



Habib Metropolitan Bank Ltd.

(Subsidiary of Habib Bank AG Zurich)

CONSOLIDATED ACCOUNTS

AUDITORS' REPORT TO THE MEMBERS

We have audited the accompanying consolidated financial statements of **HABIB METROPOLITAN BANK LIMITED** [Formerly Metropolitan Bank Limited] (the Bank) and its subsidiary company Metro Trade Services Limited – Hong Kong (together, the Group) which comprises the consolidated balance sheet as of December 31, 2006 and the consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. These financial statements include unaudited certified returns from the branches except for eleven branches which have been audited by us. We have also expressed separate opinion on the financial statements of Habib Metropolitan Bank Limited [Formerly Metropolitan Bank Limited].

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

These financial statements are the responsibility of management of the Group. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

Karachi: February 24, 2007

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2006

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

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

ANWAR H. JAPANWALA
Chairman

KASSIM PAREKH
President & Chief Executive

FIRASAT ALI
Director

ZIA SHAFI KHAN
Director

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

	Note	2006	2005
		Rupees in '000	
			(Restated)
Mark-up / Return / Interest earned	22	7,289,123	4,358,556
Mark-up / Return / Interest expensed	23	(4,416,477)	(2,224,648)
Net Mark-up / Interest Income		2,872,646	2,133,908
Provision against non-performing loans and advances	10.4	108,092	51,088
Provision for diminution in the value of investments		—	—
Bad debts written off directly		289	753
		(108,381)	(51,841)
Net Mark-up / interest income after provisions		2,764,265	2,082,067
Non mark-up / interest income			
Fee, commission and brokerage income		583,427	423,428
Dividend income		41,524	33,231
Income from dealing in foreign currencies		673,263	397,201
Gain on sale of securities	24	198,083	72,414
Unrealized gain/(loss) on revaluation of investment classified as held for trading		—	—
Other income	25	234,936	67,089
Total non mark-up / interest income		1,731,233	993,363
		4,495,498	3,075,430
Non mark-up / interest expenses			
Administrative expenses	26	1,349,930	970,599
Other provisions / write offs		—	—
Other charges	27	1,177	6,505
Total non mark-up / interest expenses		(1,351,107)	(977,104)
		3,144,391	2,098,326
Extraordinary / unusual items		—	—
Profit before taxation		3,144,391	2,098,326
Taxation - Current		1,040,279	647,000
Taxation - Prior years		33,448	(140,700)
Taxation - Deferred		(26,539)	86,121
	28	(1,047,188)	(592,421)
Profit after taxation		2,097,203	1,505,905
Unappropriated profit brought forward		1,278,413	725,508
Profit available for appropriation		3,375,616	2,231,413
Basic earnings per share	(Rupees) 29	9.32	7.24
Diluted earnings per share	(Rupees) 29	9.32	7.24

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KASSIM PAREKH
President & Chief Executive

FIRASAT ALI
Director

ZIA SHAFI KHAN
Director

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 Rupees in '000	2005 (Restated)
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		3,144,391	2,098,326
Less: Dividend income		(41,524)	(33,231)
		3,102,867	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
		3,256,626	2,152,223
(Increase) / decrease in operating assets			
Lendings to financial institutions		15,472	(1,330,348)
Advances		(40,106,423)	(3,414,937)
Other assets (excluding advance taxation)		(959,082)	(548,430)
		(41,050,033)	(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	8,117,301
Other liabilities (excluding current taxation)		1,984,434	292,933
		63,431,302	10,291,947
		25,637,895	7,150,455
Income tax paid		(438,144)	(404,714)
Net cash flow from operating activities		25,199,751	6,745,741
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(19,032,099)	(6,409,686)
Net proceeds from / (investments in) held-to-maturity securities		1,788,078	(1,089,741)
Dividend income		41,524	33,231
Investments in operating fixed assets		(99,729)	(90,193)
Sale proceeds of operating fixed assets - disposed off		6,200	4,906
Net cash flow from investing activities		(17,296,026)	(7,551,483)
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of share capital		3,475,985	—
Dividend paid		(9)	(2)
Net cash flow from financing activities		3,475,976	(2)
Increase / (decrease) in cash and cash equivalents		11,379,701	(805,744)
Cash and cash equivalents at beginning of the year		5,926,929	6,732,673
Cash and cash equivalents at end of the year	30	17,306,630	5,926,929

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

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Chairman

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President & Chief Executive

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Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

ANWAR H. JAPANWALA
Chairman

KASSIM PAREKH
President & Chief Executive

FIRASAT ALI
Director

ZIA SHAFI KHAN
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

1. STATUS AND NATURE OF BUSINESS

1.1 The Group comprises of:

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

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

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

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

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

1.2 Basis of consolidation

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

1.3 During the year the Group has increased its authorised share capital from Rs. 2,000 million (200,000,000 ordinary shares of Rs. 10/- each) to Rs. 6,000 million (600,000,000 ordinary shares of Rs. 10/- each) as approved by the shareholders in their general meeting held on March 31, 2006.

