammad Saleem Akhtar - Director / CEO			151,500	
Mr. Zahid Ali H. Jamall - CFO			40,499	
<b>Shareholders holding ten percent or more shares</b>				
<b>Total Paid Up Capital</b>		500,000,000	Shares	
<b>10% of the Paid Up Capital</b>		50,000,000	Shares	
		<b>Holding</b>	<b>%</b>	
H. E. Sheikh Nahayan Mabarak Al Nahayan		83,703,562	16.741	
H. E. Sheikh Hamdan Bin Mubarak Al Nahayan		50,163,921	10.033	



## BRANCH NETWORK

### KARACHI

#### Main Branch

B.A. Building, I.I.Chundrigar Road.  
Phone : (021) 241403039  
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) 431353638,  
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) 221135358 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. 13,  
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

## BRANCH NETWORK

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

**Gulistan-e-Jauhar Branch**  
3031, Saima Classic Rashid Minhas Road.  
Phone : (021) 4815926-27, 4815930  
Fax : 4815924

**Tipu Sultan Road Branch**  
Z111-112, 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) 43860525 Fax : 4386056

**Landhi Branch**  
Area 5-D, Sector 36-E, Landhi Township  
Phone : (021) 50344513 Fax : 5030875

**Gulshan Chowranghi Branch**  
Gulshan Chowranghi, Sani Arcade,  
Block-3, Gulshan-e-Iqbal  
Phone : (021) 4988695 Fax : 4985729

**Garden East Branch**  
Silver Jubilee Apartment, 194/2/1, Britto Road,  
Near Ismailia Jamat Khana, Garden East  
Phone : (021) 2238704, 2238717, 2238722, 2238605  
Fax : 2225941

**DHA Phase IV, Karachi**  
Plot No. 80, 10th Commercial Street,  
Phase IV, Defence Housing Authority, Karachi  
Phone: (021) 5312832-35 Fax: 5312837

**Gizri**  
K-4/3, Bazar Area Clifton, Karachi  
Phone: 021-5868991-93  
Fax: 021-5867149

**Sea View**  
Sahil Promenade, Block 3, Scheme 5,  
Clifton, Karachi  
Phone: 021-5364095-97  
Fax: 021-5371259

**Nazimabad**  
Al-Kausar Homes, Plot # 2, Block-III,  
Sub-Block "E", Nazimabad, Karachi  
Phone: (021) 6708980-83  
Fax: (021) 6708978

### HYDERABAD

Plot No476/1 & 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

## BRANCH NETWORK

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

**Double Road**  
Arbab Plaza, Double Road, Quetta  
Phone : (081) 2441961-62, 2441662  
Fax : (081) 2441665

### 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

### LARKANA

Bunder Road  
Phone : (074) 4055712,  
4055812, 4055360  
Fax : 5053962

### 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

**Badami Bagh Branch**  
2930 PECO Road, Badami Bagh.  
Phone : (042) 7704961-66  
Fax : 7728636, 7728074

**Allama Iqbal Town Branch**  
36, College Block, Allam Iqbal Town.  
Phone : (042) 54329615 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

## BRANCH NETWORK

**Shahdin Manzil Branch**  
Shahdin Manzil, Faysal Chowk, Mall Road.  
Phone : (042) 601200030,  
6300581, 6300586  
Fax : 6300589

**DHA Extension Branch**  
Divine Centre, Near Bhatta Chowk,  
New Airport Road, Lahore Cantt  
Phone : (042) 5700301309 Fax : 5700311

**Azam Cloth Market Branch**  
Raheem Centre, Akbar Block,  
Azam Cloth Market  
Phone : (042) 7665526, 764385155  
Fax : 7643860

**Shad Bagh Branch**  
37, Umer Din Road, Wassanpura  
Phone : (042) 761625256 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

**Brandreth Road Branch**  
91-A, Brandreth Road,  
Near Australia Building  
Phone : (042) 7674115-18 Fax : 7671633

**DHA Phase II Branch**  
65 CCA, Phase-II, DHA  
Phone : (042) 5748846-47 Fax : 5748849

**Ghari Shahu Branch**  
99-A, Allama Iqbal Road, Ghari Shahu  
Phone : (042) 6360973 Fax : 6360962

**Model Town, Lahore**  
13 Bank Square, Central Commercial Market,  
Model Town Lahore  
Phone: (042) 5884670-72 Fax: 5884675

