



(Formerly Metropolitan Bank Limited)

Habib Metropolitan Bank Ltd.

(Subsidiary of Habib Bank AG Zurich)

CONSOLIDATED ACCOUNTS

AUDITORS' REPORT TO THE MEMBERS

We have audited the accompanying consolidated financial statements of **HABIB METROPOLITAN BANK LIMITED** [Formerly Metropolitan Bank Limited] (the Bank) and its subsidiary company Metro Trade Services Limited – Hong Kong (together, the Group) which comprises the consolidated balance sheet as of December 31, 2006 and the 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 eleven branches which have been audited by us. We have also expressed separate opinion on the financial statements of Habib Metropolitan Bank Limited [Formerly Metropolitan Bank Limited].

- a) The financial statements of the subsidiary company for the year ended December 31, 2006 are unaudited. Hence, total assets of Rs. 1,393 thousand and net profit of Rs. 1,314 thousand have been incorporated in these consolidated financial statements by the management using the unaudited financial statements.

These financial statements are the responsibility of management of the Group. Our responsibility is to express an 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 financial 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, except for any adjustment that may have been required due to the matter expressed in paragraph (a) above, the consolidated financial statements examined by us based on eleven branches audited by us and the returns referred to above received from the branches which have been found adequate for the purposes of our audit, give a true and fair view of the financial position of the Group as at December 31, 2006 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Comparative financial information has been compiled from the audited financial statements of the Bank and unaudited financial statements of its subsidiary. The Bank's financial statements for the year ended December 31, 2005 were audited by another firm of chartered accountants whose report dated March 04, 2006 expressed an unqualified opinion thereon. Audited financial statement of the Group for the year ended December 31, 2005 were not published as the subsidiary company had not commenced any business activity and were incorporated with the nominal equity during the year ended December 31, 2005.

Karachi: February 24, 2007

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2006

| | Note | 2006 | 2005 |
|---|------|------------------------------|------------|
| | | Rupees in '000 (Restated) | |
| ASSETS | | | |
| Cash and balances with treasury banks | 6 | 11,348,162 | 5,150,860 |
| Balances with other banks | 7 | 6,296,564 | 1,118,240 |
| Lendings to financial institutions | 8 | 5,447,110 | 5,462,582 |
| Investments | 9 | 39,555,490 | 22,803,864 |
| Advances | 10 | 83,324,059 | 43,518,716 |
| Operating fixed assets | 11 | 649,122 | 418,922 |
| Deferred tax assets | | — | — |
| Other assets | 12 | 2,049,556 | 1,090,474 |
| | | 148,670,063 | 79,563,658 |
| LIABILITIES | | | |
| Bills payable | 13 | 1,619,796 | 1,046,050 |
| Borrowings | 14 | 29,518,458 | 14,429,178 |
| Deposits and other accounts | 15 | 102,492,633 | 56,712,866 |
| Sub-ordinated loans | | — | — |
| Liabilities against assets subject to finance lease | | — | — |
| Deferred tax liabilities | 16 | 176,803 | 408,470 |
| Other liabilities | 17 | 3,992,947 | 1,372,941 |
| | | 137,800,637 | 73,969,505 |
| NET ASSETS | | 10,869,426 | 5,594,153 |
| REPRESENTED BY | | | |
| Share capital | 18 | 3,005,000 | 1,560,000 |
| Reserves | | 5,824,936 | 2,254,951 |
| Unappropriated profit | | 1,836,616 | 1,278,413 |
| | | 10,666,552 | 5,093,364 |
| Surplus on revaluation of assets - net of tax | 19 | 202,874 | 500,789 |
| | | 10,869,426 | 5,594,153 |
| CONTINGENCIES AND COMMITMENTS | 20 | | |

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

ANWAR H. JAPANWALA
Chairman

KASSIM PAREKH
President & Chief Executive

FIRASAT ALI
Director

ZIA SHAFI KHAN
Director

CONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2006

| | Note | 2006 | 2005 |
|--|----------|--------------------|-------------|
| | | Rupees in '000 | |
| | | | (Restated) |
| Mark-up / Return / Interest earned | 22 | 7,289,123 | 4,358,556 |
| Mark-up / Return / Interest expensed | 23 | (4,416,477) | (2,224,648) |
| Net Mark-up / Interest Income | | 2,872,646 | 2,133,908 |
| Provision against non-performing loans and advances | 10.4 | 108,092 | 51,088 |
| Provision for diminution in the value of investments | | - | - |
| Bad debts written off directly | | 289 | 753 |
| | | (108,381) | (51,841) |
| Net Mark-up / interest income after provisions | | 2,764,265 | 2,082,067 |
| Non mark-up / interest income | | | |
| Fee, commission and brokerage income | | 583,427 | 423,428 |
| Dividend income | | 41,524 | 33,231 |
| Income from dealing in foreign currencies | | 673,263 | 397,201 |
| Gain on sale of securities | 24 | 198,083 | 72,414 |
| Unrealized gain/(loss) on revaluation of investment classified as held for trading | | - | - |
| Other income | 25 | 234,936 | 67,089 |
| Total non mark-up / interest income | | 1,731,233 | 993,363 |
| | | 4,495,498 | 3,075,430 |
| Non mark-up / interest expenses | | | |
| Administrative expenses | 26 | 1,349,930 | 970,599 |
| Other provisions / write offs | | - | - |
| Other charges | 27 | 1,177 | 6,505 |
| Total non mark-up / interest expenses | | (1,351,107) | (977,104) |
| | | 3,144,391 | 2,098,326 |
| Extraordinary / unusual items | | - | - |
| Profit before taxation | | 3,144,391 | 2,098,326 |
| Taxation - Current | | 1,040,279 | 647,000 |
| Taxation - Prior years | | 33,448 | (140,700) |
| Taxation - Deferred | | (26,539) | 86,121 |
| | 28 | (1,047,188) | (592,421) |
| Profit after taxation | | 2,097,203 | 1,505,905 |
| Unappropriated profit brought forward | | 1,278,413 | 725,508 |
| Profit available for appropriation | | 3,375,616 | 2,231,413 |
| Basic earnings per share | (Rupees) | 9.32 | 7.24 |
| Diluted earnings per share | (Rupees) | 9.32 | 7.24 |

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President & Chief Executive

FIRASAT ALI
Director

ZIA SHAFI KHAN
Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

| | Note | 2006 Rupees in '000 | 2005 (Restated) |
|---|------|------------------------|--------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Profit before taxation | | 3,144,391 | 2,098,326 |
| Less: Dividend income | | (41,524) | (33,231) |
| | | <u>3,102,867</u> | <u>2,065,095</u> |
| Adjustments | | | |
| Depreciation | | 50,625 | 39,882 |
| Provision against non-performing advances and consumer financing- net | | 108,092 | 51,088 |
| Gain on sale of fixed assets | | (4,958) | (3,842) |
| | | <u>153,759</u> | <u>87,128</u> |
| | | 3,256,626 | 2,152,223 |
| (Increase) / decrease in operating assets | | | |
| Lendings to financial institutions | | 15,472 | (1,330,348) |
| Advances | | (40,106,423) | (3,414,937) |
| Other assets (excluding advance taxation) | | (959,082) | (548,430) |
| | | <u>(41,050,033)</u> | <u>(5,293,715)</u> |
| Increase / (decrease) in operating liabilities | | | |
| Bills payable | | 573,746 | (157,164) |
| Borrowings from financial institutions | | 15,093,355 | 2,038,877 |
| Deposits and other accounts | | 45,779,767 | 8,117,301 |
| Other liabilities (excluding current taxation) | | 1,984,434 | 292,933 |
| | | <u>63,431,302</u> | <u>10,291,947</u> |
| | | 25,637,895 | 7,150,455 |
| Income tax paid | | (438,144) | (404,714) |
| Net cash flow from operating activities | | 25,199,751 | 6,745,741 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Net investments in available-for-sale securities | | (19,032,099) | (6,409,686) |
| Net proceeds from / (investments in) held-to-maturity securities | | 1,788,078 | (1,089,741) |
| Dividend income | | 41,524 | 33,231 |
| Investments in operating fixed assets | | (99,729) | (90,193) |
| Sale proceeds of operating fixed assets - disposed off | | 6,200 | 4,906 |
| Net cash flow from investing activities | | (17,296,026) | (7,551,483) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Issue of share capital | | 3,475,985 | — |
| Dividend paid | | (9) | (2) |
| Net cash flow from financing activities | | 3,475,976 | (2) |
| Increase / (decrease) in cash and cash equivalents | | 11,379,701 | (805,744) |
| Cash and cash equivalents at beginning of the year | | 5,926,929 | 6,732,673 |
| Cash and cash equivalents at end of the year | 30 | <u>17,306,630</u> | <u>5,926,929</u> |

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

ANWAR H. JAPANWALA
Chairman

KASSIM PAREKH
President & Chief Executive

FIRASAT ALI
Director

ZIA SHAFI KHAN
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

| | Reserves | | | | | | | Total |
|--|------------------|------------------|-------------------|-----------------|------------------|-----------------------------------|------------------------|-------------------|
| | Share Capital | Share premium | Statutory Reserve | Special Reserve | Revenue Reserve | Reserve for issue of bonus shares | Un-appropriated profit | |
| | Rupees in '000 | | | | | | | |
| Balance as at January 1, 2005 as previously reported | 1,200,000 | - | 821,590 | 240,361 | 900,000 | 360,000 | 46,261 | 3,568,212 |
| Effect of change in accounting policy (note 5.1.1) | - | - | - | - | (300,000) | (360,000) | 660,000 | - |
| Effect of change in accounting policy net of tax (note 5.1.2) | - | - | - | - | - | - | 19,247 | 19,247 |
| Balance as at January 1, 2005 as restated | 1,200,000 | - | 821,590 | 240,361 | 600,000 | - | 725,508 | 3,587,459 |
| Issue of bonus shares – 2004 (in the ratio of 3 shares for every 10 shares held) | 360,000 | - | - | - | - | - | (360,000) | - |
| Transfer to revenue reserve | - | - | - | - | 300,000 | - | (300,000) | - |
| Net profit for the year ended December 31, 2005 | - | - | - | - | - | - | 1,505,905 | 1,505,905 |
| Transfer from profit and loss account | - | - | 293,000 | - | 600,000 | 520,000 | (1,413,000) | - |
| Balance as at December 31, 2005 | 1,560,000 | - | 1,114,590 | 240,361 | 1,500,000 | 520,000 | 158,413 | 5,093,364 |
| Effect of change in accounting policy (note 5.1) | - | - | - | - | (600,000) | (520,000) | 1,120,000 | - |
| Balance as at January 01, 2006 as restated | 1,560,000 | - | 1,114,590 | 240,361 | 900,000 | - | 1,278,413 | 5,093,364 |
| Issue of share capital upon Amalgamation (Note 1.3 & 1.4) | 925,000 | 2,550,985 | - | - | - | - | - | 3,475,985 |
| Issue of bonus shares - 2005 (in the ratio of 1 share for every 3 shares held) | 520,000 | - | - | - | - | - | (520,000) | - |
| Transfer to revenue reserve | - | - | - | - | 600,000 | - | (600,000) | - |
| Net profit for the year ended December 31, 2006 | - | - | - | - | - | - | 2,097,203 | 2,097,203 |
| Transfer to statutory reserve | - | - | 419,000 | - | - | - | (419,000) | - |
| Balance as at December 31, 2006 | 3,005,000 | 2,550,985 | 1,533,590 | 240,361 | 1,500,000 | - | 1,836,616 | 10,666,552 |

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

ANWAR H. JAPANWALA
Chairman

KASSIM PAREKH
President & Chief Executive

FIRASAT ALI
Director

ZIA SHAFI KHAN
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

1. STATUS AND NATURE OF BUSINESS**1.1** The Group comprises of:

- **Holding company**
Habib Metropolitan Bank Limited

- **Subsidiary company**
Metropolitan Trade Services Limited - Wholly owned subsidiary incorporated in Hong Kong

Here-in-after referred to as "the Group" is engaged in providing Commercial Banking and Trade advising services.

Habib Metropolitan Bank Limited (the Bank) was incorporated in Pakistan on August 3, 1992 as a public limited company, under the Companies Ordinance, 1984 and commenced its banking operations from October 21, 1992. Its shares are listed on all stock exchanges in Pakistan. The registered office of the Bank is situated at Spencer's Building, I. I. Chundrigar Road, Karachi.

The Bank is a fully accredited scheduled commercial bank and is principally engaged in the business of banking as defined in the Banking Companies Ordinance, 1962. It operates 82 branches (December 31, 2005: 51 branches) including four Islamic Banking Branches in Pakistan. The Bank is a subsidiary of Habib Bank AG Zurich which is incorporated in Switzerland.

Consequent to the Amalgamation of the Habib Bank A G Zurich - Pakistan Operations (HBZ) with and into the Bank as more fully described in note 1.4 and 1.5 below, the figures in the consolidated profit and loss account for the current year includes the result of the combined entity with effect from October 26, 2006 and the figures of the consolidated balance sheet as at December 31, 2006 includes assets and liabilities of the combined entity.

1.2 Basis of consolidation

The consolidated financial statements include the financial statements of the holding company and its subsidiary company. The financial statements of the subsidiary company have been consolidated on a line-by-line basis and the carrying value of the investments held by the holding company has been eliminated against the shareholder's equity in the subsidiary company. Intra group balances or transactions have been eliminated.

1.3 During the year the Group has increased its authorised share capital from Rs. 2,000 million (200,000,000 ordinary shares of Rs. 10/- each) to Rs. 6,000 million (600,000,000 ordinary shares of Rs. 10/- each) as approved by the shareholders in their general meeting held on March 31, 2006.**1.4** During the year, the shareholders of the Group in their extra-ordinary general meeting held on July 13, 2006 approved a "Scheme of Amalgamation" (the Scheme) of HBZ with and into the Group. The Scheme was also sanctioned by the State Bank of Pakistan (SBP) under section 48 of the Banking Companies Ordinance, 1962 vide its order dated September 29, 2006. The effective date of amalgamation was October 26, 2006 as approved by the SBP. Accordingly,

- a) the entire undertaking of HBZ including all the property, assets and liabilities and all the rights and obligations of HBZ as on the effective date were to stand amalgamated with and into the Group;

- b) in consideration for the amalgamation under the Scheme, the Group has issued 92,500,000 Ordinary shares of Rs.10/- each to HBZ at a price determined by dividing the net asset value of HBZ as at a day prior to the effective date based on HBZ audited Amalgamation Accounts as required by the Scheme; and

- c) all banking and branch licenses issued by SBP to HBZ stand cancelled from the effective date and all branches and offices of HBZ have become the branches of the Group and authorized to transact banking business.

