

هَذَا مِنْ فَضْلِ رَبِّي



(Formerly Metropolitan Bank Limited)

Habib Metropolitan Bank Ltd.

(Subsidiary of Habib Bank AG Zurich)

Based on a foundation of trust,
to be the most respected financial institution,
delighting customers with excellence,
enjoying the loyalty of a dedicated team,
meeting the expectations of regulators and
participating in social causes while
providing superior returns to shareholders

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REGISTERED OFFICE AND HEAD OFFICE

Ground Floor, Spencer's Building,
G.P.O. Box 1289, I.I. Chundrigar Road,
Karachi-74200, Pakistan

Phones : (021) 263 6740 (20 Lines)
Fax : (021) 263 0405 - 262 0716
U.A.N. : 111-14-14-14 and 111-18-18-18

Telex : 20246 BNKMN PK, 20281 BNKMN PK
SWIFT : MPBLPKKA
URL : www.hmb.com.pk
E-mail : info@hmb.com.pk

14th Floor, Saima Trade Towers 'A',
I.I. Chundrigar Road, Karachi-74200,
Pakistan.

Phones : (021) 227 1935 (14 Lines)
Fax : (021) 227 1950

Karachi

Main Branch:

Ground Floor,
Spencer's Building, I.I. Chundrigar Road,
G.P.O. Box 1289 Karachi.
Phone : (021) 263 6740 (20 Lines)
UAN : (021) 111-18-18-18
Fax : (021) 263 0404
Telex : 20246 BNKMN PK
20281 BNKMN PK
SWIFT : MPBLPKKA

Cloth Market:

BR 1/43, Metro Centre,
Bombay Bazar, Kharadar,
P.O. Box 6453, Karachi.
Phones : (021) 231 3712 (3 Lines)
: (021) 231 3763, 231 3927
Fax : (021) 231 3715
Telex : 27402 BNKMN PK
SWIFT : MPBLPKKA011

Paper Market:

Plot No. 7, 8 R-6, Altaf Hussain Road,
New Challi, Karachi.
Phones : (021) 221 0562 (6 Lines)
Fax : (021) 221 0568
Telex : 27399 MBP PM PK
SWIFT : MPBLPKKA013

Gulshan-e-Iqbal:

Plot No. 118/B/A-XV, Block 10-A,
Main Rashid Minhas Road, Near Drive-in Cinema,
Gulshan-e-Iqbal, Karachi.
Phones : (021) 402 1651 (3 Lines)
: (021) 402 1654
Fax : (021) 402 1655

Shahrah-e-Faisal:

Siddique Sons Tower 3, Jinnah Society,
Near Shaheed-e-Millat Flyover,
Shahrah-e-Faisal, Karachi.
Phones : (021) 452 8395 (3 Lines)
: (021) 452 2920
Fax : (021) 438 3498
Telex : 27424 BNKMN PK
SWIFT : MPBLPKKA012

Jodia Bazar:

7- Mehboob Chamber,
Adamjee Haji Dawood Road,
Jodia Bazar, Karachi.
Phones : (021) 243 7187, 241 1925,
: (021) 243 7909, 243 8157
Fax : (021) 243 0056
Telex : 27723 MBP JB PK
SWIFT : MPBLPKKA015

Karachi Stock Exchange:

Old Stock Exchange Building,
Stock Exchange Road,
Karachi.
Phones : (021) 240 1921 (3 Lines)
Fax : (021) 240 1925

M. A. Jinnah Road:

Corner Abdullah Haroon Road,
Karachi.
Phones : (021) 273 7617 (4 Lines)
Fax : (021) 273 7621
SWIFT : MPBLPKKA020

North Napier Road:

Plot W.O. 1/33, North Napier Road,
Near Dandia Bazar, Karachi
Phones : (021) 273 7603 (4 Lines)
Fax : (021) 273 7607
SWIFT : MPBLPKKA021

Karimabad

Sohni Bridal Shopping Centre,
BS-6, Block-4, F.B. Area,
Karachi.
Phones : (021) 634 5236 (2 Lines)
: (021) 634 9446, 680 2262
Fax : (021) 634 9447

SITE:

3/9-B-2, Metro Chowrangi,
S. 1. T. E., Karachi.
Phones : (021) 256 4101 (3 Lines)
: (021) 256 4104, 2564793-95
Fax : (021) 256 4100
SWIFT : MPBLPKKA023

DHA:

1-C, Khayaban-e-Shamsheer,
Phase V, Karachi.
Phones : (021) 585 7404 (3 Lines)
: (021) 585 7407
Fax : (021) 585 7403

Timber Market:

5, Siddiq Wahab Road, Timber Market,
Karachi.
Phones : (021) 276 8411 (3 Lines)
: (021) 276 8415
Fax : (021) 276 8414

Korangi:

Aiwan-e-Sanat Building, Sector 23,
Korangi Industrial Area, Karachi.
Phones : (021) 506 9162 (3 Lines)
: (021) 506 9130
Fax : (021) 506 9171

Saddar:

SB-4/4, Zaibunnisa Street, Saddar,
Karachi.
Phones : (021) 521 6308 (2 Lines)
: (021) 521 6433
Fax : (021) 521 6434

Alamgir Road:

25, Central Commercial Area,
Main Alamgir Road, Bahadurabad,
Karachi.
Phones : (021) 494 8805 (3 Lines)
: (021) 494 8810
Fax : (021) 494 8803

Ittehad:

86-C, 11th Commercial Street,
D.H.A. Phase 11 Ext., Karachi.
Phones : (021) 589 7623 (2 Lines)
: (021) 538 2109
: (021) 538 2110
Fax : (021) 588 6872

Hyderi:

7-A, Mustafa Market,
Block G, Barkat-e-Hyderi, Karachi,
Phones : (021) 664 0774 (3 Lines)
Fax : (021) 664 0777

Dhoraji Colony:

Madni Pride, Block 7 & 8,
C.P. Berar, C.H.S.,
Dhoraji Colony, Karachi.
Phones : (021) 494 9535 - 44 - 64
Fax : (021) 494 9592

North Karachi Industrial Area:

ST-5, Gabol Town,
Federal 'B' Area, Karachi.
Phones : (021) 695 7569
: (021) 693 3461 (3 Lines)
Fax : (021) 695 7570

Gulshan Chowrangi:

FL 4/S, Hamid Square,
Block 3, Gulshan-e-Iqbal, Karachi.
Phones : (021) 480 0790 (3 Lines)
Fax : (021) 480 0789

Khalid Bin Walid Road:

Khalid Bin Walid Road,
F/168/A, Madina Mall, Block-3,
PECHS, Karachi.
Phones : (021) 439 0191 (3 Lines)
Fax : (021) 439 0190

Ceramic Market:

485/486, Rizvia Society,
Nazimabad, Karachi.
Phones : (021) 660 0546 (3 Lines)
: (021) 670 1001
Fax : (021) 660 7462

Landhi:

15 Milestone, National Highway,
Landhi-4, Karachi.
Phones : (021) 502 4901 (4 Lines)
Fax : (021) 502 5200

Paposh Naggr:

6-A, Block V-A Nazimabad No. 5, Karachi.
Phones : (021) 670 0001 (4 Lines)
Fax : (021) 670 0005

Textile Plaza:

Nadeem Cloth Market,
M.A. Jinnah Road, Karachi.
Phones : (021) 242 2476 (2 Lines)
: (021) 242 2415 (2 Lines)
: (021) 241 3964
Fax : (021) 241 6148

Water Pump:

57, Nawaz Court, Block-16,
FedeTal "B" Area, Karachi
Phones : (021) 681 2577 (2 Lines)
: (021) 632 3028
Fax : (021) 633 4557

Shershah:

D-283/1, S.I.T.E. Area,
Trans Lyari Quarter, Karachi.
Phones : (021) 258 6301 (3 Lines)
Fax : (021) 258 6305

Karachi

University Road:

