

## Soneri Bank Limited

### Annual Report 1999

#### AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Soneri Bank Limited as at 31 December, 1999 and the related profit and loss account and cash flow statement together with the notes forming part thereof, for the year then ended, in which are incorporated the un-audited certified returns from the branches except for four branches which have been audited by us and we state that we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and, after due verification thereof, found them satisfactory and, we report that:

(a) in our opinion proper books of account have been kept by the bank as required by the Companies Ordinance, 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 and the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

ii) the expenditure incurred during the year was for the purpose of the bank's business; and

iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the bank and the transactions of the bank which have come to our notice have been within the powers of the bank;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet and the profit and loss account and the cash flow statement together with the notes forming part thereof give the information required by the Banking Companies Ordinance, 1962 and the Companies Ordinance, 1984 in the manner so required and give a true and fair view of the state of the bank's affairs as at 31 December 1999 and its true balance of the profit and its cash flow for the year then ended; and

(d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 was deducted by the bank and deposited in the Central Zakat Fund established, under section 7 of that Ordinance.

Karachi: 24 February, 2000

**Taseer Hadi Khalid & CO.**  
Chartered Accountants

#### BALANCE SHEET AS AT 31 DECEMBER 1999

	<i>Note</i>	<i>1999</i>	<i>1998</i>
		<i>(Rupees in '000)</i>	
<b>ASSETS</b>			
Cash	4	1,346,209	889,037
Balances with other banks	5	520,241	266,772
Investments	6	7,115,501	6,141,639
Advances - net of provision	7	7,796,707	6,630,801
Operating fixed assets	8	317,749	273,867
Capital work in progress	9	2,726	23,363
Deferred taxation	10	85,700	35,388
Other assets	11	545,482	599,806
		-----	-----
		17,730,315	14,860,673
<b>LIABILITIES</b>			
Deposits and other accounts	12	12,262,293	11,040,955
Borrowings from other banks, agents, etc.	13	3,744,924	2,421,589
Bills payable		303,437	148,254

Other liabilities	14	280,840	258,849
Liabilities against assets subject to finance lease	15	35,908	20,932
		-----	-----
		16,627,402	13,890,579
		-----	-----
<b>NET ASSETS</b>		1,102,913	970,094
		=====	=====
<b>REPRESENTED BY</b>			
Share capital	16	500,940	500,940
Reserve for proposed issue of bonus shares		125,235	--
Reserve fund and other reserves	17	468,043	401,479
Unappropriated profit		8,695	67,675
		-----	-----
		1,102,913	970,094
		=====	=====
<b>MEMORANDUM ITEMS</b>			
Bills for collection	19	2,053,097	1,839,898
		=====	=====
Acceptances, endorsements and other obligations		2,385,027	1,590,485
Contingent liabilities and commitments	20	=====	=====

The annexed notes form an integral part of these accounts.

**SAFARALI K. LAKHANI**  
PRESIDENT AND CHIEF EXECUTIVE

**JAFFERALI M. FEERASTA**  
DIRECTOR

**RASHEED CHINYOY**  
DIRECTOR

**NOORUDDIN B. FEERASTA (JR.)**  
DIRECTOR

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999

	<i>Note</i>	<i>1999</i>	<i>1998</i>
		<i>(Rupees in '000)</i>	
Mark-up/Interest and discount and/or return earned		1,648,340	1,527,178
Cost/Return on deposits, borrowings, etc.		(1,281,966)	(1,145,859)
		-----	-----
		366,374	381,319
		-----	-----
Fees, commissions and brokerage		102,315	86,591
Profit from investment securities		112	17,486
Dividend income		593	889
Other operating income	21	230,056	121,868
		-----	-----
		333,076	226,834
		-----	-----
		699,450	608,153
<b>OPERATING EXPENSES</b>			
Administrative expenses	22	285,784	262,155
Provision against non-performing advances - net	7.2	31,895	11,047
Provision for diminution in the value of investments		--	1,186
		-----	-----
		(317,679)	(274,388)
		-----	-----
		381,771	333,765
<b>OTHER INCOME</b>	23	581	1,456
		-----	-----
		382,352	335,221
Other charges	24	(36)	(21)
		-----	-----
Profit before taxation		382,316	335,200
<b>TAXATION</b>	25		
Current		(248,000)	(188,000)
Prior		(51,809)	(37,104)
Deferred		50,312	35,388
		-----	-----
		(249,497)	(189,716)

Profit after taxation		132,819	145,484
Unappropriated profit brought forward		67,675	1,382
Profit available for appropriation		200,494	146,866
<b>APPROPRIATIONS</b>			
Transfer to general reserve		(40,000)	(85,409)
Transfer to statutory reserve		(26,564)	(29,097)
Interim dividend - bonus shares		--	(45,540)
Transfer from special reserve		--	130,949
Proposed issue of bonus shares @25%		(125,235)	--
Proposed cash dividend: Nil (1998: @10%)		--	(50,094)
		(191,799)	(79,191)
Unappropriated profit carried forward		8,695	67,675
Earnings per share	33	2.65	2.90

The annexed notes form an integral part of these accounts.