- 1.5 The net asset value of HBZ as per its Amalgamation Accounts duly audited by their auditors on the effective date was as follows:

| | Rs. in '000' |
|---------------------------------------|------------------|
| ASSETS | |
| Cash and balances with treasury banks | 6,266,703 |
| Balances with other banks | 3,823,776 |
| Investments | 5,116,841 |
| Advances – net | 28,899,981 |
| Others assets | 818,149 |
| Operating fixed assets | 182,338 |
| Deferred tax assets | 5,128 |
| | 45,112,916 |
| LIABILITIES | |
| Bills payable | 672,532 |
| Borrowing from financial institutions | 6,313,055 |
| Deposits and other accounts | 32,931,714 |
| Other liabilities | 1,719,630 |
| | 41,636,931 |
| NET ASSETS | 3,475,985 |

- 1.6 The name of the Bank has been changed from Metropolitan Bank Limited to Habib Metropolitan Bank Limited with effect from October 26, 2006 after completing necessary formalities and approval from the SBP.

2. BASIS OF PRESENTATION

- 2.1 In accordance with the directives of the Federal Government regarding shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by the Group from their customers and immediate resale to them at appropriate mark-up in price on a 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.
- 2.2 The financial results of the Islamic Banking branches have been consolidated in these financial statements for reporting purposes, after eliminating inter-branch transactions / balances. Key financial figures of the Islamic Banking branches are disclosed in note 40 to these financial statements.
- 2.3 These financial statements are separate financial statements of the Group in which investment in a subsidiary is accounted for on the basis of direct equity investment rather than on the basis of reported result and net assets of the investee company. From this year, the Group is issuing consolidated financial statements in which the investment in its subsidiary, Metropolitan Trade Services Limited is being accounted for on the basis of reported results and net asset of the subsidiary.

3. STATEMENT OF COMPLIANCE

- 3.1** These financial statements are prepared in accordance with the directives issued by the State Bank of Pakistan, approved accounting standards as applicable in Pakistan, the requirements of the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962. Approved accounting standards comprise of such International Financial Reporting Standards as are 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 State Bank of Pakistan and the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence.
- 3.2** The (SBP) has deferred the applicability of International Accounting Standard (IAS)39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS)40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. Accordingly, the requirements of these Standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of various Circulars issued by the SBP.
- 3.3** During 2005, 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 Murabaha transactions undertaken by the Group, effective for financial periods beginning on or after January 1, 2006. The standard has not been adopted by the Group pending resolution of certain issues, e.g. invoicing of goods, recording of inventories, concurrent application with other approved accounting standards in place for conventional banks, etc. Pakistan Banks Association has taken up the matter with the SBP.

4. BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention except that certain investments are stated at market value and derivative financial instruments have been marked to market and are carried at fair value.

The preparation of consolidated financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the 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. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment are explained below:

i. Provision against non-performing loans and advances

The Group reviews its loan portfolio to assess amount of non-performing loans and advances and provision required there against on a quarterly basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, the forced sale value of securities and requirements of Prudential Regulations are considered. The estimate of forced sale values are supported by independent valuations of assets mortgaged/pledged. The Group also maintains general provision in line with the Group's prudent policies as precautionary provision to hedge against unforeseen contingencies.

The amount of general provision against consumer advances is determined in accordance with the relevant Prudential Regulations.

ii. Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged required judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operation and financing cash flows.

iii. Held to maturity investments

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

iv. Income taxes

In making the estimates for income taxes payable by the Group, the management considers current income tax law and the decisions of appellate authorities on certain issues in the past.

v. Retirement benefits

The key actuarial assumptions covering the valuation of defined benefit plans and the sources of estimation are disclosed in note 30 to the financial statements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**5.1 Change in accounting policies**

5.1.1 In accordance with the Circular 06-2006 dated June 19, 2006 issued by the Institute of Chartered Accountants of Pakistan, the Group now recognizes all appropriations of reserves including in respect of bonus issues made after the balance sheet date, other than statutory appropriations, in the period in which such appropriations are approved. Previously, the appropriation of reserves were considered as adjusting events and recorded at the balance sheet date. This change in the accounting policy has been accounted for retrospectively and comparative information has been restated in accordance with the treatment specified in International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (IAS-8). The effect of change in accounting policy is reflected in the statement of changes in equity.

5.1.2 In prior years, as per the Group's policy, Forward Exchange Contracts and the Foreign Documentary Bills Purchased/discounted (FDBP) were accounted for on contractual rates. These contracts/documents are now revalued at the exchange rates applicable to their respective remaining maturities, being a more appropriate accounting treatment and making the Group's financial statements more comparable.

The above change in accounting policies resulted in increase in: (a) net unrealized gain on revaluation of Forward Exchange Contracts amounting to Rs.44,115 thousand (2005: Rs.43,759 thousand), (b) advance against FDBPs amounting to Rs.185,434 thousand (2005: Rs.55,460 thousand) and (c) income from dealing in foreign currencies – net of tax amounting to Rs.84,715 thousand (2005: Rs.41,290 thousand). These changes have been applied retrospectively and comparative information has been restated in accordance with the requirements of the IAS - 8.

5.1.3 In the prior years, the Group accounted for the surplus on revaluation of securities as the difference between the market value of Market Treasury Bills and the cost excluding the accrued income thereon. This resulted in increase in the value of other assets and surplus on revaluation of securities and the difference amount adjusted at the time of maturity. To provide for better accounting treatment and presentation on the balance sheet date, the Group has changed the above practice from the current year and now revalues Market Treasury Bills after adjusting the related accrued income thereon. This resulted in decrease in other assets, surplus on revaluation of securities and deferred tax liability thereon by Rs. 201,380 thousand, Rs. 201,380 thousand and Rs.76,524 thousand respectively, which has been adjusted in the financial statements retrospectively. This has no impact on the profit for the current and prior years and the value of investments in Market Treasury Bills at the balance sheet date.

5.2 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks in current and deposit accounts less over drawn nostro and local bank accounts.

5.3 Investments

Investments in securities other than investment in a subsidiary and an associate are classified as follows:

Held for trading

These are securities, which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.

Held to maturity

These are securities with fixed or determinable payments and fixed maturities that are held with the intention and ability to hold to maturity.

Available for sale

These are investments that do not fall under the held for trading or held to maturity categories.

Investments are initially recognized at cost being the fair value of the consideration given including the acquisition cost.

In accordance with the requirements of the SBP, quoted securities, other than those classified as held to maturity, are stated at market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale' is taken to a separate account which is shown in the balance sheet below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realized upon disposal. The unrealized surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading' is taken to the profit and loss account. Held to maturity securities are carried at amortised cost.

Premium or discount on acquisition of investments is capitalized and amortised through the profit and loss account over the remaining period till maturity.

Investment in an associate is stated at cost less provision for any impairment in their value. Provision against TFCs is made as per the aging criteria prescribed by Prudential Regulations.

Provision for diminution in the value of securities (except TFCs) is made for permanent impairment, if any, in their value. Provision against TFCs is made as per the aging criteria prescribed by Prudential Regulations.

Unquoted equity securities are valued at cost less impairment losses, if any.

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

5.4 Lendings to / borrowings from financial institutions

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

Sale under repurchase obligation

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repo agreement.

Purchase under resale obligation

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the balance sheet. Amounts paid under these obligations are included in reverse repurchase agreement lendings. The difference between purchase and resale price is accrued as income over the term of the reverse repo agreement.

Other borrowings

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

5.5 Advances including net investment in finance lease

Loans and advances

Advances are stated net of provisions for bad and doubtful debts and are based on the appraisal carried out, taking into consideration the Prudential Regulations issued by the State Bank of Pakistan and where such provision is considered necessary, it is charged to profit and loss account. The Group also maintains general provision in line with the Group's prudent policies as precautionary provision to hedge against unforeseen contingencies. Advances are written-off when there are no realistic prospects of recovery.

Finance lease receivables

When assets are held subject to finance lease, the present value of the lease payment is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

5.6 Operating fixed assets and depreciation

Tangible

Property and equipment, other than leasehold land and capital work-in-progress which is not depreciated, are stated at cost less accumulated depreciation and accumulated impairment loss, if any.

Depreciation on all property and equipment is charged to income over the useful life of the asset on a systematic basis applying the straight line method except for office premises which is depreciated using the diminishing balance method in accordance with the rates specified in note 12.1 to these financial statements.

Depreciation on additions is charged from the date of acquisition till the date of disposal. Gains / losses on sale of disposal property and equipment are charged to profit and loss account currently.

Maintenance and normal repairs are charged to the profit and loss account as and when incurred.

Intangible

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

5.7 Impairment of non-financial assets

The carrying amount of assets is reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If each indication exists, and when the carrying value exceeds the estimated recoverable amount, assets are written down to the recoverable amount. The resulting impairment loss is taken to the profit and loss account currently.

5.8 Staff retirement and other benefits

Defined benefit plan

The Group operates an approved funded gratuity scheme for all its permanent employees. Retirement benefits are payable to the members of the scheme on completion of prescribed qualifying period of service under the scheme. Contributions are made in accordance with the actuarial recommendation. The actuarial valuation is carried out annually using "Projected Unit Credit Method". The actuarial gains / losses of one accounting period are recognized in the following accounting period.

Defined contribution plan

The Group operates a recognised provident fund scheme for all its regular employees, which is administered by the Board of Trustees. Contribution is made, by the Group and its employees, to the fund in accordance with the terms of the scheme.

Employees' compensated absences

Employees' entitlement to annual leave is recognized when they accrue to employees. A provision is made for estimated liability for annual leaves as a result of services rendered by the employee against unavailed leaves, as per term of service contract, up to balance sheet date.

5.9 Taxation**Current**

Provision for current taxation is based on taxable income for the year at the current rates of taxation after taking into consideration available tax credits and rebates, if any. The charge for the current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalized during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the balance sheet date, expected to be applicable at the time of its reversal.

A deferred tax asset is recognized only to the extent that it is probable that the future taxable profit will be available and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

5.10 Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events and 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.

Provisions 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 customers' account. Charge to profit and loss account is stated net off expected recoveries.

5.11 Revenue Recognition

Mark-up / interest / Return on advances and investments are recognised on accrual basis, except for income which is required to be carried forward in compliance with Prudential Regulations issued by the State Bank of Pakistan. Income from dealing in foreign currencies is recognised on accrual basis. Other fee, commission and brokerage except income from letter of guarantee are accounted for on receipt basis.

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

5.12 Transactions with related parties

Transactions with related parties are entered into at arm's length prices using the comparable uncontrolled price method.

5.13 Foreign currencies

Foreign currency transactions are translated into local currency at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. All other forward exchange contracts are revalued using forward exchange rates applicable to their respective remaining maturities.

Exchange gains or losses are included in income currently.

5.14 Financial Instruments

5.14.1 Financial assets and financial liabilities

Financial instruments carried on the balance sheet includes cash and bank balances, balances with other banks, lending to financial institutions, investments, advances, bills payable, borrowings from financial institutions, deposits and other payables. The particular recognition methods adopted for significant financial assets and liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

5.14.2 Derivatives

Derivative financial instruments are initially recognized at their fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives financial instruments are carried as asset when fair value is positive and liabilities when fair value is negative. Any change in the value of derivative financial instruments is taken to the profit and loss account.

5.15 Off Setting

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

5.16 Dividend and appropriations

Dividends and other appropriation to reserves (excluding statutory reserves) declared subsequent to balance sheet date are considered as non-adjusting event and are recorded in the financial statements when declared.

5.17 Trade date accounting

All regular way purchases/sales of investment are recognised on the trade date, i.e. the date the Group commits to purchase/sell the investments. Regular way purchases of sales of investment require delivery of securities within three days after the transaction date as required by stock exchange regulations.

| | Note | 2006 | 2005 |
|--|------|-------------------|------------------|
| | | Rupees in '000 | |
| 6. CASH AND BALANCES WITH TREASURY BANKS | | | |
| In hand | | | |
| - local currency | | 1,289,737 | 852,373 |
| - foreign currencies | | 264,890 | 95,568 |
| National Prize Bonds | | 5,336 | 5,183 |
| With State Bank of Pakistan in | 6.1 | | |
| - local currency current account | | 7,493,738 | 3,522,635 |
| - foreign currency current account | | 67,364 | 10,488 |
| - foreign currency deposit account - special cash reserve | 6.2 | 1,644,570 | 441,361 |
| - cash reserve account | | 548,190 | 147,120 |
| With National Bank of Pakistan in local currency current account | | 34,337 | 76,132 |
| | | 11,348,162 | 5,150,860 |

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

6.2 This represents funds placed with State Bank of Pakistan pursuant to the requirements of BSD Circular No. 18 dated March 31, 2001 and carry mark up rate of 4.35% (2005:3.29%) per annum.

| | Note | 2006 | 2005 |
|-------------------------------------|------|------------------|------------------|
| | | Rupees in '000 | |
| 7. BALANCES WITH OTHER BANKS | | | |
| In Pakistan | | | |
| - Current accounts | | 273,586 | 204,780 |
| - Deposit accounts | 7.1 | 964,672 | 6,500 |
| Outside Pakistan | | | |
| - Current accounts | 7.2 | 1,357,967 | 531,669 |
| - Deposit accounts | 7.1 | 3,700,339 | 375,291 |
| | | 6,296,564 | 1,118,240 |

7.1 Includes overnight placement of Rs.951,780 thousand (2005: Rs. Nil) with Islamic Banks and carries profit rates ranging from 3.25% to 8.5% (2005: 2.31% to 4.45%) per annum.