Opp. NED University, No. 101.
Zenith Heights BI-1,
Gulistan-e-Johar, Karachi.
Phones : (021) 402 9701 (3 Lines)
 : (021) 402 9704
Fax : (021) 402 9705

Boat Basin:

GPC-2, BI-5 KDA Scheme No. 5,
Clifton, Karachi.
Phones : (021) 587 9734 (3 Lines)
 : (021) 587 9737
Fax : (021) 587 9738

HBZ Plaza:

HBZ Plaza, I.I. Chundrigar Road,
P.O. Box 1424, Karachi-74200.
Phones : (021) 263 3311-30
Fax : (021) 263 1418-19
SWIFT : MPBLPKKA 052

Mereweather Tower:

GK-7/99, Tower Mention,
M.A Jinnah Road , Opp. M.W. Tower,
Karachi
Phones : (021) 240 1981-5
Fax : (021) 243 8295
SWIFT : MPBLPKKA 056

Clifton:

S-2, Uzma Arcade, Block-7,
Khayaban-e-Iqbal, KDA Scheme 5,
Clifton Karachi
Phones : (021) 587 7831-5
Fax : (021) 583 2019
SWIFT : MPBLPKKA 057

City Court:

Premises No. 5 & 7, Court Chamber,
Syedna Tahir Saifuddin Road,
Opp. City Court, Karachi.
Phones : (021) 272 9991-4
 : (021) 272 0106-8
Fax : (021) 272 9805
SWIFT : MPBLPKKA 058

Plaza Square:

Shopp # 1 & 1B, Ground Floor,
Naseeb Building No. 37/1,
Plaza Square, M.A. Jinnah Road,
Karachi
Phones : (021) 273 7183-5
Fax : (021) 273 7187
SWIFT : MPBLPKKA 059

Avenue Branch Site:

B-12-D, S.I.T.E., Karachi.
Phones : (021) 255 0314-8
Fax : (021) 255 0312
SWIFT : MPBLPKKA 060

Marriot Road:

MR - 1/37-G-5, Jelani Manzil,
Marriot Road Karachi.
Phone : (021) 247 3509
 : (021) 247 3359
 : (021) 247 3586
Fax : (021) 247 3550
SWIFT : MPBLPKKA 063

Industrial Area Korangi:

Plot No. SC-8 (ST-17) Sector - 15,
Korangi Township, Karachi.
Phone : (021) 511 4055-60
Fax : (021) 511 4053

Business Avenue:

Business Avenue, 26/A, Block - 6,
Shahrah-e-Faisal Karachi.
Phone : (021) 439 1420-25
Fax : (021) 439 1428
SWIFT : MPBLPKKA 065

Preedy Street:

Shop # 12, 15, 16 & 17, Plot # 273/1,
Coronation Building, Artillery Maidan,
Preedy Street, Saddar Karachi.
Phone : (021) 272 6391
 : (021) 274 3394-6
 : (021) 274 3406
Fax : (021) 274 3408
SWIFT : MPBLPKKA 066

Bahadurabad:

Prime Arcade,
Bahadur Shah Zafar Road,
Bahadurabad, Karachi.
Phone : (021) 494 9316
 : (021) 493 3677
Fax : (021) 493 3729
SWIFT : MPBLPKKA 0687

Khayaban-e-Shahbaz:

Plot No. 6/2, Survey, No. 26,
Khayaban-e-Shahbaz Lane 2,
Phase VI D.H.A. Karachi.
Phone : (021) 534 2036
 : (021) 584 7314
Fax : (021) 584 7126
SWIFT : MPBLPKKA 070

North Nazimabad:

Shop No. 6/7 & 8, Kaneez Market,
North Nazimabad Karachi.
Phone : (021) 663 9404
 : (021) 663 9262
 : (021) 663 9816
 : (021) 663 6291
Fax : (021) 663 6427
SWIFT : MPBLPKKA 071

Mission Road:

Plot Survey No. 1, Shop No. 2,
Popular Tiles Building,
Mission Road Karachi.
Phone : (021) 273 6656
 : (021) 276 2291
Fax : (021) 276 6293
SWIFT : MPBLPKKA 073

Mangopir Road:

D-22, Mangopir Road,
S.I.T.E. Karachi.
Phone : (021) 259 4025-7
 : (021) 259 4028
Fax : (021) 259 4029
SWIFT : MPBLPKKA 076

Phase II D.H.A.:

Plot Bearing No. 12-C Korangi Road,
Phase II, D.H.A. Karachi.
Phone : (021) 539 6989-91
Fax : (021) 539 6996

Gulistan - e - Johar:

Shop No. B-5/1, 1 Plot No. FI-22,
Block-15 Gulistan-e-Johar, Karachi.
Phone : (021) 403 0271-3
Fax : (021) 403 0274

Soldier Bazar:

Rodrigues Street,
Soldier Bazar, Karachi.
Phone : (021) 224 1545-7
 : (021) 2241549
Fax : (021) 2241548

U.P. More:

Block 11-B, U.P. More, Karachi.
Phone : (021) 696 4692-3
 : (021) 696 4694
Fax : (021) 696 4695

Allama Iqbal Road:

Plot No. 946, 947 - C,
P.E.C.H.S, Allama Iqbal Road,
Karachi.
Phone : (021) 430 1061-4
Fax : (021) 430 1065

Lahore:

Lahore:

Associated House,
7-Egerton Road, Lahore.
Phones : (042) 627 9062 (4 Lines)
 : (042) 627 8812, 630 6902
UAN : (042) 111-18-18-18
Fax : (042) 627 9061
Telex : 47764 BNKMN PK
SWIFT : MPBLPKKA002

Gulberg:

85, D-1, Main Boulevard, Gulberg-III,
G.P.O Box No. 54660, Lahore.
Phones : (042) 587 2091 (4 Lines)
 : (042) 575 5151, 575 5252
Fax : (042) 575 4480

Circular Road:

83-Circular Road, Lahore.
Phones (042) 767 2634 (5 Lines)
Fax (042) 767 2631

Defence:

9-Z, Defence Housing Authority, Lahore,
Phones : (042) 589 4162 (3 Lines)
Fax : (042) 589 3878

Badami Bagh:

38-R-359, Circular Road, Lahore.
Phones : (042) 772 3471
 : (042) 773 1413 (3 Lines)

Model Town Link Road:

207-B, BI-A, Model Town Link Road,
Lahore.
Phones : (042) 520 3657
Fax : (042) 520 3658

Davis Road:

14-B, Davis Road, (Sir Aga Khan Road)
P.O.Box 2276, Lahore.
Phone : (042) 627 9020-4
Fax : (042) 636 8392
SWIFT : MPBLPKKA053

Main Boulevard:

19-B, Main Boulevard, Gulberg
Lahore.
Phone : (042) 587 8475-9
Fax : (042) 587 8473

Peco Road:

110 PECO Road,
Badami Bagh Lahore.
Phone : (042) 770 1172-4
Fax : (042) 770 1171
SWIFT : MPBLPKKA067

Raiwind Road:

9 KM Raiwind Road, Bhoptian Chowk,
Khewat No. 840, Khatoni No. 1251,
Khasra No. 1907-10, Lahore.
Phone : (042) 532 3151-5
Fax : (042) 532 3152
SWIFT : MPBLPKKA069

Garden Town:

Ibrahim Trade Center,
1-A1, Bak Block,
New Garden Town Lahore.
Phone : (042) 594 1636-8
(042) 594 1631
Fax : (042) 594 1632
SWIFT : MPBLPKKA074

Ravi Road:

75-76, Ravi Road,
Datagunj Buksh Town,
Lahore.
Phone : (042) 770 3106-7
(042) 770 5201
Fax : (042) 770 5202
SWIFT : MPBLPKKA075

Peshawar:

95-A, Saddar Road, Peshawar.
Phone : (091) 527 0904 (3 Lines)
(091) 527 5784, 275709
UAN : (091) 111-18-18-18
Fax : (091) 5275624
Telex : 52324 BNKMN PK