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### CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1999

	1999	1998
	<i>(Rupees in '000)</i>	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	382,316	335,200
(Profit) on sale of investment securities	--	(17,278)
Dividend income	(593)	(889)
	381,723	317,033
<b>Adjustment for non-cash charges</b>		
Depreciation	31,410	28,794
Provision for diminution in the value of investments	--	1,186
Provision against non-performing advances	31,895	11,047
(Profit) on sale of fixed assets	(581)	(1,456)
Finance charges on leased assets	3,660	2,789
	66,384	42,360
	448,107	359,393
<b>(Increase)/Decrease in operating assets</b>		
Investment securities	(973,862)	(1,265,997)
Advances	(1,197,801)	(538,141)
Other assets (excluding advance tax)	74,970	38,231
	(2,096,693)	(1,765,907)
<b>Increase/(Decrease) in operating liabilities</b>		
Deposits & other accounts	1,221,338	1,195,905
Bills payable	155,183	(122,497)
Other liabilities	72,085	38,891
	1,448,606	1,112,299
Cash flow before tax	(199,980)	(294,215)
Income tax paid	(320,458)	(443,731)
Net cash flow from operating activities	(520,438)	(737,946)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		

Sale proceeds of investment securities	--	55,517
Dividend income	593	889
Fixed capital expenditure	(28,403)	(33,826)
Sale proceeds of fixed assets	1,466	2,029
	-----	-----
Net cash flow from investing activities	(26,344)	24,609
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Borrowings from other banks, agents etc.	1,323,336	868,525
Payment of lease obligations	(15,819)	(13,475)
Dividend paid	(50,094)	--
	-----	-----
Net cash flow from financing activities	1,257,423	855,050
Increase in cash and cash equivalents for the year	710,641	141,713
Cash and cash equivalents at beginning of the year	1,155,809	1,014,096
	-----	-----
Cash and cash equivalents at end of the year	1,866,450	1,155,809
	=====	=====
<b>Cash and cash equivalent at end of the year</b>		
Cash	1,346,209	889,037
Balances with other banks	520,241	266,772
	-----	-----
	1,866,450	1,155,809
	=====	=====

**SAFARALI K. LAKHANI**  
PRESIDENT AND CHIEF EXECUTIVE

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## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1999

### 1. STATUS AND NATURE OF BUSINESS

The bank was incorporated in Pakistan on 28 September 1991 as a public limited company under the Companies Ordinance, 1984. Its shares are quoted on all the stock exchanges in Pakistan. The bank is engaged in banking services as described in the Banking Companies Ordinance, 1962. It operates twenty four branches in Pakistan.

### 2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. One permissible form of trade related mode of financing include purchase of goods by the bank from its customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Statement of compliance

These accounts have been prepared in accordance with the accounting standards issued by the International Accounting Standards Committee ("IASC") and interpretation issued by Standing Interpretation Committee of the IASC, as applicable in Pakistan and the requirement of the Banking Companies Ordinance, 1962 and Companies Ordinance, 1984.

#### 3.2 Historical cost convention

These financial statements have been prepared under the historical cost convention and in conformity with the accepted accounting practices of banking institutions in Pakistan.

#### 3.3 Staff retirement benefits

##### Defined benefit plan

The bank operates an approved funded gratuity scheme for all its permanent employees. Provision is made at the rate of 8.33 percent of basic salaries of employees based on actuarial recommendation. The actuarial valuation was carried out as at 30 April 1997 using "Attained Age Normal Actuarial Cost Method". The fair value of funds liability for the past services of the employees at valuation date was Rs 7.6 million and funds assets after initial contribution in August, 1997 were Rs 6.2 million. Main assumptions used for actuarial valuation were as under:

- Expected rate of increase in salaries is 12 percent per annum.
- Expected rate of return on investments is 12 percent per annum.

### **Defined contribution plan**

The bank operates an approved provident fund scheme for all its permanent employees. Equal monthly contributions are made, both by the bank and its employees, to the fund at the rate of 8.33 percent of basic salaries of employees.

### **3.4 Taxation**

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 tax is provided using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date. A deferred tax assets is recognised only to the extent that it is probable that future taxable profit will be available and the credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **3.5 Advances**

Advances are stated net of specific and general provisions. Specific provision is made for non-performing advances as considered necessary to comply with the Prudential Regulations issued by the State Bank of Pakistan. Advances are written off when there is no realistic prospect of recovery.

### **3.6 Investments**

Securities held with the intent and ability to hold them to maturity (investment securities) are stated at amortized cost less provision for any permanent diminution in value. The difference between the face value and purchase price is amortized over the remaining life of security. Securities held for trading purposes (dealing securities) if any, are stated at market value with resultant gain or loss recognised in the profit and loss account.