**Cavalry Ground, Lahore**  
35 Main Boulevard, Officers Housing Scheme,  
Cavalry Ground Lahore  
Phone: (042) 661053132, 6610534  
Fax: 6610536

**Chuburgi**  
24-Niaz View Scheme, Rewaz Garden,  
Chuburji, Lahore  
Phone: (042) 7356640-42 Fax: 7222236

**Main Market Gulberg**  
32-E-Main Market, Gulberg II, Lahore  
Phone: 042-5786955-59  
Fax: 042-5786964

## 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

**I-8 Markaz Branch**  
Plot No. 34, I-8 Markaz  
Phone : (051) 4862563-6 Fax : 4862567

**G-9 Markaz, Islamabad**  
39-G-9 Markaz, Mauve Area, Islamabad  
Phone: (051) 22530023 Fax: 2854932

**F-8 Markaz, Islamabad**  
Shop No. 2 & 3, Al-Babar Centre,  
F-8 Markaz, Islamabad  
Phone: (051) 7151673, 2854615  
Fax: 2260270

## BRANCH NETWORK

### 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

A351, Jinnah Road (Old City Saddar Road).  
Phone : (051) 5775325-8 Fax : 5775324

#### 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

#### Peshawar Road Branch

Plot No. 400/2, Gammon House,  
Peshawar Road  
Phone : (051) 5468401-2 Fax : 5468403

#### Airport Road

7-Fazal Town, Airport Link Road, Rawalpindi  
Phone: (051) 5781484-5 Fax: 5781483

### 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) 872263639  
Fax : 8722184

#### Susan Road Branch

25-Z101, Susan Road, Madina Town  
Phone : (041) 8556673-75 Fax : 8556679

#### Rail Bazar Branch

Property No. P81, Rail Bazar  
Phone : (041) 2540801-2 Fax : 2540803

#### Yarn Market Branch

P229, 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

#### Sheikhupura Road, Faisalabad

P-352-A, Gulistan Colony II,  
Millat Chowk, Sheikhupura Road, Faisalabad  
Phone : 041-8582141-3  
Fax : 041-8582147

### 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) 58229025 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, 270155758  
UAN : 111-777-786 Fax : 2700248

## BRANCH NETWORK

### 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 Shaeedan 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) 38599313, 384703133  
Fax : 3856471, 3255295

### SAHIWAL

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

### 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) 35300713530219  
Fax : 3530319

### MARDAN

C-929 to 932 & C-662,  
Ex-Arif Hotel Building, Bank Road.  
Phone : (0931) 736313 Fax : 73733

### BAHAWALPUR

Ground Floor, Bdg. No. V/912,  
Circular Road.  
Phone : (062) 28899225 Fax : 889874

### CHINIOT

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

### DASKA

Gujranwala Road  
Phone : (052) 661683435 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



## BRANCH NETWORK

### 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) 6247013 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

### 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 BAHAUDDIN

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

1285 - 1287, Zafar Bazar  
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

## BRANCH NETWORK

### 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

### MANSEHRA

Punjab Chowk, Shahrah-e-Resham  
Phone : (0997) 303591, 303592  
Fax : 300597

### BANNU

Gowshala Road, Fatima Khel  
Phone : (0928) 61463336 Fax : 614099

### CHITRAL

D.C. Office Road, Opposite Mountain Inn Hotel,  
Attalique Bazar  
Phone : (0943) 414396, 414367  
Fax : 412988

### HAZRO

273-M, Main Hattian Road  
Phone : (057) 2313771-2 Fax : 2313773

### KOTLA

Bhimber Road, Kotla Arab Ali Khan,  
Tehsil Kharian, Distt. Gujrat  
Phone : (0537) 586892, 586915, 586435  
Fax : 586337

### MIRPUR, AZAD JAMMU & KASHMIR

114, Sector F-1, Kotli Road, Mirpur,  
Azad Jammu & Kashmir  
Phone : (058610) 36834-7 Fax : 36838

### KALLAR SYEDAN

Ghousia Shopping Centre,  
Choa Road, Kallar Syedan  
Phone : (051) 3570763, 3572016  
Fax : 3570227

### GUJAR KHAN

58-D & 59-C, Akbar Kiani Shopping Mall,  
G.T. Road, Gujar Khan  
Phone : 051-3515704-707  
Fax : 051-3515703

### GOJRA

P-86, Block III, Bohar Wali Gali, Gojra  
Phone : 046-3517876-77  
Fax : 046-3517878