Quetta:

Shahrah-e-Iqbal,
G.P.O. Box 185, Ouetta.
Phones : (081) 283 5302, 283 5308
UAN : (081) 111-18-18-18
Fax : (081) 282 4209
Cable : BANKMETRO

Mirpur A K:

Ejaz Plaza, Allama Iqbal Road,
Mirpur, Azad Kashmir.
Phone : (058610) 43435, 48039-40
(058610) 45719
Fax : (058610) 43677

Sialkot:

Sialkot Allama Iqbal Chowk, Railway Road,
G.P.O. Box 2626, Sialkot.
Phones : (052) 458 002, 458 0037
(052) 460 4905, 460 2451
(052) 459 3571-3 (3 Lines)
UAN : (052) 111-18-18-18
Fax : (052) 458 8024
Telex : 46209 BNKMN PK
SWIFT : MPBLPKKA006

Small Industrial Estate:

27-28-A, Small Industrial Estate,
Sialkot.
Phones : (052) 325 4720, 325 4799
Fax : (052) 325 4738

Hyderabad:

F-66, Risala Road,
P.O. Box No. 182, Hyderabad.
Phones : (022) 278 3893, 784087
UAN : (022) 111-18-18-18
Fax : (022) 278 3894
Telex : 22093 BNKMN PK

Multan:

85-A, Qasim Road,
P.O. Box No- 108, Multan Cantt.
Phones : (061) 458 3515 (3 Lines)
(061) 478 5719 - 20
LAN : (061) 111-18-18-18
Fax : (061) 4583518
Telex : 42353 BNKMN PK

Faisalabad

Faisalabad:

P/64, Taj Plaza, Kotwali Road, Faisalabad.
Phones : (041) 264 9902 (5 Lines)
UAN : (041) 111-18-18-18
Fax : (041) 264 9901
Telex : 43555 BNKMN PK
SWIFT : MPBLPKKA009

Kotwali Road:

P-71, Kotwali Road, P.O. Box 569, Faisalabad.
Phones : (041) 263 4891-4
Fax : (041) 263 3822
SWIFT : MPBLPKKA054

Islamabad

Islamabad:

24-D, Rashid Plaza,
Jinnah Avenue, Islamabad.
Phones : (051) 227 4088 (3 Lines)
UAN : (051) 111-18-18-18
Fax : (051) 227 4082
Telex : 54732 BNKMN PK
SWIFT : MPBLPK010

F-10 Markaz:

F-10, Markaz Branch,
1-k, 10th Avenue, F-10, Islamabad
Phones : (051) 210 2515-16
Fax : (051) 210 2514

Rahim Yar Khan:

24, Shahi Road, Rahim Yar Khan.
Phone (068) 588 3493
Fax (068) 587 4193

Kasur:

Railway Road, Kasur.
Phones : (0492) 925 0053, 764606
(0492) 765331
Fax : (0492) 925 0090

Gujranwala:

G.T. Road, Near Din Plaza, Gujranwala.
Phones : (055) 384 5467, 384 5768
Fax : (055) 384 5466
Telex : 53352 BNKMN PK

Rawalpindi

Rawalpindi:

186/2, Bank Road, Rawalpindi Cantt.
Phones : (051) 511 0178 - 81 - 82
(051) 551 7013, 511 0177
Fax : (051) 579 4376

Hyder Road:

9-Haider Road, Rawalpindi Cantt,
P.O. Box 1682, Rawalpindi.
Phone : (051) 552 2022
(051) 552 2033
(051) 552 2044
Fax : (051) 552 2055
SWIFT : MPBLPKKA055

Islamic Banking Branches:

Karachi

Al Falah Court:

Al-Falah Court, I.I. Chundrigar Road,
Karachi.
Phone : (021) 221 5360-3
Fax : (021) 221 5358
SWIFT : MPBLPKKA 71

Zaibunisa Street:

SB-4f4, 2nd Floor, Zaibunisa Street,
Saddar, Karachi
Phones (021) 565 0711 (4 Lines)
Fax (021) 565 0650

Rashid Minhas Road:

Plot No. FL-3/15, KDA Scheme No. 24
Rashid Minhas Road,
Gulshan-e-Iqbal, Karachi.
Phone : (021) 481 9985-8
(021) 481 9990-4
Fax : (021) 481 9989
SWIFT : MPBLPKKA 72

Lahore

Gulberg:

House No. 85- D-1,
Gulberg-III, Lahore.
Phone : (042) 578 9942-4
(042) 578 9940
Fax : (042) 578 9941

BOARD OF DIRECTORS**CHAIRMAN**

Anwar H. Japanwala

PRESIDENT & CHIEF EXECUTIVE

Kassim Parekh

DIRECTORS

Bashir Ali Mohammad
Mohamedali R. Habib *
Firasat Ali
A. R. Wadiwala
Salim A. Zubairi
Zia Shafi Khan
* Executive Director

AUDIT COMMITTEE

Anwar H. Japanwala Chairman
Mohamedali R. Habib
A. R. Wadiwala

COMPANY SECRETARY

Fuzail Abbas

SHARE REGISTRAR

Noble Computer Services (Private) Limited
2nd Floor, Sohni Centre, BS 5 & 6,
Main Karimabad, Block-4, Federal B Area,
Karachi-75950.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Fifteenth Annual General Meeting of the shareholders of Habib Metropolitan Bank Limited will be held at the Moosa D. Dessai ICAP Auditorium, Institute of Chartered Accountants of Pakistan, G-31/8, Chartered Accountants Avenue, Clifton, Karachi on Thursday, March 29, 2007 at 9.00 a.m. to transact the following business:

1. To receive, consider and adopt the Audited Accounts of the Bank for the year ended December 31, 2006 together with the Directors and Auditors reports thereon.
2. To appoint Auditors for the financial year ending December 31, 2007 and fix their remuneration. The present Auditors, Messrs Ford Rhodes Sidat Hyder & Co., Chartered Accountants, being eligible, offer themselves for re-appointment.
3. To consider any other business with the permission of the Chair.

By Order of the Board

FUZAIL ABBAS
Company Secretary

Karachi: February 24, 2007

Notes:

1. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend the meeting and vote for him/her. Form of the Proxy is enclosed with the Annual report. A proxy must be a member of the Bank. Proxies, in order to be effective, must be received at the Registered Office of the Bank, duly stamped, signed and witnessed, not less than 48 (forty eight) hours before the meeting.
2. CDC account holders and sub-account holders are required to bring them their National Identity Card along with the participants ID numbers and their account numbers in order to facilitate identification.
3. Members are requested to notify the change of addresses, if any.
4. The Share Transfer Book of the bank will remain closed from March 21, 2007 to March 30, 2007 (both days inclusive).

DIRECTORS' REPORT TO THE SHAREHOLDERS



Dear Shareholders:

It gives me great pleasure to present you the first accounts of Habib Metropolitan Bank Limited (HMB) after its merger, for the financial year ended December 31, 2006.

The operating financial results and appropriations, as recommended by the Board of Directors, are summarized below:

	Rupees in '000
Profit for the year	3,142,798
Provision for taxation – Current	1,040,000
– prior years	33,448
– Deferred	(26,539)
	(1,046,909)
Profit after taxation	2,095,889
Un-appropriated profit brought forward	158,413
	2,254,302
Profit available for appropriation	2,254,302
Transfer to statutory reserve	(419,000)
	1,835,302

Diluted earnings per share after tax is Rs. 9.32

2006 was perhaps one of the most important years of our operations. In view of the rapidly evolving banking sector scenario in Pakistan, it became evident that requisite scale of operations will be of vital importance in the future. Furthermore, as always, we are faced with the challenges of maintaining quality of assets and superior service whilst demonstrating growth.

With this in view, we took the pivotal decision of merging with Habib Bank AG Zurich (HBZ)'s Pakistan Operations.