7.2 Includes balance of Rs.2,130,858 thousand held with branches of Habib Bank A.G Zurich outside Pakistan.

| | Note | 2006 | 2005 |
|--|------|------------------|------------------|
| | | Rupees in '000 | |
| 8. LENDINGS TO FINANCIAL INSTITUTIONS | | | |
| Call money lendings | 8.2 | 3,150,000 | 1,100,000 |
| Repurchase agreement lendings (Reverse Repo) | 8.3 | 2,031,883 | 4,362,582 |
| Other placements | 8.4 | 265,227 | — |
| | | <u>5,447,110</u> | <u>5,462,582</u> |
| 8.1 Particulars of Lending | | | |
| In local currency | | 5,447,110 | 5,462,582 |
| In foreign currencies | | — | — |
| | | <u>5,447,110</u> | <u>5,462,582</u> |

8.2 Represents lending to banks and carry mark-up rates ranging from 9.7% to 10.7% (2005: 7.75% to 9%) per annum with maturities upto June 2007.

8.3 Securities held as collateral against lendings to financial institutions (Reverse Repo)

| Note | 2006 | | | 2005 | | | |
|---------------------------|--------------|-----------------------------|----------|------------------|-----------------------------|----------|------------------|
| | Held by Bank | Further given as collateral | Total | Held by Bank | Further given as collateral | Total | |
| Rupees in '000 | | | | | | | |
| Market Treasury Bills | 8.3.1 | 1,690,133 | — | 1,690,133 | 3,888,682 | — | 3,888,682 |
| Pakistan Investment Bonds | 8.3.2 | 200,000 | — | 200,000 | 275,000 | — | 275,000 |
| Term Finance Certificates | 8.3.3 | 141,750 | — | 141,750 | 198,900 | — | 198,900 |
| | | <u>2,031,883</u> | <u>—</u> | <u>2,031,883</u> | <u>4,362,582</u> | <u>—</u> | <u>4,362,582</u> |

8.3.1 Market Treasury Bills have been purchased under resale agreements at rates ranging from 8.81% to 9% (2005: 6.25% to 8.00%) per annum with maturities upto March 2007.

8.3.2 Pakistan Investment Bonds have been purchased under resale agreements at 9.1% (2005: 8.0% to 8.9%) per annum with maturities upto February 2007.

8.3.3 Term Finance Certificates have been purchased under resale agreements at rates ranging from 11.5% to 11.8% (2005: 10.25% to 11.75%) per annum with maturities upto March 2007.

8.4 Represents unsecured placement with banks and carry mark-up / profit rates ranging from 3.5 % to 11% (2005: Nil) per annum with maturities upto January 2007.

8.5 Market value of the securities under repurchase agreement lendings amounted to Rs. 2,053,375 thousand (2005: Rs.4,406,314 thousand).

9. INVESTMENTS

| | Note | 2006 | | | 2005 | | |
|---|------|-------------------|---------------------|-------------------|--------------|---------------------|------------|
| | | Held by Bank | Given as collateral | Total | Held by Bank | Given as collateral | Total |
| 9.1 Investments by types | | | | | | | |
| Available-for-sale securities | | | | | | | |
| Market Treasury Bills | | 13,757,882 | 6,322,593 | 20,080,475 | 3,959,503 | 2,373,281 | 6,332,784 |
| Pakistan Investment Bonds | | 5,296,716 | 4,282,172 | 9,578,888 | 4,710,411 | 2,288,479 | 6,998,890 |
| Term Finance Certificates | | 1,874,139 | – | 1,874,139 | 1,325,501 | – | 1,325,501 |
| WAPDA Bonds / Sukuk Bonds | | 525,000 | – | 525,000 | 200,000 | – | 200,000 |
| Ordinary Shares of listed companies | | 104,448 | – | 104,448 | 152,078 | – | 152,078 |
| Ordinary Shares of un-listed Companies | | 75,000 | – | 75,000 | 75,000 | – | 75,000 |
| Preference Shares | | 65,000 | – | 65,000 | 65,000 | – | 65,000 |
| Mutual Funds | | 3,486,405 | – | 3,486,405 | 1,608,556 | – | 1,608,556 |
| Society for Worldwide Interbank Financial Telecommunication (SWIFT) | | 1,740 | – | 1,740 | 1,740 | – | 1,740 |
| | | 25,186,330 | 10,604,765 | 35,791,095 | 12,097,789 | 4,661,760 | 16,759,549 |
| Held-to-maturity securities | | | | | | | |
| Pakistan Investment Bonds | | – | – | – | 154,154 | – | 154,154 |
| Federal Investment Bonds | | – | – | – | 337,461 | – | 337,461 |
| Market Treasury Bills | | – | – | – | 3,106,463 | – | 3,106,463 |
| Certificate of Investments | | 3,450,000 | – | 3,450,000 | 1,640,000 | – | 1,640,000 |
| | | 3,450,000 | – | 3,450,000 | 5,238,078 | – | 5,238,078 |
| Associate | | | | | | | |
| Ordinary shares of Pakistan Export Finance Guarantee Agency Limited | | 11,361 | – | 11,361 | 5,680 | – | 5,680 |
| Investments at cost | | 28,647,691 | 10,604,765 | 39,252,456 | 17,341,547 | 4,661,760 | 22,003,307 |
| Less: Provision for diminution in value of investments | | – | – | – | – | – | – |
| Investments - net of provisions | | 28,647,691 | 10,604,765 | 39,252,456 | 17,341,547 | 4,661,760 | 22,003,307 |
| Surplus on revaluation of available-for-sale investments | 19 | 120,679 | 182,355 | 303,034 | 639,365 | 161,192 | 800,557 |
| Total Investments at market value | | 28,768,370 | 10,787,120 | 39,555,490 | 17,980,912 | 4,822,952 | 22,803,864 |

| | Note | 2006 | 2005 |
|--|--------|-------------------|------------|
| | | Rupees in '000 | |
| 9.2 Investments by segments | | | |
| Federal Government Securities | | | |
| - Market Treasury Bills | 9.2.1 | 20,080,475 | 9,439,247 |
| - Pakistan Investment Bonds | 9.2.2 | 9,578,888 | 7,153,044 |
| - Federal Investment Bonds | | - | 337,461 |
| | | 29,659,363 | 16,929,752 |
| Fully Paid Up Ordinary Shares | | | |
| - Listed Companies | 9.2.3 | 104,448 | 152,078 |
| - Unlisted Companies | 9.2.4 | 86,361 | 80,680 |
| | | 190,809 | 232,758 |
| Fully Paid Up Preference Shares | | | |
| - Listed Companies | 9.2.5 | 40,000 | 40,000 |
| - Unlisted Companies | 9.2.6 | 25,000 | 25,000 |
| | | 65,000 | 65,000 |
| Term Finance Certificates and Bonds | | | |
| - Listed Companies | 9.2.7 | 1,044,542 | 549,979 |
| - Unlisted Companies | 9.2.8 | 829,597 | 775,522 |
| - WAPDA/ Sukuk Bonds | 9.2.9 | 525,000 | 200,000 |
| | | 2,399,139 | 1,525,501 |
| Other Investments | | | |
| - Certificate of Investments | 9.2.10 | 3,450,000 | 1,640,000 |
| - Mutual funds | 9.2.11 | 3,486,405 | 1,608,556 |
| - Society for Worldwide Interbank Financial Telecommunication (SWIFT) | 9.2.12 | 1,740 | 1,740 |
| | | 6,938,145 | 3,250,296 |
| Total investments at cost | | 39,252,456 | 22,003,307 |
| Less: Provision for diminution in investments | | - | - |
| Investments - net of provisions | | 39,252,456 | 22,003,307 |
| Surplus on revaluation of investments | | 303,034 | 800,557 |
| Total Investments at market value | | 39,555,490 | 22,803,864 |

9.2.1 Market treasury bills have a maturity of 3, 6 and 12 months, with yield ranging between 8.63% to 8.99% (2005 : 4.74% to 8.80%) per annum.

9.2.2 Pakistan Investment Bonds have the maturity period of 3, 5 and 10 years with interest rates ranging between 8.00% to 14.00% (2005 : 8.00% to 14.00%) per annum. The securities having the book value of Rs. 158,500 thousand (2005 : 158,500 thousand) pledged with the State Bank of Pakistan and National Bank of Pakistan as a security for TT discounting facility.

| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
|--|----------------|-----------|----------------|----------------|---------|---------|
| | No. of Shares* | | Rupees in '000 | | Rating | |
| 9.2.3 Fully paid-up ordinary shares / certificates – listed | | | | | | |
| Guardian Modaraba | – | 227,250 | – | 2,986 | – | Unrated |
| Fauji Fertilizer Company Limited | 60,461 | 49,100 | 6,001 | 6,001 | Unrated | Unrated |
| Pakistan Oil Field Limited | 55,000 | 20,000 | 18,616 | 6,290 | Unrated | Unrated |
| Pakistan Telecommunication Corporation Limited | 100,000 | – | 4,168 | – | Unrated | Unrated |
| Union Bank Limited | – | 1,574,000 | – | 100,028 | AA+ | AA+ |
| Hub Power Company Limited | 500,000 | 1,110,000 | 16,565 | 36,773 | Unrated | Unrated |
| Lucky Cement Limited | 10,000 | – | 790 | – | Unrated | Unrated |
| Nishat Textile Mills Limited | 71,500 | – | 7,622 | – | A+ | A+ |
| Allied Bank Limited | 39,500 | – | 3,680 | – | A+ | A+ |
| Bank Al-Habib Limited | 60,000 | – | 3,646 | – | AA | AA |
| D.G. Khan Cement Limited | 11,000 | – | 925 | – | Unrated | Unrated |
| Pakistan Petroleum Limited Oil and Gas Development Corporation Limited | 35,000 | – | 8,039 | – | Unrated | Unrated |
| Pakistan State Oil Company Limited | 125,000 | – | 14,575 | – | Unrated | Unrated |
| Soneri Bank Limited | 23,000 | – | 7,499 | – | AAA | AAA |
| | 365,400 | – | 12,322 | – | AA- | AA- |
| | | | 104,448 | 152,078 | | |

* Ordinary shares / certificates of Rs. 10 each

9.2.4 Fully paid-up ordinary shares - unlisted

| | | | | | | |
|--|-----------|-----------|---------------|---------------|---------|---------|
| Kushhali Bank Limited | 25 | 25 | 25,000 | 25,000 | A- | A- |
| Ordinary shares of Rs. 1,000,000 each Chief Executive - Mr. Ghalib Nishtar 1.47% (2005: 1.47%) of the paid-up capital Break-up value per share Rs. 1,025,929 based on audited accounts for the year ended December 31, 2005. | | | | | | |
| DHA Cogen Limited | 5,000,000 | 5,000,000 | 50,000 | 50,000 | Unrated | Unrated |
| Ordinary shares of Rs. 10 each Chief Executive - Mr. Michael Yap 3.32% (2005: 3.32%) of the paid-up capital Break-up value per share Rs. 10 based on audited accounts for the year ended June 30, 2006 | | | | | | |
| Pakistan Export Finance Guarantee Agency Limited – Associates | 1,136,088 | 568,000 | 11,361 | 5,680 | Unrated | Unrated |
| Ordinary shares of Rs. 10 each Chief Executive - Mr. S. M. Zaeem 10.52% (December 31, 2005: 5.26%) of the paid-up capital. Break-up value per share Rs. 6.68 based on audited accounts for the year ended December 31, 2005 | | | | | | |
| | | | 86,361 | 80,680 | | |

9.2.5 Fully paid-up preference shares - listed

| | | | | | | |
|------------------------------------|-----------|-----------|--------|--------|---------|---------|
| Chenab Limited | 4,000,000 | 4,000,000 | 40,000 | 40,000 | Unrated | Unrated |
| Preference shares of Rs. 10/- each | | | | | | |

These are non-voting, cumulative, preference shares redeemable after the end of four years from the date of issuance and carry preferred dividend of 9.25% per annum.

9.2.6 Fully paid-up preference shares - unlisted

| | | | | | | |
|---|-----------|-----------|--------|--------|---|---|
| Jamshoro Joint Venture Limited | 2,500,000 | 2,500,000 | 25,000 | 25,000 | A | A |
| Preference shares of Rs. 100/- each Chief Executive - Mr. Iqbal Z. Ahmed | | | | | | |

These are non-voting, cumulative, preference shares redeemable in five years after the date of issuance and carry preferred dividend of 15% per annum.