### **3.7 Operating fixed assets and depreciation**

The cost of operating fixed assets is depreciated over the useful lives of the related assets under the declining balance method, except for vehicles which are depreciated under the straight line method. Fixtures costing Rs 10,000 or less and all other items of fixed assets costing Rs 2,000 or less are not capitalised and charged to income. Minor repairs and maintenance are charged to income as and when incurred.

Assets subject to finance lease are accounted for by recording the assets and the related liability. These are stated at lower of fair value and present value of minimum lease payments at inception of the lease less accumulated depreciation. Financial charges are allocated over the period of lease term in a manner so as to provide a constant periodic rate of financial charge on the outstanding liability.

### **3.8 Foreign currencies**

Foreign currency transactions are translated into rupee at exchange rates prevailing on the date of transaction. Assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date, except foreign currency deposits for which forward cover is taken from State Bank of Pakistan. Foreign currency deposits for which forward cover is taken from State Bank of Pakistan are translated at their respective cover rates. Outstanding forward foreign exchange contracts are valued at the rates applicable to their respective maturities. Exchange gains and losses are included in income currently.

### **3.9 Revenue recognition**

Mark-up/Return on investments and advances, excluding bills purchased, is recognised on accrual basis except income which warrant carry forward in compliance with the Prudential Regulations issued by the State Bank of Pakistan. Commission on letters of credit and guarantee is recognised on receipt basis.

1999                      1998  
(Rupees in '000)

## **4. CASH**

In hand			
- Local currency	4.1	228,475	157,943
- Foreign currencies		54,818	85,564
With State Bank of Pakistan in			
- Foreign currency deposit account		342,008	--
- Local currency current account		702,870	625,863
With National Bank of Pakistan in local currency current account		18,038	19,667
		-----	-----
		1,346,209	889,037
		=====	=====

**4.1 This includes National Prize Bonds of Rs. 5.063 million (1998: Rs. 0.450 million).**

**1999**                      **1998**  
**(Rupees in '000)**

## 5. BALANCES WITH OTHER BANKS

In Pakistan		
- On current account	178,852	65,680
- On deposit account	82,157	35,179
Outside Pakistan		
- On current account	108,690	165,913
- On deposit account	150,542	--
	-----	-----
	520,241	266,772
	=====	=====

## 6. INVESTMENTS - At cost less provision

### Investment Securities

Federal Investment Bonds	1,305,930	548,232
Market Treasury Bills	5,182,501	5,591,332
Fully paid up ordinary shares in listed companies	7,411	7,411
Listed Term Finance Certificates	24,995	--
Certificates of Investment	600,000	--
	-----	-----
	7,120,837	6,146,975
Provision for diminution in the value of investments	(5,336)	(5,336)
	-----	-----
	7,115,501	6,141,639
	=====	=====
Book value of Government Bonds/Bills	6,488,431	6,139,564
	=====	=====
Market value of listed securities	28,811	2,075
	=====	=====
Book value of certificates of investment	600,000	--
	=====	=====

Investments include securities having a book value of Rs 23.100 million (1998: Rs 17.850 million) pledged with State Bank of Pakistan and National Bank of Pakistan as security to facilitate T.T. discounting facility to branches of the bank. Investments also include securities having book value of Rs 100.00 million (1998: Rs 100.00 million) pledged with State Bank of Pakistan as security to facilitate same day credit against surrender of foreign currency deposits.

## 7. ADVANCES - Net of provision

Loans, cash credits, overdrafts, etc.

In Pakistan	7,072,155	6,074,467
Bills discounted and purchased		
Payable in Pakistan	235,133	143,774
Payable outside Pakistan	616,172	507,418
	-----	-----
	851,305	651,192
	-----	-----
	7,923,460	6,725,659
General and specific provision for non-performing advances	7.2	(126,753)
	-----	-----
	(126,753)	(94,858)

7,796,707	6,630,801
=====	=====

Advances include Rs 157.451 million (1998:163.018 million) which have been placed on non-performing status.