1.4 During the year, the shareholders of the Group in their extra-ordinary general meeting held on July 13, 2006 approved a "Scheme of Amalgamation" (the Scheme) of HBZ with and into the Group. The Scheme was also sanctioned by the State Bank of Pakistan (SBP) under section 48 of the Banking Companies Ordinance, 1962 vide its order dated September 29, 2006. The effective date of amalgamation was October 26, 2006 as approved by the SBP. Accordingly,

- a) the entire undertaking of HBZ including all the property, assets and liabilities and all the rights and obligations of HBZ as on the effective date were to stand amalgamated with and into the Group;
- b) in consideration for the amalgamation under the Scheme, the Group has issued 92,500,000 Ordinary shares of Rs.10/- each to HBZ at a price determined by dividing the net asset value of HBZ as at a day prior to the effective date based on HBZ audited Amalgamation Accounts as required by the Scheme; and

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

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

Rs. in '000'

ASSETS

Cash and balances with treasury banks	6,266,703
Balances with other banks	3,823,776
Investments	5,116,841
Advances – net	28,899,981
Others assets	818,149
Operating fixed assets	182,338
Deferred tax assets	5,128
	45,112,916

LIABILITIES

Bills payable	672,532
Borrowing from financial institutions	6,313,055
Deposits and other accounts	32,931,714
Other liabilities	1,719,630
	41,636,931

NET ASSETS

3,475,985

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

2. BASIS OF PRESENTATION

- 2.1 In accordance with the directives of the Federal Government regarding shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by the Group from their customers and immediate resale to them at appropriate mark-up in price on a deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.
- 2.2 The financial results of the Islamic Banking branches have been consolidated in these financial statements for reporting purposes, after eliminating inter-branch transactions / balances. Key financial figures of the Islamic Banking branches are disclosed in note 40 to these financial statements.
- 2.3 These financial statements are separate financial statements of the Group in which investment in a subsidiary is accounted for on the basis of direct equity investment rather than on the basis of reported result and net assets of the investee company. From this year, the Group is issuing consolidated financial statements in which the investment in its subsidiary, Metropolitan Trade Services Limited is being accounted for on the basis of reported results and net asset of the subsidiary.

3. STATEMENT OF COMPLIANCE

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

4. BASIS OF MEASUREMENT

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

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

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

i. Provision against non-performing loans and advances

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

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

ii. Impairment of available-for-sale equity investments

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

iii. Held to maturity investments

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

iv. Income taxes

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

v. Retirement benefits

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Change in accounting policies

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

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

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

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

5.2 Cash and cash equivalents

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

5.3 Investments

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

Held for trading

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

Held to maturity

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

Available for sale

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

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

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

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

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

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

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

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

5.4 Lendings to / borrowings from financial institutions

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

Sale under repurchase obligation

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

Purchase under resale obligation

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

Other borrowings

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

5.5 Advances including net investment in finance lease

Loans and advances

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

Finance lease receivables

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

5.6 Operating fixed assets and depreciation

Tangible

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

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

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

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

Intangible

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

5.7 Impairment of non-financial assets

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

5.8 Staff retirement and other benefits

Defined benefit plan

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

Defined contribution plan

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

Employees' compensated absences

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

5.9 Taxation

Current

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

Deferred

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

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

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

5.10 Provisions

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

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

5.11 Revenue Recognition

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

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

5.12 Transactions with related parties

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

5.13 Foreign currencies

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

Exchange gains or losses are included in income currently.

5.14 Financial Instruments

5.14.1 Financial assets and financial liabilities

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

5.14.2 Derivatives

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

5.15 Off Setting

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

5.16 Dividend and appropriations

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

5.17 Trade date accounting

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

	Note	2006 Rupees in '000	2005
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
- local currency		1,289,737	852,373
- foreign currencies		264,890	95,568
National Prize Bonds		5,336	5,183
With State Bank of Pakistan in	6.1		
- local currency current account		7,493,738	3,522,635
- foreign currency current account		67,364	10,488
- foreign currency deposit account - special cash reserve	6.2	1,644,570	441,361
- cash reserve account		548,190	147,120
With National Bank of Pakistan in local currency current account		34,337	76,132
		11,348,162	5,150,860
6.1	These balances are maintained to comply with the requirements of the State Bank of Pakistan issued from time to time.		
6.2	This represents funds placed with State Bank of Pakistan pursuant to the requirements of BSD Circular No. 18 dated March 31, 2001 and carry mark up rate of 4.35% (2005:3.29%) per annum.		