| | 2006 No. of Certificates | 2005 | Face Value | Maturity Date | 2006 Rupees '000 | 2005 | 2006 Rating | 2005 |
|---|-----------------------------|--------|---------------|------------------------|---------------------|----------------|----------------|---------|
| 9.2.7 Term finance certificates - listed | | | | | | | | |
| Askari Commercial Bank Limited | 7,000 | 7,000 | 5,000 | Jun-12, Oct-13 | 34,981 | 34,995 | AA | AA |
| Allied Bank Limited | 10,000 | – | 5,000 | Nov 14 | 50,000 | – | A | – |
| Azgard Nine Limited | 40,000 | – | 5,000 | Aug-07 | 200,000 | – | A+ | – |
| Bank Alfalah Limited | 12,700 | 12,700 | 5,000 | Dec-08 | 63,424 | 63,449 | AA- | AA- |
| Bank Al-Habib Limited | 30,000 | 10,000 | 5,000 | Jun-12, Dec-14 | 149,920 | 49,980 | AA- | AA- |
| First International Investment Bank Limited | 10,000 | – | 5,000 | Jun-11 | 50,000 | – | A+ | – |
| First Receivables Securitization Limited | 5,000 | – | 5,000 | Dec 13 | 25,000 | – | AA- | – |
| Ittehad Chemicals Limited | 1,714 | 1,714 | 5,000 | Jun-08 | 4,282 | 7,136 | A | A |
| Jahangir Siddiqi & Company Limited | 17,182 | 5,182 | 5,000 | Jan-12, Apr-08 | 76,900 | 25,884 | AA+ | AA+ |
| MCB Bank Limited | 8,544 | 8,544 | 5,000 | Feb-08 | 42,677 | 42,694 | AA | AA- |
| Orix Leasing Pakistan Limited | 10,000 | 15,000 | 5,000 | Sep-11 | 50,000 | 75,000 | AA+ | Unrated |
| Pakistan Services Limited | 2,987 | 2,987 | 5,000 | Nov-08 | 8,529 | 12,794 | A | A- |
| Prime Commercial Bank Limited | 1,974 | 1,974 | 5,000 | Mar-10 | 9,864 | 9,868 | A | A |
| Securetel (SPV) Limited | – | 9,600 | 5,000 | | – | 4,000 | Unrated | Unrated |
| Sitara Chemical Industries Limited | 3,150 | 3,150 | 5,000 | Jun-07 | 5,355 | 10,552 | AA- | AA- |
| Soneri Bank Limited | 17,000 | 12,000 | 5,000 | May-13 | 84,949 | 59,988 | A+ | A+ |
| Sui Southern Gas Company Limited | 11,000 | 6,600 | 5,000 | Jun-07 | 9,159 | 16,460 | AA | AA |
| Trust Leasing Company Limited | 9,857 | 9,857 | 5,000 | Jun-08, Jul-09 | 32,836 | 42,210 | AA | AA |
| Trust Leasing & Investment Bank Limited | 5,000 | 5,000 | 5,000 | Nov-10 | 20,000 | 25,000 | AA | AA |
| United Bank Limited | 15,000 | 10,000 | 5,000 | Jun-12, Jun-14 | 74,962 | 49,981 | AA- | AA- |
| Union Bank Limited | 4,742 | – | 5,000 | May-13 | 23,710 | – | AAA | AA |
| WorldCall Communication Limited | 10,600 | 7,000 | 5,000 | Sep-07 | 27,994 | 19,988 | AA- | AA- |
| | | | | | <u>1,044,542</u> | <u>549,979</u> | | |
| 9.2.8 Term finance certificates - unlisted | | | | | | | | |
| Dewan Mushtaq Textile Mills Limited | 10,000 | 10,000 | 5,000 | Jun-07 | 6,250 | 18,750 | Unrated | Unrated |
| Fidelity Investment Bank Limited | – | 8,000 | 5,000 | | – | 19,992 | – | Unrated |
| Jamshoro Joint Venture Limited | 11,000 | 11,000 | 5,000 | Dec-09 | 34,375 | 48,125 | AA+ | A+ |
| Pakistan International Airlines Corp. Limited | 38,700 | 38,700 | 5,000 | Feb-11 | 178,980 | 188,655 | Unrated | Unrated |
| Security Leasing Corporation Limited | 10,000 | – | 5,000 | Mar-11 | 50,000 | – | Unrated | Unrated |
| Pak Arab Fertilizer Limited | 50,000 | 50,000 | 5,000 | Jul-12 | 250,000 | 250,000 | Unrated | Unrated |
| Pakistan Mobile Communication (Private) Limited | 68,000 | 50,000 | 5,000 | Sep-08, Mar-09, Feb-13 | 309,992 | 250,000 | AA- | Unrated |
| | | | | | <u>829,597</u> | <u>775,522</u> | | |

The term finance certificates are redeemable in quarterly / half-yearly installments and carry mark-up rates ranging from 7.50% to 15.01% (2005: 7.00% to 14.15%) per annum.

9.2.9 WAPDA / Sukuk bonds carry mark-up rate of 8.75% and KIBOR plus 0.35 % per annum respectively (2005: 8.75% and KIBOR plus 0.35 % per annum respectively), with the maturities upto October 2012 and April 2007 respectively.

9.2.10 This represents investment in Certificate of Investments of various financial institutions carrying profit rate ranging from 10.00 % to 12.00 % (2005: 9.65% to 12.45%) per annum maturing on various dates in year 2007.

| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
|--|--------------|------------|------------------|-----------|---------|---------|
| | No. of Units | | Rupees '000 | | Rating | |
| 9.2.11 Mutual Funds | | | | | | |
| Close end Mutual Funds | | | | | | |
| AKD Mutual Fund | 2,500,000 | 2,500,000 | 25,000 | 25,000 | Unrated | Unrated |
| BMA Principal Guaranteed Fund – I ** | 5,000,000 | – | 50,000 | – | Unrated | – |
| Meezan Balance Fund | 2,500,000 | 2,500,000 | 25,000 | 25,000 | 5-Star | N/A |
| Pakistan Strategic Allocation Fund (ARIF HABIB) | 3,087,000 | 4,009,000 | 30,868 | 40,090 | 5-Star | N/A |
| PICIC Energy Fund | 4,200,000 | 5,000,000 | 42,000 | 50,000 | Unrated | Unrated |
| PICIC Growth Fund | 42,000 | 35,000 | 1,946 | 1,946 | 4-Star | N/A |
| UTP Large Capital Fund (Formerly ABAMCO) | 2,700,000 | 5,000,000 | 27,000 | 50,000 | 4-Star | N/A |
| | | | 201,814 | 192,036 | | |
| Open end Mutual Funds | | | | | | |
| Alfalah GHP Value Fund | 626,841 | 200,000 | 35,000 | 10,000 | Unrated | Unrated |
| AMZ Plus Income Fund | 2,312,156 | – | 240,000 | – | A(f) | – |
| Askari Income Fund | 1,444,627 | – | 150,000 | – | Unrated | – |
| Atlas Income Fund | – | 202,508 | – | 100,236 | – | N/A |
| Crosby Dragon Fund | 402,644 | 206,181 | 39,741 | 21,109 | 3-Star | N/A |
| Dawood Money Market Fund | 1,465,008 | 2,072,796 | 154,228 | 208,169 | 5-Star | N/A |
| Faysal Income & Growth Fund | 527,475 | 500,000 | 50,000 | 50,000 | A+(f) | Unrated |
| KASB Liquid Fund | 738,069 | – | 75,000 | – | Unrated | Unrated |
| Meezan Islamic Income Fund | 500,000 | – | 25,000 | – | Unrated | – |
| Metro Bank Pakistan Sovereign Fund (MSF) Perpetual | 16,148,447 | 9,964,600 | 751,907 | 501,905 | Unrated | Unrated |
| Metro Bank Pakistan Sovereign Fund (MSF 12/07) | 10,552,916 | – | 549,490 | – | 4-Star | Unrated |
| NAFA Cash Fund | 9,582,675 | – | 100,000 | – | A(f) | – |
| NIT Units | 579,701 | – | 26,765 | – | 4-Star | Unrated |
| Pakistan Income Fund | 11,797,901 | 10,060,639 | 605,000 | 500,555 | 4-Star | Unrated |
| Pakistan International Islamic Fund | 1,007,444 | – | 50,000 | – | Unrated | Unrated |
| Pakistan Stock Market Fund | 380,967 | 250,000 | 32,460 | 24,546 | 5-Star | Unrated |
| United Growth & Income Fund | 494,750 | – | 50,000 | – | Unrated | Unrated |
| United Money Market Fund | 3,413,910 | – | 350,000 | – | A+(f) | Unrated |
| | | | 3,284,591 | 1,416,520 | | |
| | | | 3,486,405 | 1,608,556 | | |

* Units of Rs. 10 each

** Includes Rs 25,000 thousand paid against purchase of units of mutual funds which were received subsequent to year end.

9.2.12 Society for Worldwide Interbank Financial Telecommunication (SWIFT) allocates shares based on the financial contribution from network-based services. As on December 31, 2006, 14 (2005: 14) shares were held by the Bank.

9.3 Pursuant to the requirement of BSD Circular No. 7 dated May 30, 2006 which allows a one time reclassification of securities between the three categories, the Group reclassified government securities amounting to Rs. 1,195,733 thousand from held to maturity to available-for-sale category.

9.4 Information relating to quality of available-for-sale securities is given in the note 9.2.3 to 9.2.11 to the consolidated financial statements.

| 10. ADVANCES | Note | 2006 | 2005 |
|---|------|-------------------|-------------------|
| | | Rupees in '000 | |
| Loans, cash credits, running finances, etc. | | | |
| In Pakistan | | 66,804,583 | 34,196,964 |
| Outside Pakistan | | — | — |
| | | 66,804,583 | 34,196,964 |
| Net investment in finance leases | | | |
| In Pakistan | 10.2 | 1,950,224 | 845,695 |
| Outside Pakistan | | — | — |
| | | 1,950,224 | 845,695 |
| Bills discounted and purchased (excluding treasury bills) | | | |
| Payable in Pakistan | | 4,007,200 | 2,498,225 |
| Payable outside Pakistan | | 11,380,087 | 6,498,271 |
| | | 15,387,287 | 8,996,496 |
| Advances – gross | | 84,142,094 | 44,039,155 |
| Provision against advances – specific and general | 10.4 | (818,035) | (520,439) |
| Advances – net of provisions | | 83,324,059 | 43,518,716 |

10.1 Particulars of advances – gross

| | | | |
|--------|--------------------------------|-------------------|-------------------|
| 10.1.1 | In local currency | 73,651,888 | 38,966,639 |
| | In foreign currencies | 10,490,206 | 5,072,516 |
| | | 84,142,094 | 44,039,155 |
| 10.1.2 | Short term (for upto one year) | 67,343,199 | 41,102,166 |
| | Long term (for over one year) | 16,798,895 | 2,936,989 |
| | | 84,142,094 | 44,039,155 |

10.2 Net investment in finance leases

| | 2006 | | | | 2005 | | | |
|---|-------------------------|---------------------------------------|-----------------|------------------|-------------------------|---------------------------------------|-----------------|----------------|
| | Not later than one year | Later than one & less than five years | Over five years | Total | Not later than one year | Later than one & less than five years | Over five years | Total |
| | Rupees in '000 | | | | | | | |
| Lease rentals receivable | 295,759 | 1,761,783 | — | 2,057,542 | 384,994 | 475,045 | — | 860,039 |
| Residual value | 1,893 | 129,442 | — | 131,335 | 3,960 | 79,254 | — | 83,214 |
| Minimum lease payments | 297,652 | 1,891,225 | — | 2,188,877 | 388,954 | 554,299 | — | 943,253 |
| Unearned finance income | (33,965) | (204,688) | — | (238,653) | (21,810) | (75,748) | — | (97,558) |
| Present value of minimum lease payments | 263,687 | 1,686,537 | — | 1,950,224 | 367,144 | 478,551 | — | 845,695 |

10.3 Advances include Rs. 443,248 thousand (2005: Rs.88,724 thousand) which have been placed under non-performing status as detailed below:

| Category of Classification | Domestic | Overseas | Total | Provision required | Provision held* |
|----------------------------|----------------|----------|----------------|--------------------|-----------------|
| | Rupees in '000 | | | | |
| Substandard | 6,531 | — | 6,531 | 1,633 | 1,633 |
| Doubtful | 48,544 | — | 48,544 | 14,672 | 14,672 |
| Loss | 388,173 | — | 388,173 | 288,270 | 288,270 |
| | 443,248 | — | 443,248 | 304,575 | 304,575 |

* Adjusted for any amount of liquid assets realizable without recourse to a court of law and forced sale values of mortgaged / pledged securities as valued by professional valuers.

10.4 Particulars of provision against non-performing advances:

| | 2006 | | | 2005 | | |
|-------------------------------|----------------|---------|----------|----------|---------|---------|
| | Specific | General | Total | Specific | General | Total |
| | Rupees in '000 | | | | | |
| Opening balance | 78,328 | 442,111 | 520,439 | 71,541 | 406,199 | 477,740 |
| Transferred upon amalgamation | 188,659 | 4,329 | 192,988 | - | - | - |
| Charge for the year | 55,560 | 67,020 | 122,580 | 20,610 | 35,912 | 56,522 |
| Reversals | (14,488) | - | (14,488) | (5,434) | - | (5,434) |
| Net charge for the year | 41,072 | 67,020 | 108,092 | 15,176 | 35,912 | 51,088 |
| Amount written off | (3,484) | - | (3,484) | (8,389) | - | (8,389) |
| Closing balance | 304,575 | 513,460 | 818,035 | 78,328 | 442,111 | 520,439 |

The general provision includes provision made against consumer portfolio in accordance with Prudential Regulations issued by State Bank of Pakistan at 1.5% of fully secured and at 5% of the unsecured consumer portfolio.

10.4.1 Particulars of provision against non-performing advances:

| | 2006 | | | 2005 | | |
|-----------------------|----------------|---------|---------|----------|---------|---------|
| | Specific | General | Total | Specific | General | Total |
| | Rupees in '000 | | | | | |
| In local Currency | 304,575 | 513,460 | 818,035 | 78,328 | 442,111 | 520,439 |
| In foreign Currencies | - | - | - | - | - | - |
| | 304,575 | 513,460 | 818,035 | 78,328 | 442,111 | 520,439 |

2006 2005
Rupees in '000

10.5 Particulars of write off:

| | | |
|---|-------|-------|
| 10.5.1 Against provisions | 3,484 | 8,389 |
| Directly charged to profit and loss account | 289 | 753 |
| | 3,773 | 9,142 |
| 10.5.2 Write off of Rs. 500,000/- and above | 3,484 | 8,367 |
| Write off of below Rs. 500,000/- | 289 | 775 |
| | 3,773 | 9,142 |

10.6 Details of loan write-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 write-off loans or any other financial relief of five hundred thousand rupees or above allowed to the persons during the year ended December 31, 2006 is enclosed as Annexure - I.