#### 7.1 Particulars of advances

In local currency	7,180,535	6,123,383
In foreign currencies	616,172	507,418
	-----	-----
	7,796,707	6,630,801

Debts considered good in respect of which the bank is fully secured	7,796,707	6,630,801
Debts considered good for which the bank holds no other security than the debtors' personal security	--	--
Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors	--	--
Debts considered doubtful or bad not provided for	--	--
	-----	-----
	7,796,707	6,630,801
	=====	=====

<i>Balance as at 31 December 1999</i>	<i>Maximum total amount of advance including temporary advances granted during the year</i>
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(Rupees in '000)

Debts due by executives or officers of the bank or any of them either severally or jointly with any other persons	47,177	48,462
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	123,250	272,403
Debts due by subsidiary companies, controlled firms, managed modarabas and other associated undertakings	--	--

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

	<i>Specific</i>	<i>General</i>	<i>1999</i>	<i>1998</i>
	<i>(Rupees in '000)</i>			
Opening balance	84,858	10,000	94,858	84,636
Charge for the year	14,091	32,600	46,691	22,984
Amounts written off	7.3	--	--	(825)
Reversals	(14,796)	--	(14,796)	(11,937)
	-----	-----	-----	-----
Closing balance	84,153	42,600	126,753	94,858
	=====	=====	=====	=====
Provision against				
Advances to banks	--	--	--	--
Advances to others	84,153	42,600	126,753	94,858
	-----	-----	-----	-----
	84,153	42,600	126,753	94,858
	=====	=====	=====	=====

7.3 In terms of section 33A(3) 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 is not required as no amount has been directly written off or financial relief has been allowed during the year.

#### 8. OPERATING FIXED ASSETS

*COST**DEPRECIATION*

	<i>At 01 Jan 1999</i>	<i>Additions/ *Transfers/ Adjustments/ (deletions)</i>	<i>At 31 Dec 1999</i>	<i>At 01 Jan 1999</i>	<i>Charge for the year/ (on deletions)/ Adjustments/ **Transfers</i>	<i>At 31 Dec 1999</i>	<i>Book Value At 31 Dec 1999</i>	<i>Rate of Depreciation %</i>
<i>(Rupees in '000)</i>								
Land and Buildings on leasehold land	160,014	19,704 (517)	179,201	19,419	7,209 (18)	26,610	152,591	5
Furniture, fixtures and equipments	173,708	29,297 10,958* 517 (2,328)	212,152	68,894	16,947 4,293* * 18 (1,408) (222)	88,522	123,630	10-20
Vehicles	16,680	75 2,011* (699)	18,067	14,591	1,739 1,005** (698) 222 (56)	16,803	1,264	20
Assets held under finance lease:								
Furniture, fixtures and equipments	24,137	22,063 (10,968)*	35,242	5,459	3,483 (4,293)**	4,649	30,593	10-20
Vehicles	10,164	5,074 (2,011)*	13,227	2,473	2,032 (1,005)** 56	3,556	9,671	20
1999	364,703	89,699 (16,513)	457,889	110,836	37,004 (7,700)	140,140	317,749	
1998	332,913	72,602 (20,612)	384,703	85,463	36,536 (11,163)	110,836	273,867	

**8.1 Disposals/Deletions of fixed assets**

	<i>Cost</i>	<i>Book value</i>	<i>Sale price</i>	<i>Mode of Disposal</i>	<i>Particulars of Purchaser</i>
<b>Furniture, fixtures and equipments</b>					
Furniture, fixtures and equipments	193	44	90	Negotiation	Freezways, Wahdat Road, Muslim Town, Lahore.
Furniture, fixtures and equipments	257	56	32	Trade-in	Technocomb Engg., Marine Pride, Clifton Block. 7, Khayaban-e- Iqbal, Karachi.
Furniture, fixtures and equipments	362	201	182	Trade-in	Mulia Ebrahimji Karimbhoy, Serai Road, Karachi.
Written down value below Rs 100,000 each	39	35	--	Written off	--
Written down value below Rs. 100,000 each	1,477	584	638	Negotiation	Various
<b>Vehicles</b>					
Suzuki Khyber	263	--	211	Tender	Mr. Bashir Ahmad, H. No. 182 Madina Block, Awan Town, Multan Road, Lahore.
Suzuki Khyber	207	--	151	Tender	Mr. Afzal Wadiwala, R-242 Sharifabad, Karachi.
Suzuki Khyber	226	--	162	Tender	Lt. Col. M. Riaz 84 Signal Battalion, Karachi.
Written down value below Rs. 100,000 each	3	1	--	Written-off	