This decision has far-reaching consequences. It is an endorsement & recognition of Metropolitan Bank's quality while also being a clear demonstration of HBZ's commitment to Pakistan.

The merger has many benefits. Not only did we increase our Bank's size & scale, but also we now have a unique position amongst the financial institutions in Pakistan.

For the merger, we decided to adopt a customer centric focus to ensure that we deliver seamless service throughout the process.

By the grace of Allah, I am delighted to report that the task was conducted in a highly professional manner, drawing appreciation from all stakeholders including our valued customers and the regulator.

Subsequent to the merger, Habib Bank AG Zurich – after securing the required regulatory approvals, conducted a Public Share Tender Offer whereby they acquired majority shareholding in HMB. Habib Metropolitan Bank officially became a subsidiary of Habib Bank AG Zurich in December 2006 and we are now a member of the International HBZ Group.

Today, we are a unique combination of international expertise, local knowledge, traditional values and world-

class technology. Our experienced team is devoted to living a vision of being the most respected banking institution while our principal, Habib Bank AG Zurich, enjoys a solid reputation earned over a 160-years history. HBZ was incorporated (1967) in Switzerland and enjoys world ranking of 687 in terms of Capital. The HBZ Group operates in Hong Kong, Singapore, Pakistan, United Arab Emirates, Kenya, South Africa, Switzerland, United Kingdom and North America.

We outline a few items, which have impact on the financial statements of 2006.

As explained in note 5.1 of the Notes to the Financial Statements, effective 2006, the Bank has changed its accounting policies to recognize appropriations of reserves, 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.

Further, in order to make the financial statements of the Bank compliant with international standard and practices, Forward Exchange Contracts and Foreign Documentary Bills Purchased/Discounted (FDBP) are now revalued at the exchange rates applicable to their respective remaining maturities instead of carrying the same at contracted rates. This change in policy has been applied retrospectively and resulted in increase of Rs. 130 million in income from dealing in foreign currencies. Furthermore, the Bank has changed the practice of revaluation of securities as the difference between the market value of Market Treasury Bills and its cost excluding the accrued income thereon and now revalues Market Treasury Bills after adjusting the related accrued income thereon. This has no impact on the profit for the current or prior years or the value of investments in Market Treasury Bills at balance sheet date.

The Bank's external auditors Messrs. Ford Rhodes Sidat Hyder & Co., Chartered Accountants, concurred with the above changes.

Upon Amalgamation, the Bank realized equivalent Pak Rupees in respect of foreign currency amount deposited with the SBP, Foreign Exchange Department by HBZ Pakistan Operations against its capital in compliance of Section 13(3) of the Banking Companies Ordinance, 1962. This resulted in a gain of Rs. 143 million. This has been accounted for as exchange gain in other income.

This year's Accounts also include consolidated financial statements, as required under IAS 27 – "Consolidated and Separate Financial Statements"; to account for the activities of the Bank's Hong Kong based fully owned subsidiary company "Metropolitan Trade Services Limited".

Pakistan economy has performed well in 2006 and the Country's Sovereign ratings have been upgraded by the International rating agencies. On the backdrop of good economic performance, your Bank has performed well. By Allah's grace, we have achieved a milestones where our deposits crossed the Rupees 100 billion mark. At year-end, our total assets exceeded Rupees 148 billion making HMB amongst the top 10 banks (in terms of total assets) in Pakistan. HMB's pre-tax profit amounted to over Rupees 3 billion. Here, kindly note that all profits of the HBZ Pakistan operations (upto October 25, 2006) were capitalized into reserves and, therefore, this figure reflects only 67 days of (post-merger) combined operations.

At year-end, HMB's equity stands at Rupees 10.7 billion. This comprises entirely of Tier I.

As the Bank qualifies under the minimum capital requirement, your directors have deferred the decision of dividend declaration pending structuring of our new operating strategy — as a subsidiary of HBZ. This is expected to be finalized in the near future.

As at year end, the branch network stands at 82 branches including 4 full service Islamic Banking branches providing a full range of banking services including on-line instant fund transfer facilities, SWIFT, tele-info and web-info services to our customers. This includes 22 branches of Habib Bank AG Zurich Pakistan Operations and 9 branches opened by your bank after the merger on October 26, 2006. The Bank plans to open more branches in 2007 and continues with its program for upgrading existing branches to provide better service.

Your Bank's Consumer financing gained further momentum during the year 2006 with Auto and Personal Loan products offered to customers on a system-based product program. During the year, your Bank also launched new Consumer banking products including a E-Salary Solution for Employers, as well as the HMB Educational Loans and the HMB Auto Leasing. Acknowledging the potential for growth in this sector of our economy, your Bank plans to offer new products in this field by leveraging on its state of the art technology.

Our Islamic Banking branches are fully capable of catering the customers seeking Sha'ria compliant products. Additionally, Islamic Banking counters in various branches are now operational and more are planned.

During the year, the Bank launched highly effective retail products for its worthy customers providing technology-based solutions for their business/banking needs. Among others, these include a highly effective "HMB GSM Banking" product providing individually tailored SMS alerts to customers on transactions in their account. The HMB Basic Banking Account was also introduced during the year with no requirement for maintaining minimum balance, unlimited number of ATM / Deposit transactions and a host of other free services.

Further, your Bank's call centre '0800 HABIB (42242)' was launched on the merger day alongwith a new website 'www.hmb.com.pk'. The Call Centre provides informative services to the Bank's customers on 24/7 basis while the web-banking facility is delivered on a secure, readily available platform.

With the merger in place, your bank now enjoys correspondent relationships with banks of repute in more than 85 countries across the globe with a large number of banks having formal credit lines for HMB.

By the grace of Allah, for the sixth consecutive year, the credit rating of the Bank has been maintained at AA+ (double AA plus) for long term and A1+ (A one plus) for short term by The Pakistan Credit Rating Agency Limited. These ratings denote a very high credit quality, a very low expectation of credit risk and a very strong capacity for timely payment of financial commitments.

During the year seven Board meetings were held and the attendance of the concerned director during his tenure on the Board was as follows:

	2006						
	Jan 25	Mar 4	Apr 17	Apr 29	Aug 26	Oct 11	Dec 25
Mr. Anwar H. Japanwala	✓	✓	✓	✓	–	–	✓
Mr. Kassim Parekh	✓	✓	✓	✓	✓	✓	✓
Mr. Bashir Alimohammed	✓	✓	✓	✓	✓	–	–
Mr. Mohamedali R. Habib	✓	✓	✓	✓	✓	✓	✓
Mr. Firasat Ali	✓	✓	✓	✓	✓	✓	✓
Mr. A. R. Wadiwala	✓	✓	✓	✓	✓	✓	✓
Mr. Salim A. Zubairi	✓	–	✓	✓	–	–	✓
Mr. Zia Shafi Khan	✓	✓	✓	✓	✓	✓	✓

The pattern of shareholdings as on December 31, 2006 is annexed to the report.

No material changes and commitments affecting the financial position of the Bank have occurred between the end of financial year of the Bank and the date of the report.

The present auditors Messrs Ford Rhodes Sidat Hyder & Co., Chartered Accountants will retire at the conclusion of 15th Annual General Meeting and being eligible offer themselves for re-appointment. The Audit Committee has recommended their appointment as auditors for the year 2007.

Statement on Risk Management Framework

Risk Management aspects are embedded in HMB's strategy and organization structure. Our branch network is fully on-line and our main processing system is state of art, secure, with adequate capacity. Separation of duties is also embedded in our system and organization. The Internal Audit Division conducts independent, risk-based review & verification of our branches and major functions throughout the year for evaluation of our control system. Internal reporting/MIS are additional tools for Management in controlling risks.

An independent Risk Management Department, which was initiated in 2004, is staffed with seasoned professionals, working on all aspects of Risk Management. The Bank 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. A cohesive Risk Management function also facilitates effective enterprise wide Risk Management. The Bank's Risk Management Committee oversees the Bank's strategy, efforts and processes related to the Risk Management.