10.7 Particulars of loans and advances to directors, associated companies, subsidiaries

| | 2006 | 2005 |
|--|----------------|-------------|
| | Rupees in '000 | |
| Debts due by directors, executives or officers of the Group or any of them either severally or jointly with any other persons | | |
| Balance at the beginning of the year | 146,574 | 109,535 |
| Transferred upon amalgamation | 274,912 | - |
| Loans granted during the year | 104,979 | 66,073 |
| Repayments | (55,164) | (29,034) |
| Balance at end of year | 471,301 | 146,574 |
| Debts due by companies or firms in which the directors of the Group are interested as directors, partners or in the case of private companies as members | | |
| Balance at the beginning of the year | 69,759 | 8,263 |
| Transferred upon amalgamation | 303,396 | - |
| Loans granted during the year | 2,910,396 | 5,950,324 |
| Repayments | (2,872,873) | (5,888,828) |
| Balance at end of year | 410,678 | 69,759 |

11. OPERATING FIXED ASSETS

| | | 2006 | 2005 |
|--------------------------|------|----------------|----------------|
| | | Rupees in '000 | |
| Capital work-in-progress | 11.1 | 32,658 | – |
| Property and equipment | 11.2 | 616,464 | 418,922 |
| Intangible assets | 11.3 | – | – |
| | | 649,122 | 418,922 |

11.1 This represents advance paid against purchase of property for own use.

11.2 Property and equipment

| | COST | | | | | DEPRECIATION | | | | Annual rate of depreciation % |
|-----------------------------------|-----------------------|----------------------------|------------------------|-------------------------|-----------------------|----------------------------|------------------------|-------------------------|---------------------------------|-------------------------------|
| | As at January 1, 2006 | Acquired upon Amalgamation | Additions/ (disposals) | As at December 31, 2006 | As at January 1, 2006 | Acquired upon Amalgamation | Additions/ (disposals) | As at December 31, 2006 | Book value at December 31, 2006 | |
| | Rupees in '000 | | | | | | | | | |
| Leasehold land | 7,488 | 22,690 | – | 30,178 | – | – | – | – | 30,178 | – |
| Building on leasehold land | 596,598 | 108,805 | 57,750 | 763,153 | 196,694 | 12,729 | 44,433 | 253,856 | 509,297 | 10 |
| Furniture, fixtures and equipment | 56,139 | 45,989 | 7,997 (58) | 110,067 | 45,882 | 24,980 | 4,314 (35) | 75,141 | 34,926 | 10 & 20 |
| Vehicles | 3,459 | 4,261 | 1,324 (1,768) | 7,276 | 2,561 | 1,759 | 451 (549) | 4,222 | 3,054 | 20 |
| Leasehold improvements | 5,801 | 62,812 | – | 68,613 | 5,426 | 22,751 | 1,427 | 29,604 | 39,009 | 10 |
| 2006 | 669,485 | 244,557 | 67,071 (1,826) | 979,287 | 250,563 | 62,219 | 50,625 (584) | 362,823 | 616,464 | |

| | COST | | | | DEPRECIATION | | | | Annual rate of depreciation % |
|-----------------------------------|-----------------------|------------------------|-------------------------|-----------------------|------------------------|-------------------------|---------------------------------|---------|-------------------------------|
| | As at January 1, 2005 | Additions/ (disposals) | As at December 31, 2005 | As at January 1, 2005 | Additions/ (disposals) | As at December 31, 2005 | Book value at December 31, 2005 | | |
| | Rupees in '000 | | | | | | | | |
| Leasehold land | 7,488 | – | 7,488 | – | – | – | 7,488 | – | |
| Building on leasehold land | 510,486 | 86,112 | 596,598 | 160,575 | 36,119 | 196,694 | 399,904 | 10 | |
| Furniture, fixtures and equipment | 56,245 | 2,620 (2,726) | 56,139 | 45,312 | 3,280 (2,710) | 45,882 | 10,257 | 10 & 20 | |
| Vehicles | 3,255 | 1,461 (1,257) | 3,459 | 2,415 | 355 (209) | 2,561 | 898 | 20 | |
| Leasehold improvements | 5,801 | – | 5,801 | 5,298 | 128 | 5,426 | 375 | 10 | |
| 2005 | 583,275 | 90,193 (3,983) | 669,485 | 213,600 | 39,882 (2,919) | 250,563 | 418,922 | | |

11.2.1 Detail of fixed assets sold / deleted with original cost or book value in excess of Rupees one million or two hundred fifty thousands respectively (which ever is less) :

| Particulars | Cost | Book Value | Sale Proceed | Mode of Disposal | Particulars of Purchaser |
|-------------|------|------------|--------------|------------------|--|
| Vehicle | 809 | 794 | 969 | Insurance Claim | Adamjee Insurance Company Limited, Adamjee House, I.I. Chundrigar Road, Karachi. |

11.2.2 No fixed assets were sold to the chief executive, any director or any executive during the year.

11.2.3 Gross carrying amount of fully depreciated assets still in use is Rs. 51,522 thousand (2005: Rs. 40,464 thousand).

11.3 Intangible assets

This represents fully amortized computer software having gross carrying amount of Rs.27,875 thousand (2005: 27,875 thousand).

| | Note | 2006 Rupees in '000 | 2005 (Restated) |
|---|---|------------------------|--------------------|
| 12. OTHER ASSETS | | | |
| Income / mark-up accrued in local currency | | 1,672,547 | 835,045 |
| Income / mark-up accrued in foreign currencies | | 48,701 | 16,031 |
| Advances, deposits, advance rent and other prepayments | 12.1 | 278,707 | 89,745 |
| Unrealized gain on forward foreign exchange contracts | | 44,115 | 43,759 |
| Due from SBP against encashment of government securities | | 18,731 | 103,304 |
| Receivable from defined benefit plan | 32.1 | 30,150 | – |
| Stationery and stamps on hand | | 24,364 | 11,427 |
| Branch adjustment | | – | 141 |
| Others | | 35,261 | 5,601 |
| | | 2,152,576 | 1,105,053 |
| Less: Provision held against other assets | 12.2 | (103,020) | (14,579) |
| Other assets net of provision | | 2,049,556 | 1,090,474 |
| 12.1 | Includes Rs.34,750 thousand in respect of membership of Karachi Stock Exchange (Guarantee) Limited. | | |
| 12.2 | Provision against other assets | | |
| Opening balance | | 14,579 | 15,913 |
| Transferred upon amalgamation | | 79,264 | – |
| Charge for the year | | 11,694 | 1,733 |
| Reversals | | (410) | (2,105) |
| Net charge for the year | | 11,284 | (372) |
| Amount written off | | (2,107) | (962) |
| Closing balance | | 103,020 | 14,579 |
| 13. BILLS PAYABLE | | | |
| In Pakistan | | 1,619,796 | 1,046,050 |
| 14. BORROWINGS | | | |
| In Pakistan | | 29,191,912 | 14,087,025 |
| Outside Pakistan | | 326,546 | 342,153 |
| | | 29,518,458 | 14,429,178 |
| 14.1 | Particulars of borrowings with respect to currencies | | |
| In local currency | | 29,191,912 | 14,087,025 |
| In foreign currencies | | 326,546 | 342,153 |
| | | 29,518,458 | 14,429,178 |
| 14.2 | Details of borrowings secured / unsecured | | |
| Secured | | | |
| Borrowings from State Bank of Pakistan under export refinance scheme | 14.2.1 | 17,232,480 | 8,921,972 |
| Long term financing – Export Oriented Projects | 14.2.1 | 1,394,383 | 306,417 |
| Repurchase agreement borrowings | 14.2.2 | 10,451,899 | 4,758,618 |
| | | 29,078,762 | 13,987,007 |
| Unsecured | | | |
| Call borrowings | 14.2.3 | 101,600 | 100,000 |
| Overdrawn nostro accounts | | 326,546 | 342,153 |
| Overdrawn local bank accounts | | 11,550 | 18 |
| | | 439,696 | 442,171 |
| | | 29,518,458 | 14,429,178 |

- 14.2.1** These are secured against promissory notes, undertaking of the Group and export documents by granting the right to recover the outstanding amount from the Group at the date of maturity of finance by directly debiting the current account maintained by the Group with the State Bank of Pakistan. Mark-up rate ranging from 4.00% to 6.50% (2005: 4.00% and 7.50%) per annum which is payable quarterly or upon maturity of loans, whichever is earlier.
- 14.2.2** These have been borrowed from financial institutions and are secured against Government securities and carries mark-up rate ranging from 8.75% to 9.00% (2005: 8.20% to 8.60%) per annum, with the maturities upto February 2007.
- 14.2.3** These have been borrowed from commercial banks and carries mark-up rate ranging from 2.00% to 9.50% (2005: 8.10%) per annum maturing on various dates in 2007.

| | 2006 | 2005 |
|---|--------------------|------------|
| | Rupees in '000 | |
| 15. DEPOSITS AND OTHER ACCOUNTS | | |
| Customers | | |
| Fixed deposits | 48,511,732 | 20,477,469 |
| Savings deposits | 21,718,834 | 13,456,206 |
| Current accounts – Non-remunerative | 23,491,942 | 17,574,768 |
| Margin and other accounts | 868,231 | 573,191 |
| | 94,590,739 | 52,081,634 |
| Financial Institutions | | |
| Remunerative deposits | 7,803,210 | 4,546,008 |
| Non-remunerative deposits | 98,684 | 85,224 |
| | 7,901,894 | 4,631,232 |
| | 102,492,633 | 56,712,866 |
| 15.1 Particulars of deposits | | |
| In local currency | 91,532,993 | 53,432,946 |
| In foreign currencies | 10,959,640 | 3,279,920 |
| | 102,492,633 | 56,712,866 |
| 16. DEFERRED TAX LIABILITIES | | |
| Deferred credits arising in respect of: | | |
| Surplus on revaluation of securities | 100,160 | 299,768 |
| Net investment in finance lease | 170,396 | 147,253 |
| | 270,556 | 447,021 |
| Deferred debits arising in respect of: | | |
| Accelerated depreciation | 12,848 | (8,786) |
| Provision against advances – specific & general | (106,601) | (29,765) |
| | (93,753) | (38,551) |
| | 176,803 | 408,470 |
| 17. OTHER LIABILITIES | | |
| Mark-up / return / interest payable in local currency | 2,367,453 | 890,408 |
| Mark-up / return / interest payable in foreign currency | 24,790 | 33,131 |
| Unearned commission and income on bills discounted | 125,629 | 59,743 |
| Accrued expenses | 146,407 | 76,387 |
| Current taxation (provisions less payments) | 751,761 | 116,178 |
| Unclaimed dividends | 377 | 386 |
| Branch adjustment account | 1,367 | – |
| Excise duty payable | 2,142 | – |
| Locker deposits | 159,383 | 72,473 |
| Security deposits against leases /Ijara | 338,219 | 87,142 |
| Sundry creditors | 65,647 | 31,340 |
| Others | 9,772 | 5,753 |
| | 3,992,947 | 1,372,941 |

18. SHARE CAPITAL

18.1 Authorised capital (Note 1.2)

| 2006 | 2005 | | 2006 | 2005 |
|--------------------|--------------------|---------------------------------|------------------|------------------|
| Number of shares | | | Rupees in '000 | |
| <u>600,000,000</u> | <u>200,000,000</u> | Ordinary shares of Rs 10/- each | <u>6,000,000</u> | <u>2,000,000</u> |

18.2 Issued, subscribed and paid-up capital

| | | Ordinary shares of Rs 10/- each fully paid in cash | | |
|--------------------|--------------------|---|------------------|------------------|
| 30,000,000 | 30,000,000 | - issued for cash | 300,000 | 300,000 |
| 92,500,000 | - | - issued during the year (Note 1.4) | 925,000 | - |
| | | - issued as bonus shares | | |
| 126,000,000 | 90,000,000 | opening balance | 1,260,000 | 900,000 |
| 52,000,000 | 36,000,000 | issued during the year | 520,000 | 360,000 |
| 178,000,000 | 126,000,000 | | 1,780,000 | 1,260,000 |
| 300,500,000 | <u>156,000,000</u> | | 3,005,000 | <u>1,560,000</u> |

18.3 As of the balance sheet date, Habib Bank AG Zurich – Switzerland (the Group holding company) held 153,255 thousand Ordinary shares of Rs.10/- each (51 % holding).

| | 2006 | 2005 |
|--|------------------------------|----------------|
| | Rupees in '000 (Restated) | |
| 19. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX | | |
| Available for sale securities : | | |
| Federal government securities | 263,909 | 598,933 |
| Listed shares | (10,297) | 184 |
| Term finance certificates | 22,261 | 189,929 |
| Mutual funds | 27,161 | 11,511 |
| | 303,034 | 800,557 |
| Related deferred tax liability | (100,160) | (299,768) |
| | 202,874 | <u>500,789</u> |

20. CONTINGENCIES AND COMMITMENTS

| | | |
|--|-------------------|------------------|
| 20.1 Direct credit substitutes Includes general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities-Others | 14,969 | 18,137 |
| 20.2 Transaction-related contingent liabilities Includes performance bonds, bid bonds, warranties, advance payment guarantees and shipping guarantees related to particular transactions. | | |
| i) Government | 5,991,347 | 2,294,488 |
| ii) Banking companies and other financial institutions | 173,654 | 1,523 |
| iii) Others | 1,517,038 | 916,099 |
| | 7,682,039 | <u>3,212,110</u> |
| 20.3 Trade-related contingent liabilities | | |
| Letter of credits | 23,867,267 | 14,965,681 |
| Acceptance | 10,455,474 | 8,464,254 |
| 20.4 Commitments in respect of forward lending | | |
| Forward repurchase agreement lending | 688,200 | - |

| | 2006 | 2005 |
|--|-------------------|-----------|
| | Rupees in '000 | |
| 20.5 Commitments in respect of forward exchange contracts | | |
| Purchase | 10,993,202 | 6,394,818 |
| Sale | 20,109,135 | 9,678,156 |

All foreign exchange contracts are backed by trade-related transactions to meet the needs of the Group's clients to generate trading revenues and, as part of its asset and liability management activity, to hedge its own exposure to currency risk. At the year end, all foreign exchange contracts have a remaining maturity of less than one year.

| | 2006 | 2005 |
|--|-----------------------|----------------|
| | Rupees in '000 | |
| 20.6 Commitments in respect of operating leases | | |
| Not later than one year | 181,260 | 74,048 |
| Later than one year and not later than five years | 313,785 | 63,709 |
| Later than five years | 9,816 | - |
| | <u>504,861</u> | <u>137,757</u> |

The Group has entered into non-cancelable operating lease agreements with a Modaraba which has been duly approved by the Religious Board as Ijara transaction. The monthly rental installments are spread upto 72 months. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

| | | |
|---|----------------------|----------|
| 20.7 Commitments for the acquisition of operating fixed assets | <u>66,562</u> | <u>-</u> |
|---|----------------------|----------|

21. DERIVATIVE FINANCIAL INSTRUMENTS

The Group does not offer structured derivatives. However, the Group's treasury buys/sells foreign exchange financial instruments namely forward foreign exchange contracts and swaps with the principle view of hedging the risks arising from its trade business.

As per the Group's policy, these contracts are reported on their fair value at the balance sheet date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Unrealized gain and losses on these contracts are recorded on the balance sheet under "Other Assets/Other Liabilities".

These products are offered to the Group's customers to protect from unfavorable movements in foreign currencies. Such contracts are entered with only those obligors whose credit worthiness has been assessed as per the Group's credit/risk assessment framework. The Group effectively hedges such exposures in the inter-bank foreign exchange market.

In the above contracts, both parties must fulfill their contractual obligations at the time of settlement. These contracts are primarily based on the imports/exports, market expectations, economic/political circumstances and the Group's inflow/outflow position.