### MURIDKE

G.T. Road, Muridke  
Phone : (042) 7983173-75  
Fax : (042) 7983172

### JARANWALA

P-813, Street No. 3, Nia Bazar, Jaranwala  
Phone : (041) 4319003-4 Fax : (041) 4319005

### BAHAWALNAGAR

(063) 2272005-8  
(063) 2277437  
Shop # 6, Ghallah Mandi, Bahawalnagar

### MUZAFFARGARH

(0662) 428920-23 (0662) 428931  
Mauza Taliri, Multan Road, Distt. Muzaffargarh

### KHANPUR

(068)5577502-3, 5577617, 5577627  
(068) 5577805  
Kutchery Road, Model Town, Khanpur



## BRANCH NETWORK

### HARIPUR

Main Shahrah-e-Hazara, G.T. Road, Haripur  
Phone : (0995) 627451-2 Fax : (0995) 627831

### DINGA

Thana Road, Dinga, Distt. Gujrat  
Phone : (053) 7404844-46 Fax : (053) 7404840

### WAZIRABAD

Phone : (055) 6609460, 6609470, 6609480  
Fax : (055) 6609450  
Sialkot Road, Wazirabad, Distt. Gujranwala

### 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

#### Jodia Bazar

Plot No. 112, Durya Lal Street,  
Jodia Bazar, Karachi  
Phone : (021) 2446542-5  
Fax : (021) 2430492

#### Gulistan-e-Jauhar

Eastern Pride,  
Gulistan-e-Jauhar No.15 Karachi

#### Korangi Industrial Area

Shop No. 1, Plot # 27/28, Sector-16  
Korangi Industrial Area, Karachi  
Phone : (021) 5061661-4  
Fax : (021) 5067031

#### Gulshan-e-Iqbal

Plot # 40-B, Block#13-A,  
KDA Scheme No. 24, Gulshan-e-Iqbal, Karachi  
Phone : (021) 4144650-52  
Fax : (021) 4144653

#### Main Branch, Lahore

66-Main Boulevard, Gulberg.  
Phone : (042) 57152415 Fax : 5715249

#### McLeod Road, Lahore

Abid Plaza, 13, McLeod Road.  
Phone : (042) 72116315 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) 57461915 Fax : 5746190

#### Johar Town, Lahore

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

#### Zarrar Shaheed Road

Phone : (042) 6613853-62 Fax : (042) 6673224  
1500-F Dubai Chowk, Zarrar Shaheed Road,  
Lahore Cantt., Lahore

#### Gulshan-e-Ravi

Phone : (042) 7404811-20 Fax : (042) 7404821  
Block F Main Road,  
Gulshan-e-Ravi Lahore

#### Qurtaba Chowk

Phone : (042) 7114612-16 Fax : (042) 7114618  
Rehman Chambers, Qurtaba Chowk,  
Mozang Chungi, Lahore

#### 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) 6030215 Fax : 603028

#### Medical College Road, Faisalabad

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

#### Faisal Arcade G.T. Road, Gujranwala

Phone : (055) 4557301-05 Fax : 4557310

## BRANCH NETWORK

2, Bosan Road, Multan  
Phone : (061) 7509415 Fax : 750885

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

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

11-12-13, City Centre, Shahi Road  
Rahim Yar Khan  
Phone : (068) 5885331-2 Fax : (068) 5885668

### 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

##### HERAT

Herat Branch  
Ground Floor,  
Chamber of Commerce & Industries,  
Heart Blood Bank Street  
Phone : (0093-40) 230705-07  
Fax : 230704

#### KINGDOM OF BAHRAIN

##### MANAMA

Offshore Banking Unit  
Al Doseri Business Centre,  
P.O. Box # 3210  
1 Government Avenue Suit 310,  
Building No. 1, Road, No. 383,  
Block 306, Manama  
Phone : 973 1753 6222  
Fax : 973 1753 6333



# 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 15th Annual General Meeting of the Bank to be held on **Monday, March 26, 2007** and at any adjournment thereof.

As witness my/our hand this \_\_\_\_\_ day of \_\_\_\_\_, 2007.

**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/s. F D. REGISTRAR SERVICES (SMC-PVT) LIMITED, 1700-A, 17th Floor, Saima Trade Towers, I.I. Chundrigar Road, Karachi.. 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

**F D. REGISTRAR SERVICES (SMC-PVT) LIMITED**

1700-A, 17th Floor, Saima Trade Towers, I.I. Chundrigar Road, Karachi.

Fold : Here

Fold : Here

Fold : Here

Fold : Here