	<i>1999</i>	<i>1998</i>
	<i>(Rupees in '000)</i>	
<b>9. CAPITAL WORK-IN-PROGRESS</b>		
Civil works	1,720	18,396
Equipments	--	2,853
Advances to suppliers and contractors	470	855
Consultants fees and other charges	536	1,259
	-----	-----
	2,726	23,363
	=====	=====
<b>10. DEFERRED TAXATION</b>		
Deferred debits arising in respect of:		
Provision against non-performing advances	73,517	52,172
Mark-up in suspense	26,247	--
Unamortized goodwill on premises	1,391	--
	-----	-----
	101,155	52,172
Deferred credits arising due to:		
Accelerated tax depreciation	12,930	13,794
Excess of accounting book value of leased assets over lease liability	2,525	2,990
	-----	-----
	(15,455)	(16,784)
	-----	-----
	85,700	35,388
	=====	=====
<b>11. OTHER ASSETS</b>		
Stationery and stamps on hand	9,459	7,559
Income/Mark-up accrued on advances and investments	11.1 203,276	172,947
Other income receivable	21,240	86,260
Prepaid exchange risk fee	25,151	54,565
Advances, deposits, advance rent and other prepayments	28,881	33,924
Taxation (payments less provisions)	215,268	199,365
Income tax recoverable	4,743	--
Branch adjustment account	--	28,751
Unrealised gain on forward foreign exchange contracts	18,482	--
Due from State Bank of Pakistan	5,635	4,712
Suspense Account	13,334	11,723
Others	13	--
	-----	-----
	545,482	599,806
	=====	=====
11.1 Mark up in suspense is shown under other liabilities.		
<b>12. DEPOSITS AND OTHER ACCOUNTS</b>		
Fixed deposits	3,254,777	2,722,912
Savings deposits	7,434,364	6,817,479
Current deposits	1,237,312	1,027,545
Call deposits	50,542	44,134
Margin deposits	262,004	420,920
Sundry deposits	23,294	7,965
	-----	-----
	12,262,293	11,040,955
	=====	=====
<b>12.1 Particulars of deposits and other accounts</b>		
In local currency	9,777,726	7,240,702
In foreign currencies	2,484,567	3,800,253
	-----	-----
	12,262,293	11,040,955
	=====	=====
<b>13. BORROWINGS FROM OTHER BANKS, AGENTS, ETC.</b>		
In Pakistan	3,744,924	2,421,589

**13.1 Particulars of borrowings from other banks, agents, etc.**

In local currency	3,744,924	2,421,589
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Markup on export refinance from State Bank of Pakistan is charged at the rate of 6 percent per annum (1998: 6 percent per annum) payable on quarterly basis and is secured against Demand Promissory Note executed by the bank in favour of the State Bank of Pakistan.

**14. OTHER LIABILITIES**

Mark-up/Interest on loans/borrowings	113	--
Profit payable on PLS deposits and other accounts	173,216	92,589
Interest payable on foreign currency deposits	27,934	41,197
Branch adjustment account	3,838	--
Accrued expenses	12,030	9,410
Proposed dividend	--	50,094
Mark-up in suspense	45,253	31,240
Special exporter account	--	21,328
Due to State Bank of Pakistan	12,729	8,593
Others	5,727	4,398
	280,840	258,849

**15. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

	<b>1999</b>			<b>1998</b>		
	<i>Minimum Lease Payments</i>	<i>Financial charges</i>	<i>Principal</i>	<i>Minimum Lease Payments</i>	<i>Financial charges</i>	<i>Principal</i>
	<i>(Rupees in '000)</i>			<i>(Rupees in '000)</i>		
Upto one year	19,032	4,651	14,381	12,585	2,768	9,817
Between one year and five years	24,812	3,285	21,527	12,799	1,684	11,115
	43,844	7,938	35,908	25,384	4,452	20,932

The bank has entered into various lease agreements with leasing companies and modarabas for furniture, equipments and vehicles. Lease rentals include financial charges ranging between 15.55 percent to 18.91 percent per annum which have been used as discounting factor and are payable monthly. The bank has option to purchase the assets upon completion of lease period and has intention to exercise it.

**1999**      **1998**  
*(Rupees in '000)*

**16. SHARE CAPITAL****Authorised**

60,000,000 Ordinary shares of Rs. 10 each Issued, subscribed and paid up	600,000	600,000
33,000,000 Ordinary shares of Rs. 10 each fully paid in cash	330,000	330,000
17,094,000 Ordinary shares of Rs. 10 each fully issued as bonus	170,940	170,940
50,094,000	500,940	500,940

**17. RESERVE FUND AND OTHER RESERVES**

Share premium	1,405	1,405
Statutory reserve	313,428	286.86
General reserve	153,210	113,210
	468,043	401,479

**18. STATEMENT OF CHANGES IN EQUITY**

	<i>Share capital</i>	<i>Reserve for issue of bonus shares</i>	<i>Share premium/Special reserve</i>	<i>Statutory reserve</i>	<i>General reserve</i>	<i>Unappropriated profit</i>	<i>Total</i>
<i>(Rupees in '000)</i>							
Balance at 01 Jan 1998	379,500	75,900	132,354	257,767	27,801	1,383	874,705
Profit for the year	--	--	--	--	--	145,483	145,483
Transfer	--	--	(130,949)	29,097	85,409	16,443	--
Cash dividend	--	--	--	--	--	(50,094)	(50,094)
Issue of bonus shares	121,440	(75,900)	--	--	--	(45,540)	--
Balance at 31 Dec. 1998	500,940	--	1,405	286,864	113,210	67,675	970,094
Profit for the year	--	--	--	--	--	132,819	132,819
Transfer	--	--	--	26,564	40,000	(66,564)	--
Cash dividend	--	--	--	--	--	--	--
Issue of bonus shares	--	125,235	--	--	--	(125,235)	--
Balance at 31 Dec. 1999	500,940	125,235	1,405	313,428	153,210	8,695	1,102,913

**1999**      **1998**  
*(Rupees in '000)*

## 19. BILLS FOR COLLECTION

Payable in Pakistan	26,059	19,256
Payable outside Pakistan	2,027,038	1,820,642
	2,053,097	1,839,898

Bills for collection represent bills drawn on various financial institutions in Pakistan or abroad on behalf of bank's customers. These are accepted by the bank as an agent and the bank does not carry any credit risk in respect of these bills.