Credit Risk

HMB's strategy is to minimize credit risk through product, geography, industry and customer diversification in line with the strength of our network. The Bank extends trade & working capital financing, to keep the major portion of our funded and non-funded exposure on a short term basis. Major portion of the Bank's credit portfolio is priced on floating basis with KIBOR as a reference base, which minimizes interest rate risk. The risk inherent in credit extension is further mitigated by standard credit granting procedure, which ensures proper pre-sanction evaluation, adequacy of security, pre-examination of charge/control documents and monitoring of each exposure on an ongoing basis.

Market/Liquidity risk

A formalized business strategy, processes to manage market & liquidity risk and action plans are in place. In addition, a separate middle office function was initiated and plan is to make this unit fully functional in 2007. The Bank's Assets Liability Committee reviews these risk exposures on regular intervals under the overall guidance of the Bank's policies.

Stress Testing

Stress testing techniques are used to assess risk exposures across the institution and to estimate the changes in the value of the portfolio, if exposed to various risk factors. Risk factors subject to stress testing are Interest Rate, Credit, Equity Price, Exchange Rate and Liquidity. The Bank has formalized "Stress Test" report based on the guidelines issued by the State Bank of Pakistan. The test stressing result depict a solid and resilience financial position of HMB.

Operational risk

During 2006, we completed the Bank's Operational Risk Management Manual. The Manual takes guidance from Basel-II and Committee of Sponsoring Organization of Tread way Commission (COSO) publications, State Bank guidelines and from standard industry practices.

At the more detailed level, while procedures are generally documented, we have utilized the services of a well-established firm of Chartered Accountants to document revised procedure manuals and implement best practices throughout the Bank. This project is in the completion stages with training already underway on manuals already finalized.

Our Business Continuity Plan (BCP) includes risk management strategies to mitigate inherent risk and prevent interruption of mission critical services caused by disaster event. We are further strengthening our Operational Risk Management infrastructure through the establishment of a separate Operational and Risk Control Unit.

Internal Audit

While broadening risk awareness and assuring regulatory compliance, Internal Audit at HMB is an important, independent pillar of the Bank's Controls Infrastructure, performing continuous reviews to improve the quality of the Bank's Internal Control Environment, ensuring an effective balance in safety and performance of processes and adding value towards the bank's risk mitigation endeavors.

Reporting directly to the Audit Committee, internal audit employs a risk-based, proactive approach to all branches, operational areas and key activities of the bank with a significant emphasis on Corrective Actions and non-repetition of control lapses. These reviews are performed identifying related key risk indicators, system weaknesses and control environment to address the areas of Service Level Effectiveness, Control efficiency and Costs/revenues efficiencies.

Basel II Implementation

The Basel-II implementation has been a major focus area and through extensive planning and data base parameterization, the Bank has developed automated processes/modules to cater to Basel-II capital calculation requirements. Recently the State Bank has published the draft format for the Basel-II capital adequacy report and HMB is completing its initial parallel report as per SBP report format. While a revised road map is being formulated by the Central Bank for the banking industry, HMB is already in a comfortable position to meet the challenge of adopting Basel-II.

Integration

The merger of Metropolitan Bank and HBZ Pakistan Operations was a huge business opportunity and a major business risk management challenge. The Bank dedicated its energy and resources to detailed planning and cohesive management of the merger activity across all business lines and organizations. Alhamdulillah, one consolidated processing system and a unified product offering was achieved from the merger date. Best practices were also adopted across the Bank to benefit from the merger synergies. The smooth merger, with seamless customer services from the merger date, demonstrated the effective team management abilities of HMB.

Statement on Corporate and Financial Reporting Framework

1. The financial statements prepared by the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of accounts have been maintained by the Bank.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure there from, if any, has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Bank's ability to continue as a going concern.
7. There has been no departure from the best practices of the corporate governance, as detailed in the listing regulations.

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

FOR THE YEAR ENDED DECEMBER 31, 2006

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the Code in the following manner:

1. The Bank encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes six independent non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Bank.
3. All the resident directors of the Bank are registered taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI / NBFIs.
4. No casual vacancy occurred in the Board during the year.
5. The Bank has prepared a 'Statement of Ethics and Business Practices', which has been signed by the directors and employees of the Bank.
6. The Board has developed a vision/mission statement and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment of and determination and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and in his absence by a director elected by the Board for this purpose. During the year seven Board meetings were held and written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors of the Bank are well conversant with their duties and responsibilities and have attended the Orientation course organized by the State Bank of Pakistan.
10. The Directors' report for this year has been prepared in compliance with the requirements of the Code and describes the salient matters required to be disclosed.
11. The financial statements of the Bank were duly endorsed by CEO and CFO before approval of the Board.
12. The directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
13. The Bank has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an audit committee. It comprises of three members of whom two are non-executive directors including the Chairman of the committee.

15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
16. An effective internal audit function is already in place.
17. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

On behalf of the Board

Karachi: February 24, 2007

KASSIM PAREKH
President & Chief Executive

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Habib Metropolitan Bank Limited [Formerly Metropolitan Bank Limited] (the Bank) to comply with the Regulation G-1 of the Prudential Regulation for corporate/Commercial Banking issued by the State Bank of Pakistan, Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Stock Exchange as Chapter XI of the Islamabad Stock Exchange where the Bank is listed.

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

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code, effective for the year ended December 31, 2006.

Karachi: February 24, 2007

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

STATEMENT OF INTERNAL CONTROLS

This statement is being issued in compliance with the Guidelines on Internal Controls, issued by the State Bank of Pakistan vide BSD Circular No 7 dated May 27, 2004.

Management Evaluation of Internal Control System

The management of Habib Metropolitan Bank Limited remains responsible for implementing strategies and policies approved by the Board of Directors; maintaining an effective organization structure; instituting appropriate control procedures and monitoring the adequacy/effectiveness of internal control systems. The Board of Directors is ultimately responsible for ensuring that an adequate and effective System of Internal Controls is established and maintained.

The Bank's fundamental policy is to embed control in each of our processes and make controls an important part of all our business activities. Each member of the staff is also responsible for ensuring that bank always operates in a controlled manner and inordinate 'risks' are not taken in any activity.

The bank's organization structure and lines of authority are well-defined and processes throughout the bank are largely governed by policies and procedures approved by the Board. However, their review and updating to meet regulatory requirements and changing practices remains a continued activity to achieve effective control objectives.

Effectiveness of Internal Controls is reviewed on a regular basis by Internal Audit submitting reports to Audit Committee. Views expressed by External Auditors are also provided utmost importance and corrective actions on all audit observations are followed-up rigorously.

The bank plans on undertaking a detailed exercise through a well-established firm of chartered accountants for the documentation and benchmarking of existing processes and controls including financial reporting related controls on internationally accepted standards. Any gaps arising from such exercise shall be identified and implemented during the year 2007 employing a risk-based, proactive approach across the network. Your management does not expect any material deviations/gaps arising out of the above exercise.

While concerted efforts were made to follow SBP Guidelines on Internal Controls, the identification, evaluation and management of risks within each of the bank's activities; and evaluation and change of procedures remains an ongoing process. On an overall basis, Internal Controls at Habib Metropolitan Bank Limited were operating with reasonable adequacy throughout the year ended December 31, 2006 and reflect improvement from last year in organization structure; effective adherence with lines of authority; automation, effectiveness of processes and regulatory compliance. Further, the Bank did not incur any material losses arising from operational risk exposures. The bank's accounting policies, practices and methodologies for various estimates have been reviewed by external auditors and there have been no material disputes thereon.

Internal Controls always manage rather than eliminate possibility of process failures to achieve their objectives and hence, can only provide reasonable assurance against material misstatements or loss.

Board of Directors' Remarks on the Management's evaluation of Internal Controls

Keeping in view the feedback received by Board of Directors from the Audit Committee; reports submitted as to the Business policies and major risks related decision taken by the management, the Board of Directors endorse Management's evaluation of Internal Controls.