	Note	2006 Rupees in '000	2005
7. BALANCES WITH OTHER BANKS			
In Pakistan			
- Current accounts		273,586	204,780
- Deposit accounts	7.1	964,672	6,500
Outside Pakistan			
- Current accounts	7.2	1,357,967	531,669
- Deposit accounts	7.1	3,700,339	375,291
		6,296,564	1,118,240
7.1	Includes overnight placement of Rs.951,780 thousand (2005: Rs. Nil) with Islamic Banks and carries profit rates ranging from 3.25% to 8.5% (2005: 2.31% to 4.45%) per annum.		
7.2	Includes balance of Rs.2,130,858 thousand held with branches of Habib Bank A.G Zurich outside Pakistan.		

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

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

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

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

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

	2006	2005	2006	2005	2006	2005
	No. of Shares*		Rupees in '000		Rating	
9.2.3 Fully paid-up ordinary shares / certificates – listed						
Guardian Modaraba	–	227,250	–	2,986	–	Unrated
Fauji Fertilizer Company Limited	60,461	49,100	6,001	6,001	Unrated	Unrated
Pakistan Oil Field Limited	55,000	20,000	18,616	6,290	Unrated	Unrated
Pakistan Telecommunication Corporation Limited	100,000	–	4,168	–	Unrated	Unrated
Union Bank Limited	–	1,574,000	–	100,028	AA+	AA+
Hub Power Company Limited	500,000	1,110,000	16,565	36,773	Unrated	Unrated
Lucky Cement Limited	10,000	–	790	–	Unrated	Unrated
Nishat Textile Mills Limited	71,500	–	7,622	–	A+	A+
Allied Bank Limited	39,500	–	3,680	–	A+	A+
Bank Al-Habib Limited	60,000	–	3,646	–	AA	AA
D.G. Khan Cement Limited	11,000	–	925	–	Unrated	Unrated
Pakistan Petroleum Limited	35,000	–	8,039	–	Unrated	Unrated
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						
			86,361	80,680		

9.2.5 Fully paid-up preference shares - listed

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

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

9.2.6 Fully paid-up preference shares - unlisted

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

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

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

9.2.11 Mutual Funds

Close end Mutual Funds

	2006 No. of Units	2005	2006 Rupees '000	2005	2006 Rating	2005
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

Alfaluh GHP Value Fund	626,841	200,000	35,000	10,000	Unrated	Unrated
AMZ Plus Income Fund	2,312,156	–	240,000	–	A(f)	–
Askari Income Fund	1,444,627	–	150,000	–	Unrated	–
Atlas Income Fund	–	202,508	–	100,236	–	N/A
Crosby Dragon Fund	402,644	206,181	39,741	21,109	3-Star	N/A
Dawood Money Market Fund	1,465,008	2,072,796	154,228	208,169	5-Star	N/A
Faysal Income & Growth Fund	527,475	500,000	50,000	50,000	A+(f)	Unrated
KASB Liquid Fund	738,069	–	75,000	–	Unrated	Unrated
Meezan Islamic Income Fund	500,000	–	25,000	–	Unrated	–
Metro Bank Pakistan Sovereign Fund (MSF) Perpetual	16,148,447	9,964,600	751,907	501,905	Unrated	Unrated
Metro Bank Pakistan Sovereign Fund (MSF 12/07)	10,552,916	–	549,490	–	4-Star	Unrated
NAFA Cash Fund	9,582,675	–	100,000	–	A(f)	–
NIT Units	579,701	–	26,765	–	4-Star	Unrated
Pakistan Income Fund	11,797,901	10,060,639	605,000	500,555	4-Star	Unrated
Pakistan International Islamic Fund	1,007,444	–	50,000	–	Unrated	Unrated
Pakistan Stock Market Fund	380,967	250,000	32,460	24,546	5-Star	Unrated
United Growth & Income Fund	494,750	–	50,000	–	Unrated	Unrated
United Money Market Fund	3,413,910	–	350,000	–	A+(f)	Unrated

3,284,591 1,416,520

3,486,405 1,608,556

* Units of Rs. 10 each

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

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

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

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

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

10.1 Particulars of advances – gross

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

10.2 Net investment in finance leases

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

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

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

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

10.4 Particulars of provision against non-performing advances:

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

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

10.4.1 Particulars of provision against non-performing advances:

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

2006 2005
Rupees in '000

10.5 Particulars of write off:

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

10.6 Details of loan write-off of Rs. 500,000/- and above

In terms of sub-section (3) of section 33A of the Banking companies Ordinance, 1962, the statement in respect of write-off loans or any other financial relief of five hundred thousand rupees or above allowed to the persons during the year ended December 31, 2006 is enclosed as Annexure - I.