**1999**      **1998**  
*(Rupees in '000)*

## 20. CONTINGENT LIABILITIES AND COMMITMENTS

### Contingencies

Money for which the bank is contingently liable:

a) Contingent liability in respect of guarantees given on behalf of directors or officers or any of them (severally or jointly) with any other person, subsidiaries and associated undertakings

--      --

b) Contingent liability in respect of guarantees given favouring:

- Government	328,467	403,337
- Banking companies and other financial institutions	112,195	191,640
- Others	169,285	163,935
	609,947	758,912

c) Liability on bills of exchange rediscounted

--      --

d) Claims against the bank not acknowledged as debts

--      --

### Commitments

Commitments in respect of forward exchange contracts

Sale

- To State Bank of Pakistan	--	161,392
- To other banks	694,543	371,264
- To customers	242,988	372,407

Purchase		
- From State Bank of Pakistan for foreign currency deposits and imports	1,949,755	3,949,602
o From other banks	200,622	95,046
- From customers	38,427	3

**21. OTHER OPERATING INCOME**

Income from dealing in foreign currencies	183,580	96,787
Recovery of expenses from customers	20,608	16,962
Rent of lockers	1,656	1,485
Miscellaneous income	24,212	6,634
	-----	-----
	230,056	121,868
	=====	=====

**22. ADMINISTRATIVE EXPENSES**

Salaries, allowances, etc. (including provision of Rs. 7.400 million for compensated absences 1998: Rs. Nil)	99,938	80,117
Contribution to defined benefit plan	3,128	2,874
Contribution to defined contribution plan	2,779	2,449
Non-executive directors' fees and allowances	4	2
Brokerage and commission	3,477	3,043
Rent, taxes, insurance, electricity, etc.	31,937	29,651
Legal and professional charges	4,348	3,447
Communication	25,169	23,166
Repairs and maintenance	7,740	5,412
Financial charges on leased assets	3,660	2,789
Stationery and printing	10,529	7,859
Advertisement and publicity	2,268	3,062
Donation	22.1	10,000
Auditors' remuneration	22.2	803
Depreciation	8	31,410
Other expenditure	48,594	58,994
	-----	-----
	285,784	262,155
	=====	=====

22.1 The above donation was paid to Aga Khan University Hospital and no director or their spouse had any interest in the said hospital.

**22.2 Auditors' remuneration**

Audit fee	350	300
Audit fee of provident and gratuity funds	25	25
Special certifications and tax services	362	124
Out of pocket expenses	66	47
	-----	-----
	803	496
	=====	=====

**23. OTHER INCOME**

Net profit on sale of operating fixed assets	581	1,456
	=====	=====

**24. OTHER CHARGES**

Operating fixed assets written-off	36	21
	=====	=====

**25. TAXATION****25.1 Relationship between tax expense and accounting profit**

Profit before tax	382,316	335,200
	=====	=====
Tax at the applicable tax rate of 58 percent (1998: 55 percent)	221,743	184,360
Tax effect of expenses that are not deductible in determining taxable income	2,088	2,852
Tax effect of expenses that are deductible temporary differences not previously recognised in calculation of deferred tax	(20,207)	(35,388)
Effect of change in tax rates	(1,930)	--

Income exempt from tax	--	(3,034)
Other	(4,006)	3,822
	-----	-----
Tax expense	197,688	152,612
	=====	=====
Current tax	248,000	188,000
Deferred tax	(50,312)	(35,388)
	-----	-----
Tax expense	197,688	152,612
	=====	=====

25.2 The income tax assessments Of the bank have been finalised upto and including the assessment year 1999-2000 (income year ended 31 December 1998). Matters of disagreement exist between the bank and tax authorities for the assessment year 1993-1994 to 1999-2000 and are pending with the Commissioner of Income Tax (Appeals) and Income Tax Appellate Tribunal. The issues mainly relate to addition of mark-up in suspense account to income and disallowances of certain expenses. However, full tax liability has been provided in these accounts.