On behalf of the Board

KASSIM PAREKH
President & Chief Executive

Karachi: February 24, 2007

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **HABIB METROPOLITAN BANK LIMITED** [Formerly Metropolitan Bank Limited] (the Bank) as at **December 31, 2006** and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the "financial statements") for the year then ended, in which are incorporated the unaudited certified returns from the branches except for eleven branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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 and, after due verification which in the case of loans and advances covered more than sixty percent of the total loans and advances of the Bank, we report that:

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion :
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes stated in note 5.1 with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2006 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Karachi: February 24, 2007

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

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	39,555,569	22,803,943
Advances	10	83,324,059	43,518,716
Operating fixed assets	11	649,122	418,922
Deferred tax assets		—	—
Other assets	12	2,047,809	1,090,474
		148,668,395	79,563,737
LIABILITIES			
Bills payable	13	1,619,796	1,046,050
Borrowings	14	29,518,458	14,429,178
Deposits and other accounts	15	102,492,712	56,712,945
Sub-ordinated loans		—	—
Liabilities against assets subject to finance lease		—	—
Deferred tax liabilities	16	176,803	408,470
Other liabilities	17	3,992,514	1,372,941
		137,800,283	73,969,584
NET ASSETS		10,868,112	5,594,153
REPRESENTED BY			
Share capital	18	3,005,000	1,560,000
Reserves		5,824,936	2,254,951
Unappropriated profit		1,835,302	1,278,413
		10,665,238	5,093,364
Surplus on revaluation of assets - net of tax	19	202,874	500,789
		10,868,112	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

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		580,825	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 sale of securities		-	-
Other income	25	234,936	67,089
Total non mark-up / interest income		1,728,631	993,363
		4,492,896	3,075,430
Non mark-up / interest expenses			
Administrative expenses	26	1,348,921	970,599
Other provisions / write offs		-	-
Other charges	27	1,177	6,505
Total non mark-up / interest expenses		(1,350,098)	(977,104)
		3,142,798	2,098,326
Extraordinary / unusual items		-	-
Profit before taxation		3,142,798	2,098,326
Taxation - Current		1,040,000	647,000
- Prior years		33,448	(140,700)
- Deferred		(26,539)	86,121
	28	(1,046,909)	(592,421)
Profit after taxation		2,095,889	1,505,905
Unappropriated profit brought forward		1,278,413	725,508
Profit available for appropriation		3,374,302	2,231,413
Basic earnings per share - (Rupees)	29	9.32	7.24
Diluted earnings per share - (Rupees)	29	9.32	7.24

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

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		3,142,798	2,098,326
Less: Dividend income		(41,524)	(33,231)
		3,101,274	2,065,095
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)
		153,759	87,128
		3,255,033	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)		(957,335)	(548,430)
		(41,048,286)	(5,293,715)
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	8,117,380
Other liabilities (excluding current taxation)		1,984,001	292,933
		63,430,869	10,292,026
		25,637,616	7,150,534
Income tax paid		(437,865)	(404,714)
Net cash flow from operating activities		25,199,751	6,745,820
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(19,032,099)	(6,409,765)
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)	(7,551,562)
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	17,306,630	5,926,929

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

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	–	–	–	–	–	–	2,095,889	2,095,889
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	–	1,835,302	10,665,238

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 ACCOUNTS

FOR THE YEAR ENDED DECEMBER 31, 2006

1. STATUS AND NATURE OF BUSINESS

- 1.1** 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 1.3 and 1.4 below, the profit and loss account for the current year includes the result of the combined entity with effect from October 26, 2006 and the balance sheet figures of 2006 includes assets and liabilities of the combined entity.

- 1.2** During the year the Bank 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.
- 1.3** During the year, the shareholders of the Bank in their extra-ordinary general meeting held on July 13, 2006 approved a "Scheme of Amalgamation" (the Scheme) of HBZ with and into the Bank. 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 Bank;
 - b) in consideration for the amalgamation under the Scheme, the Bank 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 Bank and authorized to transact banking business.

- 1.4** 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

- 1.5** 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 Bank 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 Bank 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 Bank 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 Bank, effective for financial periods beginning on or after January 1, 2006. The standard has not been adopted by the Bank 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

These 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 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 Bank 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 Bank also maintains general provision in line with the Bank'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 Bank 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 Bank 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 Bank 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 Bank evaluates its intention and ability to hold such investments to maturity.

iv. Income taxes

In making the estimates for income taxes payable by the Bank, 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 Bank 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 Bank'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 Bank'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 Bank 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 Bank 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 a subsidiary and an associate is stated at cost. Provision is made for any impairment in value.

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 Bank 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 Bank also maintains general provision in line with the Bank'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 Bank. 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 Bank 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 Bank operates a recognised provident fund scheme for all its regular employees, which is administered by the Board of Trustees. Contribution is made, by the Bank 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
		<u>11,348,162</u>	<u>5,150,860</u>

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
		<u>6,296,564</u>	<u>1,118,240</u>

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.

8. LENDINGS TO FINANCIAL INSTITUTIONS	Note	2006	2005
		Rupees in '000	
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	—
		5,447,110	5,462,582

8.1 Particulars of Lendings

In local currency	5,447,110	5,462,582
In foreign currencies	—	—
	5,447,110	5,462,582

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
		2,031,833	—	2,031,833	4,362,582	—	4,362,582

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

9.1 Investments by types

Available-for-sale securities

	2006			2005		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
	Rupees in '000					
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
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Subsidiary

Metropolitan Trade Services Limited						
Ordinary shares of HKD 1 each	79	–	79	79	–	79

Investments at cost

Less: Provision for diminution in value of investments	–	–	–	–	–	–
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Investments - net of provisions

Surplus on revaluation of available-for-sale investments	19,120,679	182,355	303,034	639,365	161,192	800,557
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Total Investments at market value

	<u>28,768,449</u>	<u>10,787,120</u>	<u>39,555,569</u>	<u>17,980,991</u>	<u>4,822,952</u>	<u>22,803,943</u>
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	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	86,440	80,759
		190,888	232,837
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		39,252,535	22,003,386
Less: Provision for diminution in investments		-	-
Investments - net of provisions		39,252,535	22,003,386
Surplus on revaluation of investments		303,034	800,557
Total Investments at market value		39,555,569	22,803,943

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	125,000	–	14,575	–	Unrated	Unrated
Pakistan State Oil Company Limited	23,000	–	7,499	–	AAA	AAA
Soneri Bank Limited	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						
Metropolitan Trade Services Limited – wholly owned subsidiary	10,000	10,000	79	79	Unrated	Unrated
Ordinary share of HKD 1 each Chief Executive - Mr. Kasim Parekh Break-up value per share HKD 2.286 based on the unaudited accounts for the year ended December 31, 2006						
			86,440	80,759		

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-
					1,044,542	549,979		
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+	AA+
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
					829,597	775,522		

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 Bank 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 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 bank 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 bank 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

	Note	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				Book value at December 31, 2006	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		
	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			Book value at December 31, 2005	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		
	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
Rupees in '000					
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		33,514	5,601
		2,150,829	1,105,053
Less: Provision held against other assets	12.2	(103,020)	(14,579)
Other assets net of provision		2,047,809	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 Bank and export documents by granting the right to recover the outstanding amount from the Bank at the date of maturity of finance by directly debiting the current account maintained by the Bank 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	23,492,021	17,574,847
Margin and other accounts	868,231	573,191
	94,590,818	52,081,713
Financial Institutions		
Remunerative deposits	7,803,210	4,546,008
Non-remunerative deposits	98,684	85,224
	7,901,894	4,631,232
	102,492,712	56,712,945
15.1 Particulars of deposits		
In local currency	91,533,072	53,433,025
In foreign currencies	10,959,640	3,279,920
	102,492,712	56,712,945
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	9,339	5,753
	3,992,514	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 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	500,789

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
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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
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ii) Banking companies and other financial institutions

173,654	1,523
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iii) Others

1,517,038	916,099
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7,682,039	3,212,110
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20.3 Trade-related contingent liabilities

Letter of credits

23,867,267	14,965,681
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Acceptances

10,455,474	8,464,254
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20.4 Commitments in respect of forward lending

Forward repurchase agreement lending

688,200	-
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	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 bank'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.