These positions are reviewed on a regular basis by the Group's Asset and Liability Committee (ALCO).

| | 2006 | 2005 |
|---|-------------------------|------------------|
| | Rupees in '000 | |
| 22. MARK-UP / RETURN / INTEREST EARNED | | |
| On loans and advances to: | | |
| Customers | 4,020,959 | 2,387,247 |
| Financial institutions | 74,824 | 54,771 |
| On investments in: | | |
| Available for sale securities | 2,159,776 | 1,191,919 |
| Held to maturity securities | 322,067 | 392,881 |
| On deposits with financial institutions | 279,450 | 105,972 |
| On securities purchased under resale agreements | 432,047 | 225,766 |
| | <u>7,289,123</u> | <u>4,358,556</u> |

| | Note | 2006 | 2005 |
|--|---|------------------|------------------|
| | | Rupees in '000 | |
| 23. MARK-UP / RETURN / INTEREST EXPENSED | | | |
| Deposits | | 3,616,283 | 1,923,040 |
| Securities sold under repurchase agreements | | 779,722 | 287,322 |
| Other short term borrowings | | 20,472 | 14,286 |
| | | 4,416,477 | 2,224,648 |
| 24. GAIN / (LOSS) ON SALE OF SECURITIES | | | |
| Pakistan Investment Bonds | | (5,181) | (63,642) |
| Shares - Listed companies | | 27,074 | 45,011 |
| Mutual Funds | | 176,190 | 91,045 |
| | | 198,083 | 72,414 |
| 25. OTHER INCOME | | | |
| Net profit on sale of property and equipment | | 4,958 | 3,842 |
| Recovery of expenses from customers | | 63,489 | 49,146 |
| Exchange gain | 25.1 | 142,699 | – |
| Others | 25.2 | 23,790 | 14,101 |
| | | 234,936 | 67,089 |
| 25.1 | Represents exchange difference realized on the amount of capital deposited with the SBP in compliance of Section 13(3) of the Banking Companies Ordinance, 1962 by the Habib Bank A G Zurich – Pakistan Branches. | | |
| 25.2 | Includes income from various general banking services such as cheque book charges, cheque return charges, cheque handling charges, rent of lockers etc. | | |
| 26. ADMINISTRATIVE EXPENSES | | | |
| Salaries, allowances, etc. | | 448,682 | 294,073 |
| (Reversal) / charge for defined benefit plan | 32.3 | (4,916) | 5,177 |
| Contribution to defined contribution plan | | 17,236 | 11,750 |
| Non-executive directors' fees, allowances and other expenses | | 510 | 180 |
| Brokerage and commission | | 27,322 | 32,028 |
| Rent, taxes, insurance, electricity, etc. | | 154,743 | 118,440 |
| Legal and professional charges | | 22,296 | 9,810 |
| Communications | | 61,859 | 50,079 |
| Repairs and maintenance | | 109,739 | 78,934 |
| Rentals of operating leases | | 104,153 | 83,110 |
| Stationery and printing | | 49,069 | 31,842 |
| Advertisement and publicity | | 39,087 | 13,965 |
| Donations | 26.1 | 19,351 | 32,380 |
| Auditors' remuneration | 26.2 | 5,044 | 518 |
| Depreciation of operating fixed assets | 11.2 | 50,625 | 39,882 |
| Security charges | | 20,107 | 15,169 |
| Travelling and motor car expenses | | 13,611 | 9,965 |
| Motor car running | | 37,800 | 28,132 |
| Computer software maintenance | | 32,261 | 24,449 |
| Cartage, handling and freight charges | | 13,407 | 13,420 |
| Others | | 127,944 | 77,296 |
| | | 1,349,930 | 970,599 |

26.1 Details of the donations given in excess of Rupees one hundred thousands are given below :

| DONEE | 2006 | 2005 |
|--|----------------|-------------|
| | Rupees in '000 | |
| Abbas Alamdar Hostel | 295 | – |
| Abdul Sattar Edhi Foundation | 200 | 200 |
| Ahmed Abdullah Foundation | 100 | 100 |
| Al Sayyeda Benevolent Trust | 774 | 720 |
| Anjuman Behbood-e-Samat-e-Atfal | 250 | 200 |
| Anjuman Wazifa-e-Sadat-o-Momineen Pakistan | – | 130 |
| Ansar Burney Welfare Trust International | 100 | 150 |
| Beautification of I.I. Chundrigarh Road-a social welfare project | – | 7,500 |
| Cooperation for Advancement Rehabilitation and Education | 150 | – |
| Ebrahim Ali Bhai Charitable Trust | 500 | – |
| Habib Education Trust | – | 250 |
| Habib Medical Trust | 774 | 720 |
| Habib Poor Fund | 774 | 720 |
| Hussaini Haematology and Oncology Trust | – | 500 |
| IDA Rieu Poor Welfare Association | 100 | 150 |
| Jahandad Society for Community Development | 250 | 250 |
| Lahore University of Management Sciences | 250 | 250 |
| Madarsa Jafria | 167 | 198 |
| Memon Education Board | 250 | 250 |
| Mohammadali Habib Welfare Trust | – | 500 |
| Pakistan Human Development Fund | 250 | – |
| Pakistan Memon Educational and Welfare Society | 500 | 500 |
| Pakistan Memon Women Educational Society | 300 | 250 |
| Patients Welfare Association | 100 | 100 |
| President Relief Fund for Earthquake Victims-2005 | 5,000 | 10,000 |
| Rehmat Bai Habib Food and Clothing Trust | 774 | 720 |
| Rehmat Bai Habib Widow and Orphans Trust | 774 | 720 |
| Safina-e-Ahleibait (Jamia Masjid and Imam Bargah) | 174 | 730 |
| Shaukat Khanum Memorial Trust | 250 | 250 |
| Sir Syed University of Engineering and Technology | – | 200 |
| Social Welfare Services Complex | – | 200 |
| Society for Welfare of Patient of SIUT | 250 | 250 |
| SSGC Tsunami Relief Fund | – | 300 |
| The Citizens Foundation | 3,620 | 3,242 |
| The Kidney Centre | 250 | 250 |
| The Layton Rehmatullah Benevolent Trust | 250 | 250 |
| The Society for the Prevention and Cure of Blindness | 100 | 100 |

Recipients of donations do not include any donee in whom any directors or their spouses had any interest.

26.2 Auditors' remuneration

| | | |
|---|--------------|------------|
| Annual audit fee | 1,200 | 400 |
| Review of half yearly financial statements | 300 | – |
| Special audit certifications and sundry advisory services | 2,459 | 91 |
| Tax services | 725 | – |
| Out-of-pocket expenses | 360 | 27 |
| | <u>5,044</u> | <u>518</u> |

27. OTHER CHARGES

| | | |
|---|--------------|--------------|
| Penalties imposed by the State Bank of Pakistan | <u>1,177</u> | <u>6,505</u> |
|---|--------------|--------------|

| 28. TAXATION | Note | 2006 Rupees in '000 | 2005 (Restated) |
|----------------|------|------------------------|--------------------|
| For the year | | | |
| - Current | 28.2 | 1,040,279 | 647,000 |
| - Deferred | | (26,539) | 86,121 |
| | | 1,013,740 | 733,121 |
| For prior year | | | |
| - Current | | 33,448 | (140,700) |
| - Deferred | | - | - |
| | | 33,448 | (140,700) |
| | | 1,047,188 | 592,421 |

28.1 Income tax assessments have been finalised upto the assessment tax year 2003 (corresponding to the accounting year ended December 31, 2002). The Group has filed income tax return for the tax year 2006, (corresponding to the accounting year ended December 31, 2005) and the same has been deemed to be an assessment order in terms of section 120 of the Income Tax Ordinance, 2001.

28.2 Relationship between tax expense and accounting profit

| | | |
|---|------------------|-----------|
| Profit before tax | 3,144,391 | 2,098,326 |
| Tax at the applicable rate of 35% (2005: 38%) | 1,100,258 | 797,364 |
| Effect of: | | |
| - expenses not deductible in determining taxable income | 16,620 | (87,697) |
| - income exempt from tax | (64,142) | (51,701) |
| - income chargeable to tax at lower rates | (12,457) | (10,966) |
| | 1,040,279 | 647,000 |

29. BASIC AND DILUTED EARNINGS PER SHARE

29.1 Basic earnings per share

| | | |
|---|----------------------------------|-----------|
| Profit after taxation | 2,097,203 | 1,505,905 |
| | Number of shares in thousands | |
| Weighted average number of ordinary shares in issue | 225,000 | 208,000 |
| | Rupees | Rupees |
| Basic earnings per share | 9.32 | 7.24 |

29.2 Diluted earnings per share

There is no dilutive effect on basic earnings per share of the Group.

| 30. CASH AND CASH EQUIVALENTS | 2006 Rupees in '000 | 2005 (Restated) |
|---------------------------------------|------------------------|--------------------|
| Cash and balances with treasury banks | 11,348,162 | 5,150,860 |
| Balances with other banks | 6,296,564 | 1,118,240 |
| Overdrawn nostro account | (326,546) | (342,153) |
| Overdrawn local banks account | (11,550) | (18) |
| | 17,306,630 | 5,926,929 |

| | 2006 | 2005 |
|--|---------------------|--------------|
| | Number of employees | |
| 31. STAFF STRENGTH | | |
| Permanent | 1,278 | 701 |
| Temporary on contractual basis | 283 | 223 |
| Bank's own staff strength at the end of the year | 1,561 | 924 |
| Outsourced | 402 | 219 |
| Total number of employees at the end of the year | <u>1,963</u> | <u>1,143</u> |

32. DEFINED BENEFIT PLAN

General description

General description of the type of defined benefit plan and accounting policy for recognizing actuarial gains and losses is disclosed in note 5.8 to the financial statements.

Principal actuarial assumptions

The benefits under the funded gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service. The benefit is equal to one month's last basic salary drawn for each year of eligible service subject to a maximum of 24 months last drawn basic salary. The minimum qualifying period for eligibility under the plan is five years of continuous service. Following are the significant assumptions used in the valuation.

The actuarial valuation of the Group's defined benefit plan based on Projected Unit Credit Actuarial Cost Method was carried out at December 31, 2006.

Following are the significant assumptions used in the valuation.

| | | |
|--|-----|-----|
| Discount rate – percent | 10% | 10% |
| Expected rate of return on plan assets – percent | 10% | 10% |
| Long term rate of salary increase – percent | 10% | 10% |

| | 2006 | 2005 |
|---|-----------------|----------|
| | Rupees in '000 | |
| 32.1 Reconciliation of (refundable) from / payable to defined benefit plan | | |
| Present value of defined benefit obligation | 165,137 | 62,317 |
| Fair value of plan assets | (187,976) | (59,894) |
| Funded status | (22,839) | 2,423 |
| Unrecognised actuarial loss | (9,153) | (2,423) |
| Unrecognised negative past service cost | 1,842 | |
| | <u>(30,150)</u> | <u>–</u> |

Included here in is a sum of Rs. 57,501 thousand (2005: 17,196 thousand) placed under bank's PLS fixed deposits and saving accounts.

| | 2006 | 2005 |
|---|-----------------|---------|
| | Rupees in '000 | |
| 32.2 Movement in (refundable) from/payable to defined benefit plan | | |
| Opening balance | - | - |
| (Reversal) / charge for the year | (4,916) | 5,177 |
| Transferred on amalgamation | (25,234) | - |
| Contribution to fund made during the year | - | (5,177) |
| Closing balance | (30,150) | - |
| 32.3 (Reversal) / charge for defined benefit plan | | |
| Current service cost | 7,333 | 6,145 |
| Interest cost | 6,232 | 4,262 |
| Expected return on plan assets | (5,989) | (4,983) |
| Recognition of transitional assets | - | (247) |
| Transferred on amalgamation | 7,911 | - |
| Negative past service cost - vested benefit | (20,403) | - |
| (Reversal) / charge for the year | (4,916) | 5,177 |
| 32.4 Actual return on plan assets | 18,484 | 4,613 |

33. DEFINED CONTRIBUTION PLAN

The Bank operates a recognized provident fund scheme for all its regular employees which is administered by the Board of trustees. Equal monthly contributions are made both by bank and the employee to the fund at the rate of 10% of basic salary in accordance with the terms of the approved fund.

34. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the accounts for remuneration, including all benefits, to the Chief Executive Officer, Directors and Executives of the Group was as follows:

| | President & CEO | | Directors | | Executives | |
|---|-----------------|-------|--------------|-------|---------------|--------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | Rupees in '000 | | | | | |
| Fees | - | - | 510 | 180 | - | - |
| Managerial Remuneration | 2,470 | 2,041 | - | 138 | 43,910 | 24,985 |
| Charge for defined benefit plan | 206 | 170 | - | 11 | 2,531 | 1,614 |
| Contribution to defined contribution plan | 247 | 204 | - | 14 | 3,109 | 1,974 |
| Rent and house maintenance | 1,471 | 1,264 | - | 62 | 19,759 | 11,244 |
| Utilities | 119 | 96 | 264 | 198 | 4,144 | 2,390 |
| Bonus | 976 | 495 | - | 69 | 14,690 | 6,250 |
| Others | 1,085 | 966 | 1,818 | 949 | - | - |
| | 6,574 | 5,236 | 2,592 | 1,621 | 88,143 | 48,457 |
| Number of persons | 1 | 1 | 7 | 7 | 55 | 31 |

In addition of the above, Chief Executive, Executive Director and certain executives have been provided with the free use of Bank's maintained car and household equipments in accordance with their terms of employment.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of investments in Term Finance Certificates and Federal Government securities are based on quoted market prices and PKRV rates (Reuters Page), respectively. All other quoted investments have been stated at their market values.

Fair value of fixed term financing, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provision for non-performing advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.5 of these financial statements.