## 26. REMUNERATION OF DIRECTORS AND EXECUTIVES

	<i>Chief Executive</i>		<i>Directors</i>		<i>Executives</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
	<i>(Rupees in '000)</i>					
Fees	--	--	4	2	--	--
Managerial remuneration	1,757	1,597	--	--	1,229	1,148
Contribution to defined benefit plan	220	200	--	--	104	98
Contribution to defined contribution plan	146	133	--	--	102	96
Rent and house maintenance	841	769	--	--	553	517
Utilities	139	184	--	--	141	132
Medical	7	87	--	--	71	66
Bonus and leave encashments	717	563	--	--	590	410
	-----	-----	-----	-----	-----	-----
	3,827	3,533	4	2	2,790	2,467
	=====	=====	=====	=====	=====	=====
Number of persons	1	1	2	1	2	2
	=====	=====	=====	=====	=====	=====

The bank also provides free use of bank maintained cars to Chief Executive and Executives.

## 27. MATURITIES OF ASSETS AND LIABILITIES

	<i>Total</i>	<i>Upto one month</i>	<i>Over one month to one year</i>	<i>Over one year to five years</i>	<i>Over five years</i>
	<i>(Rupees in '000)</i>				
<b>Assets</b>					
Cash	1,346,209	1,289,239	56,970	--	--
Balances with other banks	520,241	369,699	150,542	--	--
Investments	7,115,501	572,251	5,212,335	1,330,915	--
Advances - Net of provision	7,796,707	820,391	6,739,998	80,579	155,739
Operating fixed assets	317,749	--	--	165,158	152,591
Capital work in progress	2,726	--	2,726	--	--
Deferred taxation	85,700	--	85,700	--	--
Other assets	545,482	325,471	220,011	--	--
	-----	-----	-----	-----	-----
	17,730,315	3,377,051	12,468,282	1,576,652	308,330
<b>Liabilities</b>					
Deposits and other accounts	12,262,293	9,014,037	1,567,073	1,665,152	16,031
Borrowings from other banks, agents etc.	3,744,924	--	3,744,924	--	--
Bills payable	303,437	303,437	--	--	--
Other liabilities	280,840	235,587	45,253	--	--

Liabilities against assets subject to finance lease	35,908	--	14,382	21,526	--
	-----	-----	-----	-----	-----
	16,627,402	9,553,061	5,371,632	1,686,678	16,031
	-----	-----	-----	-----	-----
Net balance	1,102,913	(6,176,010)	7,096,650	(110,026)	292,299
	=====	=====	=====	=====	=====
Shareholders' equity	1,102,913				
	=====				

## 28. SEGMENT ANALYSIS AND CREDIT RISK

### 28.1 Geographic segment

These financial statements represent operations of the bank in Pakistan only.

### 28.2 Segment by class of business

	<i>Advances</i>		<i>Deposits</i>		<i>Acceptances, Endorsements, Guarantees and other obligations</i>	
	<i>(Rupees in '000)</i>	<i>Percent</i>	<i>(Rupees in '000)</i>	<i>Percent</i>	<i>(Rupees in '000)</i>	<i>Percent</i>
Chemical and Pharmaceuticals	144,343	1.82	26,959	0.22	552,418	18.44
Agribusiness	27,874	0.35	295,197	2.41	127,352	4.25
Textile	3,061,165	38.63	595,434	4.86	219,727	7.34
Cement	96,615	1.22	15,469	0.13	3,864	0.13
Sugar	96,568	1.22	32,174	0.26	421	0.01
Shoes and leather garments	210,953	2.66	51,167	0.42	5,971	0.20
Automobile and transportation equipment	12,894	0.16	34,559	0.28	78,842	2.63
Financial	10,412	0.13	390,591	3.18	100,412	3.35
Insurance	--	--	15,508	0.13	--	--
Transportation	58,495	0.74	11,300	0.09	44,243	1.48
Electronics and electric appliances	131,134	1.66	86,780	0.71	161,790	5.40
Production and transmission of energy	--	--	2,153	0.02	38,638	1.29
Fish and allied	483,235	6.10	--	--	974	0.03
Others (include individuals)	3,589,772	45.31	10,705,002	87.29	1,660,322	55.45
	-----	-----	-----	-----	-----	-----
	7,923,460	100.00	12,262,293	100.00	2,994,974	100.00
	=====	=====	=====	=====	=====	=====

### 28.3 Segment by sector

	<i>Advances</i>		<i>Deposits</i>	
	<i>(Rupees in '000)</i>	<i>Percent</i>	<i>(Rupees in '000)</i>	<i>Percent</i>
Public/Government	--	--	780,800	6.37
Private	7,923,460	100.00	11,481,493	93.63
	-----	-----	-----	-----
	7,923,460	100.00	12,262,293	100.00
	=====	=====	=====	=====

### 28.4 Credit risk and concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the credit worthiness of counter-parties.

Concentration of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to

avoid undue concentration of risks with individuals or groups of customers in specific locations or business. It also obtains security when appropriate.