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 Bank 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>
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21. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank does not offer structured derivatives. However, the Bank'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 Bank'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 Bank'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 bank's credit/risk assessment framework. The Bank 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 Bank's inflow/outflow position.

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

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		126,935	77,296
		1,348,921	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
	5,044	518

27. OTHER CHARGES

Penalties imposed by the State Bank of Pakistan	1,177	6,505
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28. TAXATION	Note	2006 Rupees in '000	2005 (Restated)
For the year			
- Current	28.2	1,040,000	647,000
- Deferred		(26,539)	86,121
		1,013,461	733,121
For prior year			
- Current		33,448	(140,700)
- Deferred		-	-
		33,448	(140,700)
		1,046,909	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 Bank 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	3,142,798	2,098,326
Tax at the applicable rate of 35% (2005: 38%)	1,099,979	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)
	1,040,000	647,000

29. BASIC AND DILUTED EARNINGS PER SHARE

29.1 Basic earnings per share

Profit after taxation	2,095,889	1,505,905
	Number of shares in thousands	
Weighted average number of ordinary shares in issue	225,000	208,000
Basic earnings per share - Rupees	9.32	7.24

29.2 Diluted earnings per share

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

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 Bank's defined benefit plan based on Projected Unit Credit Actuarial Cost Method was carried out at December 31, 2006.

	2006	2005
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>

32.1 Reconciliation of (refundable) from / payable to defined benefit plan

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	5,445,259
Total expenses	928,306	2,026,500	2,920,150
Net income	2,433,976	(1,816,287)	2,525,109
Segment assets (gross)	46,577,934	865,794	101,529,242
Segment non performing loans	–	15,806	427,442
Segment provision required	–	2,439	302,136
Segment liabilities	10,564,288	48,135,888	89,968,219
Segment return on net assets (ROA) (%)	7.22%	4.86%	5.36%
Segment cost of funds (%)	5.47%	4.21%	3.39%
2005			
Total income	1,918,323	25,853	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	49,920,338
Segment non performing loans	–	869	87,855
Segment provision required	–	869	77,459
Segment liabilities	5,926,449	31,174,574	42,462,714
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 Bank 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, a subsidiary and 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:

<u>Balance outstanding at year end</u>	2006	2005
	Rupees in '000	
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	-

Transactions for the year

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	1,835,302	1,278,413
Total Tier I Capital	<u>10,665,238</u>	<u>5,093,364</u>
<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	<u>513,460</u>	<u>442,180</u>
<i>Eligible Tier III Capital</i>	–	–
Total Regulatory Capital (a)	<u>11,178,698</u>	<u>5,535,544</u>

Risk Weighted Exposures

	2006		2005	
	Rupees in '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	41,587,452	8,919,938	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	891,994	601,829	622,017	217,510
	<u>143,718,904</u>	<u>74,758,919</u>	<u>77,887,866</u>	<u>39,329,503</u>
Off Balance Sheet Items:				
Loan repayment guarantees	14,969	14,969	18,137	18,137
Performance bonds etc.	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	10,848,398
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
	<u>71,976,394</u>	<u>19,352,855</u>	<u>41,608,290</u>	<u>12,200,193</u>
Credit risk-weighted exposures	<u>215,695,215</u>	<u>94,111,774</u>	<u>119,496,158</u>	<u>51,529,696</u>
Market Risk				
General market risk		7,274		3,214
Specific market risk		–		–
Market risk weighted exposures		<u>7,274</u>		<u>3,214</u>
Total risk-weighted exposures (b)		<u>94,119,048</u>		<u>51,532,910</u>
Capital Adequacy Ratio [(a) / (b) x 100]		<u>11.88%</u>		<u>10.74%</u>

40. RISK MANAGEMENT

Risk Management aspects are embedded in the Bank's strategy, organization structure and processes. The Bank 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 bank. 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 Bank'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 Bank.

The Bank'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 Bank, 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 Bank credit portfolio is priced on flexible basis with pricing reviewed on periodic basis.

The Bank's credit policy defines the credit extension criteria, the credit approval and monitoring process, the loan classification system and provisioning policy. The Bank 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 Bank'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	34,995,747	34.15	23,328,399	53.90
	<u>84,142,094</u>	<u>100.00</u>	<u>102,492,712</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	6.17
Private	84,142,094	100.00	88,623,149	86.47	39,901,136	93.83
	<u>84,142,094</u>	<u>100.00</u>	<u>102,492,712</u>	<u>100.00</u>	<u>42,524,610</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>3,142,798</u>	<u>148,668,395</u>	<u>10,868,112</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 Bank's Strategy for Market Risk Exposures. The Asset and Liability Committee (ALCO), which comprises of senior management, oversees the Balance Sheet of the Bank and performs oversight function to ensure sound asset quality, liquidity and pricing. The investment policy, amongst other aspects, covers the Bank asset allocation guidelines inclusive of equity investments.

While market risk limits are in place and are monitored effectively, the Bank 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 Bank, 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 Bank's business model for FX is to serve trading activities of its clients in an efficient and cost effective manner. The Bank is not in the business of actively trading and market making activities. A conservative risk approach and the Bank'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	130,594,869	137,382,208	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	(9,115,933)	(2,328,594)
	148,668,395	148,668,395	-	-

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 Bank'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 Bank's Investment Strategy which aims on attaining a balance between yield and liquidity under the strategic guidance of the Bank's Investment Policy/ALCO.

The advances and deposits of the Bank 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	
		Total	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													
Assets													
Cash and balances with treasury banks	4.35%	11,348,162	1,644,570	-	-	-	-	-	-	-	-	-	9,703,592
Balances with other banks	3.25% to 8.50%	6,296,546	4,665,001	-	-	-	-	-	-	-	-	-	1,631,553
Lendings to financial institutions	9.00% to 11.80%	5,447,110	2,582,510	200,000	-	-	-	-	-	-	-	-	-
Investments	8.45 to 15.00%	39,555,569	4,533,806	6,045,692	15,140,757	1,004,752	444,083	5,660,791	1,923,334	3,760,897	-	3,760,897	
Advances	6.50% to 23.00%	83,324,059	1,374,307	34,972,950	519,997	9,745,002	3,137,047	2,982,202	606,189	23,880	-	304,575	
Other assets		2,047,809	-	-	-	-	-	-	-	-	-	-	2,047,809
		148,019,273	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	17,448,426	
Liabilities													
Bills payable		1,619,796	-	-	-	-	-	-	-	-	-	-	1,619,796
Borrowings	6.50% to 9.00%	29,518,458	3,747,208	17,896,242	6,577,168	506,366	7,325	321,922	124,130	-	-	338,097	
Deposits and other accounts	2.25% to 10.80%	102,492,712	5,440,014	26,999,855	24,108,116	12,006,653	1,444,399	1,724,161	1,980,230	2,165,174	2,165,174	24,458,936	
Other liabilities		3,300,961	-	-	-	-	-	-	-	-	-	-	3,300,961
		136,931,927	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	29,717,790	
On-balance sheet financial instruments		11,087,346	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)	(12,269,364)	
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)	(12,269,364)		
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	11,775,546		

40.3 Liquidity risk

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

The Bank's liquidity model is based on "self-reliance" with an extensive branch network to diversify the Bank deposit base. The Bank's liquidity profile generally comprises of short-term, secured assets, in line with the Bank credit strategy. Long term Investments and loans are generally kept at an amount lower than the Bank 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	39,555,569	1,016,684	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	2,047,809	1,762,513	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	-	-
	148,668,395	24,467,049	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	102,492,712	8,382,819	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	3,992,514	829,144	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	-
	137,800,283	14,918,052	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	10,868,112	9,548,997	(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	1,835,302									
Surplus on revaluation of assets	202,874									
	10,868,112									

40.4 Operational risk

The Bank 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 Bank's strategy is to further strengthen the risk management system along new industry standards.