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

36. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

| | Trade & Sales | Retail Banking | Commercial Banking |
|--|------------------------------|---------------------------|-------------------------------|
| 2006 | Rupees in '000 | | |
| Total income | 3,362,282 | 210,213 | 5,447,861 |
| Total expenses | 928,306 | 2,026,500 | 2,921,159 |
| Net income | 2,433,976 | (1,816,287) | 2,526,702 |
| Segment assets (gross) | 46,577,934 | 865,794 | 101,530,910 |
| Segment non performing loans | – | 15,806 | 427,442 |
| Segment provision required | – | 2,439 | 302,136 |
| Segment liabilities | 10,564,288 | 48,135,888 | 89,969,887 |
| Segment return on net assets (ROA) (%) | 7.22% | 4.86% | 5.27% |
| Segment cost of funds (%) | 5.47% | 4.18% | 3.28% |
| 2005 | | | |
| Total income | 1,918,323 | 22,853 | 3,407,743 |
| Total expenses | 834,392 | 660,924 | 1,758,277 |
| Net income | 1,083,931 | (635,071) | 1,649,466 |
| Segment assets (gross) | 28,855,933 | 865,794 | 49,920,259 |
| Segment non performing loans | – | 869 | 87,855 |
| Segment provision required | – | 869 | 77,459 |
| Segment liabilities | 5,926,449 | 31,174,574 | 42,462,635 |
| Segment return on net assets (ROA) (%) | 6.65% | 3.00% | 6.83% |
| Segment cost of funds (%) | 5.28% | 2.12% | 3.97% |

37. TRUST ACTIVITIES

MetroBank – Pakistan Sovereign Fund

The Group acts as a trustee to the MetroBank Pakistan Sovereign Fund (the Fund) performing custody and/or control over all the property of the fund and hold it in trust for the unit holders of the fund. As on December 31, 2006, the unit holders' fund was Rs. 1,315 million.

38. RELATED PARTY TRANSACTIONS

The related parties comprise of related group companies, an associate, directors and their close family members, staff retirement benefit funds, executives and major shareholders of the bank holding not less than ten percent of the total shareholding. The detail of investments in a subsidiary and an associate are stated in note 9 to these financial statements.

Transactions with related parties comprise of transactions with companies with common directorship, staff retirement benefit funds and key management personnel. These transactions were made on substantially the same commercial terms as those prevailing at the same time for comparable transactions with unrelated parties except for transactions with executives that are undertaken at terms in accordance with employment agreements and service rules.

The details of transactions with related parties during the year other than those which have been disclosed elsewhere in these financial statements are as follows:

| | 2006 | 2005 |
|---|----------------|-----------|
| | Rupees in '000 | |
| <u>Balance outstanding at year end</u> | | |
| Companies with common directorship having equity less than 20% | | |
| Deposits | 802,934 | 2,522,343 |
| Advances | 410,678 | 69,759 |
| Trade-related contingent liabilities | 2,550,648 | 279,658 |
| Key Management Personnel | | |
| Deposits | 14,072 | 10,447 |
| Advances | 24,278 | 908 |
| Balances with other banks | | |
| Nostro balances | 1,545,533 | - |
| <u>Transactions for the year</u> | | |
| Companies with common directorship having equity less than 20% | | |
| Insurance premium paid | 1,517 | 928 |
| Net mark-up/interest expensed | 165,533 | 150,493 |
| Mark-up/interest earned | 7,465 | 1,167 |
| Commission/bank charges recovered | 2,934 | 1,673 |
| Rent income | 666 | 554 |
| Key Management Personnel | | |
| Net mark-up/interest expensed | 763 | 323 |
| Mark-up/interest earned | 478 | 8 |
| Salaries, allowances, etc | 26,220 | 15,417 |
| Charge for defined benefit plan | 933 | 465 |
| Contribution to defined contribution plan | 897 | 567 |
| Directors' fee | 510 | 180 |

39. CAPITAL ADEQUACY

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

| | 2006 | 2005 |
|--|-------------------|------------------|
| | Rupees in '000 | |
| | (Restated) | |
| Regulatory Capital Base | | |
| <i>Tier I Capital</i> | | |
| Shareholders Capital | 3,005,000 | 1,560,000 |
| Reserves | 5,824,936 | 2,254,951 |
| Un-appropriated profits | 1,836,616 | 1,278,413 |
| Total Tier I Capital | 10,666,552 | 5,093,364 |
| <i>Tier II Capital</i> | | |
| General provision subject to 1.25% of total risk weighted assets | 513,460 | 439,911 |
| Revaluation reserves – eligible upto 50% | – | 2,269 |
| Total Tier II Capital | 513,460 | 442,180 |
| <i>Eligible Tier III Capital</i> | – | – |
| Total Regulatory Capital (a) | 11,180,012 | 5,535,544 |

| Risk - Weighted Exposures | 2006 | | 2005 | |
|---|--------------------|---------------------|--------------------|---------------------|
| | Rupees '000 | | | |
| | Book Value | Risk Adjusted Value | Book Value | Risk Adjusted Value |
| Credit Risk | | | | |
| Balance Sheet items: | | | | |
| Cash and other liquid assets | 17,644,726 | 1,266,180 | 6,269,100 | 238,874 |
| Money at call | 3,415,227 | 683,045 | 1,100,000 | 220,000 |
| Investments | 41,587,373 | 8,919,859 | 27,166,525 | 4,912,471 |
| Loans and advances | 79,530,383 | 62,638,805 | 42,311,304 | 33,321,726 |
| Fixed assets | 649,122 | 649,122 | 418,922 | 418,922 |
| Other assets | 891,741 | 603,576 | 622,017 | 217,510 |
| | 143,718,572 | 74,760,587 | 77,887,868 | 39,329,503 |
| Off Balance Sheet Items: | | | | |
| Loan repayment guarantees | 14,969 | 14,969 | 18,137 | 18,137 |
| Performance bonds ets. | 7,066,995 | 3,520,799 | 2,407,440 | 1,198,900 |
| Stand by letters of credit | 33,792,048 | 15,596,986 | 23,109,739 | 10,848,389 |
| Outstanding foreign exchange contracts | | | | |
| -Purchase | 10,993,202 | 114,436 | 6,394,818 | 74,433 |
| -Sale | 20,109,135 | 105,665 | 9,678,156 | 60,334 |
| | 71,976,349 | 19,352,855 | 41,608,290 | 12,200,193 |
| Credit risk-weighted exposures | 215,694,921 | 94,113,442 | 119,496,158 | 51,529,696 |
| Market Risk | | | | |
| General market risk | | 7,274 | | 3,214 |
| Specific market risk | | – | | – |
| Market risk weighted exposues | | 7,274 | | 3,214 |
| Total risk-weighted exposures (b) | | 94,120,716 | | 51,532,910 |
| Capital Adequacy Ratio [(a) / (b) x 100] | | 11.88% | | 10.74% |

40. RISK MANAGEMENT

Risk Management aspects are embedded in the Group's strategy, organization structure and processes. The Group has adopted a cohesive risk management structure for credit, operations, liquidity & market risk to strengthen the process and system from the foundation as controls are more effective and valuable when built into the process.

Effective risk management is considered essential in the preservation of the assets and long-term profitability of the Group. Clear guidelines and limits – which are under regular review – are backed up by a comprehensive system of internal controls and independent audit inspections.

Internal reporting/MIS are additional tools for measuring and controlling risks. Separation of duties is also embedded in the Group's system and organization.

40.1 Credit risk

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises principally in relation to the lending and trade finance business carried out by the Group.

The Group's strategy is to minimize credit risk through a strong pre-disbursement credit analysis, approval and risk measurement process added with an effective product, geography, industry and customer diversification. The Group, as its strategic preference, extends trade & working capital financing, so as to keep the major portion of exposure (funded and non-funded) on a short-term, self-liquidating basis. Major portion of the Group credit portfolio is priced on flexible basis with pricing reviewed on periodic basis.

The Group's credit policy defines the credit extension criteria, the credit approval and monitoring process, the loan classification system and provisioning policy. The Group also considers the requirements of the SBP. A standard credit granting procedure exists which has been well-disseminated down the line, ensuring proper pre-sanction evaluation, adequacy of security, pre-examination of charge / control documents and monitoring of each exposure on an ongoing basis.

Extensive work done in the area of capturing client information and development of collateral module in the Group's processing system. This module generates automated credit portfolio reports which is the foundation for implementing the Basel-II accord requirements.

40.1.1 SEGMENTAL INFORMATION

40.1.1.1 Segment by class of business

| | 2006 | | | | | |
|--|-------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and Commitments | |
| | Rs. in '000 | Percent | Rs. in '000 | Percent | Rs. in '000 | Percent |
| Agriculture, Forestry, Hunting and Fishing | 220,432 | 0.26 | 244,182 | 0.24 | 125,787 | 0.29 |
| Mining and Quarrying | 180 | 0.00 | 58,128 | 0.06 | 53 | 0.00 |
| Textile * | 40,702,892 | 48.37 | 4,003,193 | 3.91 | 8,807,663 | 20.35 |
| Chemical and Pharmaceuticals | 1,356,056 | 1.61 | 602,397 | 0.59 | 2,313,320 | 5.35 |
| Cement | 2,154,066 | 2.56 | 248,322 | 0.24 | 279,270 | 0.65 |
| Sugar | 458,153 | 0.54 | 58,140 | 0.06 | 59,659 | 0.14 |
| Footwear and Leather garments | 445,994 | 0.53 | 1,243,021 | 1.21 | 75,555 | 0.17 |
| Automobile and transportation equipment | 1,460,884 | 1.74 | 2,358,368 | 2.30 | 2,039,122 | 4.71 |
| Electronics and electrical appliances | 2,738,000 | 3.25 | 842,749 | 0.82 | 809,214 | 1.87 |
| Construction | 1,474,113 | 1.75 | 824,161 | 0.80 | 314,508 | 0.73 |
| Power (electricity), Gas, Water, Sanitary | 451,092 | 0.54 | 3,033,825 | 2.96 | 592,230 | 1.37 |
| Wholesale and Retail Trade | 2,386,437 | 2.84 | 1,108,896 | 1.08 | 1,818,622 | 4.20 |
| Exports/Imports | 3,097,780 | 3.68 | 3,379,261 | 3.30 | 770,079 | 1.78 |
| Transport, Storage and Communication | 1,474,990 | 1.75 | 523,909 | 0.51 | 277,137 | 0.64 |
| Financial | 749,562 | 0.89 | 7,901,894 | 7.71 | 1,516,461 | 3.50 |
| Insurance | 134,799 | 0.17 | 950,156 | 0.93 | 482 | 0.00 |
| Services | 678,640 | 0.81 | 1,883,041 | 1.83 | 63,753 | 0.15 |
| Individuals | 1,676,912 | 1.99 | 38,233,322 | 37.30 | 88,058 | 0.20 |
| Others | 22,481,112 | 26.72 | 34,995,668 | 34.15 | 23,328,399 | 53.90 |
| | <u>84,142,094</u> | <u>100.00</u> | <u>102,492,633</u> | <u>100.00</u> | <u>43,279,372</u> | <u>100.00</u> |

*The management has ensured diversification within the sector.

40.1.1.2 Segment by sector

| | 2006 | | | | | |
|---------------------|-------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and Commitments | |
| | Rs. in '000 | Percent | Rs. in '000 | Percent | Rs. in '000 | Percent |
| Public / Government | — | — | 13,869,563 | 13.53 | 2,623,474 | 6.06 |
| Private | 84,142,094 | 100.00 | 88,623,070 | 86.47 | 40,655,898 | 93.94 |
| | <u>84,142,094</u> | <u>100.00</u> | <u>102,492,633</u> | <u>100.00</u> | <u>43,279,372</u> | <u>100.00</u> |

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

| | 2006 | | 2005 | |
|-------------------------------|---------------------|-------------------------|---------------------|-------------------------|
| | Rupees in '000 | | | |
| | Classified Advances | Specific provision held | Classified Advances | Specific provision held |
| Textile | 274,511 | 176,745 | 56,383 | 54,958 |
| Cement | 5,323 | 5,323 | — | — |
| Footwear and Leather garments | 32,774 | 32,774 | — | — |
| Wholesale and Retail Trade | 2,983 | 2,983 | 2,983 | — |
| Exports/Imports | 3,312 | 3,312 | — | — |
| Services | 149 | 149 | — | — |
| Individuals | 35,593 | 23,527 | 1,734 | 1,734 |
| Others | 88,603 | 59,762 | 27,624 | 21,636 |
| | <u>443,248</u> | <u>304,575</u> | <u>88,724</u> | <u>78,328</u> |

40.1.1.4 Details of non-performing advances and specific provisions by sector

| | Classified Advances | Specific provision held | Classified Advances | Specific provision held |
|---------------------|---------------------|-------------------------|---------------------|-------------------------|
| | Rupees in '000 | | | |
| Public / Government | — | — | — | — |
| Private | <u>443,248</u> | <u>304,575</u> | <u>88,724</u> | <u>78,328</u> |
| | <u>443,248</u> | <u>304,575</u> | <u>88,724</u> | <u>78,328</u> |

40.1.1.5 Geographical segment analysis

| | Profit before taxation | Total assets employed | Net assets employed | Contingencies and Commitments |
|----------|------------------------|-----------------------|---------------------|-------------------------------|
| | Rupees in '000 | | | |
| Pakistan | <u>3,144,391</u> | <u>148,670,063</u> | <u>10,869,426</u> | <u>43,279,372</u> |

Total assets employed include intra group items of Rs. 1,752 million.

40.2 Market risk

The Board of Directors oversees the Group's Strategy for Market Risk Exposures. The Asset and Liability Committee (ALCO), which comprises of senior management, oversees the Balance Sheet of the Group and performs oversight function to ensure sound asset quality, liquidity and pricing. The investment policy, amongst other aspects, covers the Group asset allocation guidelines inclusive of equity investments.

While market risk limits are in place and are monitored effectively, the Group has also formalized Liquidity and Market Risk Management Policies which contain action plans to strengthen the market risk management system.

Standard risk management techniques and tools are adopted by the Group, including "Stress testing techniques" mandated by the SBP. The results depict a resilient Balance Sheet with sound liquidity position.