## 29. CURRENCY BREAKDOWN OF ASSETS AND LIABILITIES

	<i>Assets</i>		<i>Liabilities</i>	
	<i>(Rupees in '000)</i>	<i>Percent</i>	<i>(Rupees in '000)</i>	<i>Percent</i>
Pak rupees	16,849,286	95.03	14,114,901	84.90
U.S. dollars	735,862	4.15	2,292,335	13.79
Pound sterling	44,885	0.25	122,174	0.73
Deutsche mark	11,782	0.07	97,937	0.58
Japanese yen	--	--	55	--
Other European currencies	25,110	0.15	--	--
Other currencies	63,390	0.35	--	--
	-----	-----	-----	-----
	17,730,315	100.00	16,677,402	100.00
	=====	=====	=====	=====

**1999**      **1998**  
*(Rupees in '000)*

## 30. TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

Advances given during the year	272,403	76,000
	=====	=====
Advances repaid during the year	140,453	34,047
	=====	=====
Deposits (at year end)	62,150	172,355
	=====	=====
Mark-up/interest paid	753	4,098
	=====	=====
Mark-up/Interest earned	3,737	7,781
	=====	=====

## 31. INTEREST RATE RISK MANAGEMENT

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. 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 re-price in a given period. The bank manages this risk by matching the re-pricing of assets and liabilities. The bank's interest rate sensitivity position, based on the earlier of contractual re-pricing or maturity date, is as follows:

	<i>Effective interest Rate</i>	<i>Less than one month</i>	<i>One month to one year</i>	<i>Over one year</i>	<i>Not exposed to interest rate risk</i>	<i>Total</i>
		<i>(Rupees in '000)</i>				
<b>ASSETS</b>						
Cash	4.67%	285,038	56,970	--	1,004,201	1,346,209
Balances with other banks	7.12%	82,157	150,542	--	287,542	520,241
Investments	13.80%	572,251	5,210,260	1,330,915	2,075	7,115,501
Advances (b)	12.30%	820,391	6,739,998	236,318	--	7,796,707
Other assets	--	--	--	--	545,482	545,482
		-----	-----	-----	-----	-----
		1,759,837	12,157,770	1,567,233	1,839,300	17,324,140
<b>LIABILITIES</b>						
Deposits and other accounts (c)	10.78%	7,440,879	1,567,073	1,681,183	1,573,158	12,262,293
Borrowings from other banks, agents etc.	6%	--	3,744,924	--	--	3,744,924
Bills payable	--	--	--	--	303,437	303,437
Other liabilities	--	--	--	--	280,840	280,840
Liabilities against assets subject to finance lease	16.45%	--	14,382	21,526	--	35,908
		-----	-----	-----	-----	-----
		7,440,879	5,326,379	1,702,709	2,157,435	16,627,402
		-----	-----	-----	-----	-----
On-balance sheet gap		(5,681,042)	6,831,391	(135,476)	(318,135)	696,738

Total interest rate sensitivity gap	(5,681,042)	1,150,349	1,014,873	696,738	--
-------------------------------------	-------------	-----------	-----------	---------	----

The on-balance sheet gap represents the net amounts of on-balance sheet items.

(a) The effective interest rate is a historical rate for a fixed rate instrument carded at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

(b) The effective interest rate for advances has been computed by excluding non-performing loans.

(c) The effective interest rates have been computed by excluding non-interest bearing accounts, which form a small proportion of such deposits.

### 32. FAIR VALUE OF FINANCIAL INSTRUMENTS

As set out in note 3.2 to the financial statements, the Bank's financial instruments are accounted for under the historical cost convention, whereas the fair value is the amount for which an assets could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between book value and fair value estimates.

As of 31 December 1999, the estimated fair values of all on balance sheet financial instruments are not significantly different from their book value except for investments which are as follows:

	<i>(Rupees in '000)</i>
Book value	7,120,837
Fair value	7,211,227
Fair value over book value	90,390

As of 31 December 1999, the estimated fair value of forward foreign exchange contracts is as follows:-

	<i>(Rupees in '000)</i>
Sale	
- To other banks	689,436
- To customers	234,641
Purchase	
- From other banks	196,851
- From customers	38,291

### 33. EARNINGS PER SHARE

Profit after taxation (numerator)	132,819	145,484
Weighted average number of ordinary shares (denominator)	50,094	50,094
Earnings per share	2.65	2.90

### 34. STAFF STRENGTH

Number of employees at end of the year	596	588
--	-----	-----

### 35. GENERAL

Captions, as prescribed by BPRD Circular No. 31 dated 13 August 1997 issued by the State Bank of Pakistan, in respect of which there are no amounts have not been reproduced in these financial statements.

**SAFARALI K. LAKHANI**  
PRESIDENT AND CHIEF EXECUTIVE

**JAFFERALI M. FEERASTA**  
DIRECTOR

**RASHEED CHINYOY**  
DIRECTOR

**NOORUDDIN B. FEERASTA (JR.)**  
DIRECTOR