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

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

11. OPERATING FIXED ASSETS

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

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

11.2 Property and equipment

	COST					DEPRECIATION				
	As at January 1, 2006	Acquired upon Amalgamation	Additions/ (disposals)	As at December 31, 2006	As at January 1, 2006	Acquired upon Amalgamation	Additions/ (disposals)	As at December 31, 2006	Book value at December 31, 2006	Annual rate of depreciation %
	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				
	As at January 1, 2005	Additions/ (disposals)	As at December 31, 2005	As at January 1, 2005	Additions/ (disposals)	As at December 31, 2005	Book value at December 31, 2005	Annual rate of depre- ciation %
	Rupees in '000							
Leasehold land	7,488	—	7,488	—	—	—	7,488	—
Building on leasehold land	510,486	86,112	596,598	160,575	36,119	196,694	399,904	10
Furniture, fixtures and equipment	56,245	2,620 (2,726)	56,139	45,312	3,280 (2,710)	45,882	10,257	10 & 20
Vehicles	3,255	1,461 (1,257)	3,459	2,415	355 (209)	2,561	898	20
Leasehold improvements	5,801	—	5,801	5,298	128	5,426	375	10
2005	583,275	90,193 (3,983)	669,485	213,600	39,882 (2,919)	250,563	418,922	

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

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

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

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

11.3 Intangible assets

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

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

14.2.1 These are secured against promissory notes, undertaking of the Group and export documents by granting the right to recover the outstanding amount from the Group at the date of maturity of finance by directly debiting the current account maintained by the Group with the State Bank of Pakistan. Mark-up rate ranging from 4.00% to 6.50% (2005: 4.00% and 7.50%) per annum which is payable quarterly or upon maturity of loans, whichever is earlier.

14.2.2 These have been borrowed from financial institutions and are secured against Government securities and carries mark-up rate ranging from 8.75% to 9.00% (2005: 8.20% to 8.60%) per annum, with the maturities upto February 2007.

14.2.3 These have been borrowed from commercial banks and carries mark-up rate ranging from 2.00% to 9.50% (2005: 8.10%) per annum maturing on various dates in 2007.

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

18. SHARE CAPITAL

18.1 Authorised capital (Note 1.2)

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

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	156,000,000		3,005,000	1,560,000

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

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

20.2 Transaction-related contingent liabilities

Includes performance bonds, bid bonds, warranties, advance payment guarantees and shipping guarantees related to particular transactions.

i) Government	5,991,347	2,294,488
ii) Banking companies and other financial institutions	173,654	1,523
iii) Others	1,517,038	916,099
	7,682,039	3,212,110

20.3 Trade-related contingent liabilities

Letter of credits	23,867,267	14,965,681
Acceptance	10,455,474	8,464,254

20.4 Commitments in respect of forward lending

Forward repurchase agreement lending	688,200	–
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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 Group's clients to generate trading revenues and, as part of its asset and liability management activity, to hedge its own exposure to currency risk. At the year end, all foreign exchange contracts have a remaining maturity of less than one year.

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

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

20.7 Commitments for the acquisition of operating fixed assets	66,562	—
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21. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	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
		<u>4,416,477</u>	<u>2,224,648</u>
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
		<u>198,083</u>	<u>72,414</u>
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
		<u>234,936</u>	<u>67,089</u>
25.1 Represents exchange difference realized on the amount of capital deposited with the SBP in compliance of Section 13(3) of the Banking Companies Ordinance, 1962 by the Habib Bank A G Zurich – Pakistan Branches.			
25.2 Includes income from various general banking services such as cheque book charges, cheque return charges, cheque handling charges, rent of lockers etc.			
26. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		448,682	294,073
(Reversal) / charge for defined benefit plan	32.3	(4,916)	5,177
Contribution to defined contribution plan		17,236	11,750
Non-executive directors' fees, allowances and other expenses		510	180
Brokerage and commission		27,322	32,028
Rent, taxes, insurance, electricity, etc.		154,743	118,440
Legal and professional charges		22,296	9,810
Communications		61,859	50,079
Repairs and maintenance		109,739	78,934
Rentals of operating leases		104,153	83,110
Stationery and printing		49,069	31,842
Advertisement and publicity		39,087	13,965
Donations	26.1	19,351	32,380
Auditors' remuneration	26.2	5,044	518
Depreciation of operating fixed assets	11.2	50,625	39,882
Security charges		20,107	15,169
Travelling and motor car expenses		13,611	9,965
Motor car running		37,800	28,132
Computer software maintenance		32,261	24,449
Cartage, handling and freight charges		13,407	13,420
Others		127,944	77,296
		<u>1,349,930</u>	<u>970,599</u>