The Bank'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 Bank is an important pillar of the Bank's risk management and controls infrastructure, performing continuous reviews to improve the quality of the Bank's internal control environment, ensuring an effective balance in safety and performance of processes and adding value towards the bank's risk mitigation endeavors.

The Bank'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 Bank'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	<u>33,313</u>	<u>8,152</u>
	434,836	58,152
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 Bank.

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 Bank's financial statements or are not relevant to the Bank:

- 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

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

Annexure - 1

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's/Husband's name	Outstanding Liabilities at beginning of the year				Principal written-off	Interest/ Mark-up written-off	other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
1.	Knit Knot (Private) Limited 23 - K, Gulberg III, Lahore	Mr. Hafeez Ullah Khan Niazi 239-88-071741 Mrs. Noreen Niazi 239-91-460046 Mr. Adnan Majeed Khan 210-59-387069 Ghulam Akbar Khan Niazi 239-85-054706 Usman Mehmood 270-52-343568	s/o Zafarullah Khan Niazi w/o Hafeez Ullah Khan Niazi s/o Kazi Iftikhar Majeed s/o Haji Muzaffar Khan s/o Muhammad Siddiqui	6,584	2,107	-	8,691	3,484	2,107	-	5,591
Total				6,584	2,107	-	8,691	3,484	2,107	-	5,591

PATTERN OF SHAREHOLDINGS CDC AND PHYSICAL
AS ON DECEMBER 31, 2006

Number of Shareholders	Size of Shareholding Rs. 10 each			Total Shares held
192	1	-	100	8,571
390	101	-	500	122,563
320	501	-	1,000	247,970
931	1,001	-	5,000	2,688,142
161	5,001	-	10,000	1,142,119
93	10,001	-	15,000	1,156,577
41	15,001	-	20,000	726,079
28	20,001	-	25,000	631,606
19	25,001	-	30,000	519,031
17	30,001	-	35,000	555,730
8	35,001	-	40,000	301,277
5	40,001	-	45,000	212,151
8	45,001	-	50,000	384,986
6	50,001	-	55,000	315,452
5	55,001	-	60,000	285,565
3	60,001	-	65,000	189,253
5	65,001	-	70,000	338,572
3	70,001	-	75,000	219,125
4	75,001	-	80,000	315,850
1	80,001	-	85,000	84,760
1	85,001	-	90,000	88,886
1	95,001	-	100,000	96,178
11	100,001	-	105,000	1,127,328
2	105,001	-	110,000	211,669
1	115,001	-	120,000	117,099
2	120,001	-	125,000	245,500
1	130,001	-	135,000	131,048
4	135,001	-	140,000	554,475
1	140,001	-	145,000	144,173
2	145,001	-	150,000	294,484
1	150,001	-	155,000	153,333
1	165,001	-	170,000	169,862
4	170,001	-	175,000	694,681
1	175,001	-	180,000	176,800
2	180,001	-	185,000	366,253
1	185,001	-	190,000	190,000
1	195,001	-	200,000	199,466
2	200,001	-	205,000	406,725
3	205,001	-	210,000	624,000
5	215,001	-	220,000	1,082,918
5	230,001	-	235,000	1,154,400
1	235,001	-	240,000	239,200
2	240,001	-	245,000	485,324
1	245,001	-	250,000	247,520
1	260,001	-	265,000	260,502
1	275,001	-	280,000	277,325
5	295,001	-	300,000	1,485,106
2	300,001	-	305,000	604,179
1	340,001	-	345,000	344,500
5	345,001	-	350,000	1,733,305

Number of Shareholders	Size of Shareholding Rs. 10 each		Total Shares held
1	350,001	- 355,000	352,833
2	370,001	- 375,000	743,232
1	380,001	- 385,000	383,398
2	415,001	- 420,000	832,000
2	430,001	- 435,000	866,656
2	445,001	- 450,000	891,610
2	460,001	- 465,000	925,587
1	475,001	- 480,000	477,616
1	480,001	- 485,000	482,552
1	540,001	- 545,000	544,766
2	550,001	- 555,000	1,109,303
1	570,001	- 575,000	573,600
3	590,001	- 595,000	1,783,245
4	690,001	- 695,000	2,773,300
2	775,001	- 780,000	1,560,000
1	1,385,001	- 1,390,000	1,386,662
1	1,495,001	- 1,500,000	1,500,000
1	1,565,001	- 1,570,000	1,567,417
1	1,625,001	- 1,630,000	1,628,295
3	1,670,001	- 1,675,000	5,020,492
1	1,865,001	- 1,870,000	1,865,720
1	2,080,001	- 2,085,000	2,083,462
1	2,555,001	- 2,560,000	2,557,570
1	3,170,001	- 3,175,000	3,171,290
1	3,205,001	- 3,210,000	3,205,200
1	3,950,001	- 3,955,000	3,953,556
1	5,545,001	- 5,550,000	5,546,662
1	6,725,001	- 6,730,000	6,729,044
1	6,930,001	- 6,935,000	6,933,325
1	6,990,001	- 6,995,000	6,992,978
1	13,595,001	- 13,600,000	13,595,654
1	40,855,001	- 40,860,000	40,856,357
1	153,250,001	- 153,255,000	153,255,000
<u>2,358</u>			<u>300,500,000</u>

COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS

AS ON DECEMBER 31, 2006

Category No.	Categories of Share holders	Number of Shares held	Category wise No. of Share holders	Category wise Shares held	(%)
1	Individuals		2,200	42,644,650	14.19
2	Investment Companies		8	743,656	0.25
3	Joint Stock Companies		54	8,430,835	2.81
4	Directors, Chief Executive Officer and their spouse and minor children		10	9,753,056	3.25
	Mr. Anwar H. Japanwala	1,386,662			
	Mr. Kassim Parekh	693,325			
	Mr. Bashir Ali Mohammad	5,546,662			
	Mr. Mohamedali R. Habib	462,445			
	Mrs. Syeda Mohamedali R. Habib	230,880			
	Mr. Firasat Ali – Nominee NIT	–			
	Mr. A.R Wadiwala	693,325			
	Mr. Saleem A. Zubairi	707,175			
	Mr. Zia Shafi Khan	32,582			
5	Executives		27	1,206,228	0.40
6	NIT / ICP			40,861,803	13.60
	National Bank of Pakistan, Trustee Deptt.	40,861,557	2		
	Investment Corporation of Pakistan	246	1		
7	Associated Companies, undertakings and related parties		4	153,795,224	51.18
	Habib Bank AG Zurich, Zurich Switzerland	153,255,000			
	Habib Insurance Company Limited	477,616			
	Trustees Thal Ltd. Emp. Ret Benefit Fund	13,000			
	Trustees Thal Ltd. Emp. Provident Fund	49,608			
8	Public Sector Companies and Corporations		–	–	–
9	Banks, DFIs, NBFIs, Insurance companies, Modarabas & Mutual Funds		21	12,630,038	4.20
10	Foreign Investors		17	27,977,933	9.31
11	Co-operative Societies		1	2,083,462	0.69
12	Charitable Trusts		5	177,653	0.06
13	Others		8	195,462	0.06
	Total		2,358	300,500,000	100.00

Share-Holders Holding Ten percent or more voting interest in the listed company

Total Paid-up Capital of the company 300,500,000 shares
 10% of the paid-up capital of the Company 30,050,000 shares

Name(s) of Share Holder(s)	Description	No. of Shares held	Percentage (%)
Habib Bank AG Zurich, Zurich Switzerland	Falls in Category #7	153,255,000	51.00
National Bank of Pakistan, Trustee Department	Falls in Category #6	40,861,557	13.60