40.2.1 Foreign exchange risk (FX)

The Group's business model for FX is to serve trading activities of its clients in an efficient and cost effective manner. The Group is not in the business of actively trading and market making activities. A conservative risk approach and the Group's business strategy to work with export oriented clients gives the ability to meet its FX needs generally and frequently provide FX to the Inter-bank Market.

| | 2006 | | | |
|----------------------|--------------------|--------------------|--------------------------------|--------------------------------------|
| | Assets | Liabilities | Off-balance sheet items | Net foreign currency exposure |
| | (Rupees in '000) | | | |
| Pakistan Rupee | 130,596,537 | 137,383,876 | 9,115,933 | 2,328,594 |
| United States Dollar | 13,880,468 | 8,699,931 | (7,743,082) | (2,562,545) |
| Great Britain Pound | 1,051,570 | 952,148 | (104,784) | (5,362) |
| Japanese Yen | 158,823 | 6,771 | (181,259) | (29,207) |
| Euro | 2,683,124 | 1,558,800 | (1,067,701) | 56,623 |
| Asian Currency Unit | 234,686 | 44,057 | (6,641) | 183,988 |
| Swiss Francs | 4,460 | 224 | - | 4,236 |
| Canadian Dollar | 29,001 | 22,670 | (4,429) | 1,902 |
| Arab Emirates Dirham | 1,235 | - | - | 1,235 |
| Australian Dollar | 1,375 | - | (8,037) | (6,662) |
| Other Currencies | 28,784 | 1,586 | - | 27,198 |
| | 18,073,526 | 11,286,187 | (9,115,993) | (2,328,594) |
| | 148,670,063 | 148,670,063 | - | - |

40.2.2 Mismatch of interest rate sensitive assets and liabilities

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

The Group's interest rate exposure is very low due to the short-term nature of the majority of business transactions. Interest rate risk is also controlled through flexible credit pricing mechanism and variable deposit rates. Optimization of yield is achieved through the Group's Investment Strategy which aims on attaining a balance between yield and liquidity under the strategic guidance of the Group's Investment Policy/ALCO.

The advances and deposits of the Group are repriced on a periodic basis based on interest rates scenario.

2006

| | Effective Yield/Interest Rate % | Exposed to Yield/interest risk | | | | | | | Non-interest bearing financial instruments | | |
|---|---------------------------------|--------------------------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--|--------------------------|----------------|
| | | Upto 1 month | Over 1 month to 3 months | Over 3 months to 6 months | Over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | | Over 5 years to 10 years | Above 10 years |
| On balance sheet financial instruments | | | | | | | | | | | |
| Rupees in '000 | | | | | | | | | | | |
| Assets | | | | | | | | | | | |
| Cash and balances with treasury banks | 4.35% | 1,644,570 | - | - | - | - | - | - | - | - | 9,703,592 |
| Balances with other banks | 3.25% to 8.50% | 4,665,011 | - | - | - | - | - | - | - | - | 1,631,553 |
| Lendings to financial institutions | 9.00% to 11.80% | 2,664,600 | 2,582,510 | 200,000 | 15,140,757 | 1,044,752 | 444,083 | 5,660,791 | 1,923,334 | - | 3,760,818 |
| Investments | 8.45 to 15.00% | 1,001,457 | 4,533,806 | 6,045,692 | 519,997 | 9,745,002 | 3,137,047 | 2,982,202 | 606,189 | - | 304,575 |
| Advances | 6.50% to 23.00% | 1,374,307 | 29,657,910 | 34,972,950 | - | - | - | - | - | - | 2,047,809 |
| Other assets | | - | - | - | - | - | - | - | - | - | - |
| | | 11,349,945 | 36,774,226 | 41,218,642 | 15,660,754 | 10,789,754 | 3,581,130 | 8,642,993 | 2,529,523 | 23,880 | 17,448,347 |
| Liabilities | | | | | | | | | | | |
| Bills payable | | - | - | - | - | - | - | - | - | - | - |
| Borrowings | 6.50% to 9.00% | 3,747,208 | 17,896,242 | 6,577,168 | 506,366 | 7,325 | 321,922 | 124,130 | - | - | 1,619,796 |
| Deposits and other accounts | 2.25% to 10.80% | 5,440,014 | 26,999,855 | 24,108,116 | 12,006,653 | 1,444,399 | 1,724,161 | 1,980,230 | 2,165,174 | - | 338,097 |
| Other liabilities | | - | - | - | - | - | - | - | - | - | 24,458,857 |
| | | 9,187,222 | 44,896,097 | 30,685,284 | 12,513,019 | 1,451,724 | 2,046,083 | 2,104,360 | 2,165,174 | 2,165,174 | 29,834,534 |
| On-balance sheet gap | | 2,162,723 | (8,121,871) | 10,533,358 | 3,147,735 | 9,338,030 | 1,535,047 | 6,538,633 | 364,349 | (2,141,294) | (12,386,187) |
| Off-balance sheet financial instruments | | | | | | | | | | | |
| Forward lending | | 688,200 | - | - | - | - | - | - | - | - | - |
| Forward borrowing | | - | - | - | - | - | - | - | - | - | - |
| Off-balance sheet gap | | 688,200 | - | - | - | - | - | - | - | - | - |
| Total Yield/Interest Risk Sensitivity Gap | | 2,850,923 | (8,121,871) | 10,533,358 | 3,147,735 | 9,338,030 | 1,535,047 | 6,538,633 | 364,349 | (2,141,294) | (12,386,187) |
| Cumulative Yield/Interest Risk Sensitivity Gap | | 2,850,923 | (5,270,948) | 5,262,410 | 8,410,145 | 17,748,175 | 19,283,222 | 25,821,855 | 26,186,204 | 24,044,910 | 11,658,723 |

40.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to raise funds to meet its commitments. The Group's "Asset and Liability Management Committee" manages the liquidity position on a continuous basis.

The Group's liquidity model is based on "self-reliance" with an extensive branch network to diversify the Group deposit base. The Group's liquidity profile generally comprises of short-term, secured assets, in line with the Group credit strategy. Long term Investments and loans are generally kept at an amount lower than the Group term liability and capital/reserves.

40.3.1 Maturities of assets and liabilities

| | 2006 | | | | | | | | | |
|---------------------------------------|-------------------|------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------------------------|--------------------|
| | Total | Upto 1 month | Over 1 month to 3 month | Over 3 month to 6 month | Over 6 month to 1 years | Over 1 years to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years | Above 10 years |
| Assets | | | | | | | | | | |
| Cash and balances with treasury banks | 11,348,162 | 11,348,162 | - | - | - | - | - | - | - | - |
| Balances with other banks | 6,296,564 | 6,296,564 | - | - | - | - | - | - | - | - |
| Lendings to financial institutions | 5,447,110 | 2,664,600 | 2,582,510 | 200,000 | - | - | - | - | - | - |
| Investments | 39,555,490 | 1,016,605 | 4,518,579 | 9,806,589 | 15,140,757 | 1,044,752 | 444,083 | 5,660,791 | 1,923,334 | - |
| Advances | 83,324,059 | 1,374,307 | 29,657,910 | 34,972,950 | 519,997 | 9,745,002 | 3,137,047 | 2,982,202 | 910,764 | 23,880 |
| Other assets | 2,049,556 | 1,764,260 | 191,649 | 63,498 | 15,075 | 15,074 | - | - | - | - |
| Operating fixed assets | 649,122 | 4,219 | 12,656 | 25,313 | 55,625 | 111,250 | 344,750 | 95,309 | - | - |
| | 148,670,063 | 24,468,717 | 36,963,304 | 45,068,350 | 15,731,454 | 10,916,078 | 3,925,880 | 8,738,302 | 2,834,098 | 23,880 |
| Liabilities | | | | | | | | | | |
| Bills payable | 1,619,796 | 1,619,796 | - | - | - | - | - | - | - | - |
| Borrowings | 29,518,458 | 4,085,305 | 17,896,242 | 6,577,168 | 506,366 | 7,325 | 321,922 | 124,130 | - | - |
| Deposits and other accounts | 102,492,633 | 8,382,740 | 29,942,660 | 26,496,011 | 19,363,667 | 2,915,802 | 3,195,564 | 3,451,633 | 4,372,278 | 4,372,278 |
| Other liabilities | 3,992,947 | 829,577 | 1,234,568 | 1,431,200 | - | - | - | 338,218 | - | 159,384 |
| Deferred tax liabilities | 176,803 | 988 | 4,734 | 11,682 | 83,252 | 1,482 | 3,151 | 25,594 | 45,920 | - |
| | 137,800,637 | 14,918,406 | 49,078,204 | 34,516,061 | 19,953,285 | 2,924,609 | 3,520,637 | 3,939,575 | 4,418,198 | 4,531,662 |
| Net assets | 10,869,426 | 9,550,311 | (12,114,900) | 10,552,289 | (4,221,831) | 7,991,469 | 405,243 | 4,798,727 | (1,584,100) | (4,507,782) |
| Share capital | 3,005,000 | | | | | | | | | |
| Reserves | 5,824,936 | | | | | | | | | |
| Unappropriated profit | 1,836,616 | | | | | | | | | |
| Surplus on revaluation of assets | 202,874 | | | | | | | | | |
| | 10,869,426 | | | | | | | | | |

40.4 Operational risk

The Group operates in a controlled manner and operations risk is generally managed effectively. With the evolution of operations risk management into a separate distinct discipline, the Group's strategy is to further strengthen the risk management system along new industry standards.

The Group's operations risk management strategy takes guidance from Basel – II, Committee of Sponsoring Organization of Treadway Commission (COSO) publications, SBP guidelines and from standard industry practices. The operational risk management manual addresses enterprise wide risk drivers inclusive of technology infrastructure, software hardware and I.T security.

While broadening risk awareness and assuring regulatory compliance, Internal Audit Department of the Group is an important pillar of the Group's risk management and controls infrastructure, performing continuous reviews to improve the quality of the Group's internal control environment, ensuring an effective balance in safety and performance of processes and adding value towards the Group's risk mitigation endeavors.

The Group's Business Continuity Plan (BCP) includes risk management strategies to mitigate inherent risk and prevent interruption of mission critical services caused by disaster event. The Group's operational risk management infrastructure is being further strengthened through the establishment of a separate operational and risk control unit.

41. KEY FINANCIAL FIGURES OF THE ISLAMIC BANKING BRANCHES

The Bank is operating four Islamic Banking Branches as of the balance sheet date (2005: one branch).

The Branches' financial statements are as follows:

| | 2006 | 2005 |
|---|------------------|----------------|
| | Rupees in '000 | |
| ASSETS | | |
| Cash and balances with treasury banks | 561,385 | 35,866 |
| Balances with and due from financial institutions | 956,035 | 36 |
| Investments | 140,228 | – |
| Financing and receivables | | |
| - Murahaba | 1,308,287 | 161,080 |
| - Ijara | 1,392,648 | 244,497 |
| - Diminishing Musharaka | 112,061 | – |
| Due from head office | 31,651 | – |
| Other assets | 87,805 | 2,824 |
| Total Assets | 4,590,100 | 444,303 |
| LIABILITIES | | |
| Bills payable | 21,279 | 2,195 |
| Deposits and other accounts | | |
| - Current accounts | 230,250 | 110,467 |
| - Saving accounts | 535,569 | 45,533 |
| - Term deposits | 1,928,088 | 133,868 |
| - Deposit from financial institutions - Remunerative | 1,123,368 | – |
| - Deposits from financial institutions-Non-remunerative | 24 | – |
| Due to head office | – | 87,334 |
| Other liabilities | 316,686 | 6,754 |
| Total liabilities | 4,155,264 | 386,151 |
| NET ASSETS | 434,836 | 58,152 |

| | 2006 | 2005 |
|--|----------------|---------------|
| | Rupees in '000 | |
| REPRESENTED BY : | | |
| Islamic Banking Fund | 401,523 | 50,000 |
| Reserves | - | - |
| Unappropriated profit | 33,313 | 8,152 |
| | <u>434,836</u> | <u>58,152</u> |
| Surplus / (deficit) on revaluation of assets | - | - |
| | <u>434,836</u> | <u>58,152</u> |
| Remuneration to Sharias Advisor/Board | <u>1,090</u> | <u>813</u> |
| CHARITY FUND | | |
| Opening balance | - | - |
| Additions during the year | - | - |
| Transfer upon amalgamation | 33 | - |
| Payments/utilization during the year | - | - |
| Closing balance | <u>33</u> | <u>-</u> |

42. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 24, 2007 by the Board of Directors of the Group.

43. RECENT ACCOUNTING DEVELOPMENTS

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after January 1, 2007 and except for additional disclosures are not expected to have a significant effect on the Group's financial statements or are not relevant to the Group:

- Amendments to IAS 1, Presentation of Financial Statements – Capital disclosures;
- IAS 19 (Amendment), Employee Benefits – Additional disclosures;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intra group Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- Amendment to IAS 21, The Effects of Changes in Foreign Exchange Rates: net investment in foreign operation;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Fund;
- IFRIC 6, Liabilities arising from Participating in a Specific market – Waste Electrical and Electronic Equipment;
- IFRIC 9, Reassessment of Embedded Derivatives;
- IFRIC 10, Interim Financial Reporting and Impairment;
- IFRIC 11, Group and Treasury Share Transactions;
- IFRIC 12, Service Concession Arrangements.

44. GENERAL

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

44.2 Figures have been rounded off to the nearest thousand rupees.

ANWAR H. JAPANWALA
Chairman

KASSIM PAREKH
President & Chief Executive

FIRASAT ALI
Director

ZIA SHAFI KHAN
Director

PROXY FORM

I/We _____

of _____

being member (s) of Habib Metropolitan Bank Limited and holding _____

ordinary shares, as per Register folio _____

hereby appoint _____ Folio No. _____

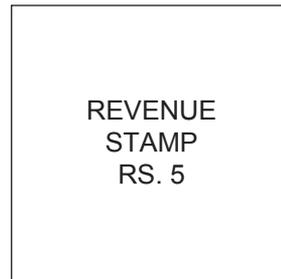
of _____

or failing him _____ Folio No. _____

of _____

another member of the Bank to vote for me/us and on my/our behalf at the 15th Annual General Meeting of the Bank to be held on March 29, 2007 and at any adjournment thereof.

As Witness my/our hand this _____ day of March 2007



SIGNATURE OF MEMBER(S)

A member entitled to attend General Meeting is entitled to appoint proxy to attend and vote instead of him. A proxy should be a member of the Bank. No person shall act as proxy (except for a corporation) unless he is entitled to be present and vote in his own right.

The instrument appointing a proxy should be signed by the member or by his attorney duly authorised in writing. If the member is a corporation, its common seal (if any) should be affixed to the instrument.

The proxies shall be deposited at the Registered Office of the Bank not less than 48 hours before the time of the meeting.