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

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

28.2 Relationship between tax expense and accounting profit

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

29. BASIC AND DILUTED EARNINGS PER SHARE

29.1 Basic earnings per share

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

29.2 Diluted earnings per share

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

30. CASH AND CASH EQUIVALENTS

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

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

32. DEFINED BENEFIT PLAN

General description

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

Principal actuarial assumptions

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

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

Following are the significant assumptions used in the valuation.

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

2006 2005
Rupees in '000

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

Present value of defined benefit obligation	165,137	62,317
Fair value of plan assets	(187,976)	(59,894)
Funded status	(22,839)	2,423
Unrecognised actuarial loss	(9,153)	(2,423)
Unrecognised negative past service cost	1,842	
	(30,150)	–

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.

32.2 Movement in (refundable) from/payable to defined benefit plan

2006 2005
Rupees in '000

Opening balance	–	–
(Reversal) / charge for the year	(4,916)	5,177
Transferred on amalgamation	(25,234)	–
Contribution to fund made during the year	–	(5,177)
Closing balance	(30,150)	–

32.3 (Reversal) / charge for defined benefit plan

Current service cost	7,333	6,145
Interest cost	6,232	4,262
Expected return on plan assets	(5,989)	(4,983)
Recognition of transitional assets	–	(247)
Transferred on amalgamation	7,911	–
Negative past service cost - vested benefit	(20,403)	–
(Reversal) / charge for the year	(4,916)	5,177

32.4 Actual return on plan assets

18,484 4,613

33. DEFINED CONTRIBUTION PLAN

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

34. COMPENSATION OF DIRECTORS AND EXECUTIVES

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

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

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

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

36. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

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

37. TRUST ACTIVITIES

MetroBank – Pakistan Sovereign Fund

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

38. RELATED PARTY TRANSACTIONS

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

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

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

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

39. CAPITAL ADEQUACY

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

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

	2006	2005
	Rupees '000	
Risk - Weighted Exposures		
Credit Risk		
Balance Sheet items:		
Cash and other liquid assets	17,644,726	6,269,100
Money at call	3,415,227	1,100,000
Investments	41,587,373	27,166,525
Loans and advances	79,530,383	42,311,304
Fixed assets	649,122	418,922
Other assets	891,741	622,017
	143,718,572	77,887,868
Off Balance Sheet Items:		
Loan repayment guarantees	14,969	18,137
Performance bonds etc.	7,066,995	2,407,440
Stand by letters of credit	33,792,048	23,109,739
Outstanding foreign exchange contracts		
-Purchase	10,993,202	6,394,818
-Sale	20,109,135	9,678,156
	71,976,349	41,608,290
Credit risk-weighted exposures	215,694,921	119,496,158
Market Risk		
General market risk	7,274	3,214
Specific market risk	–	–
Market risk weighted exposues	7,274	3,214
Total risk-weighted exposures (b)	94,120,716	51,532,910
Capital Adequacy Ratio [(a) / (b) x 100]	11.88%	10.74%

40. RISK MANAGEMENT

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

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

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

40.1 Credit risk

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

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

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

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

40.1.1 SEGMENTAL INFORMATION

40.1.1.1 Segment by class of business

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

*The management has ensured diversification within the sector.

40.1.1.2 Segment by sector

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

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 Leاهر 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
	443,248	304,575	88,724	78,328

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	443,248	304,575	88,724	78,328
	443,248	304,575	88,724	78,328

40.1.1.5 Geographical segment analysis

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

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

40.2 Market risk

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

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

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

40.2.1 Foreign exchange risk (FX)

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

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

40.2.2 Mismatch of interest rate sensitive assets and liabilities

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

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

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

2006

Effective		Exposed to Yield/Interest risk									Non-interest bearing financial instruments
Yield/Interest Rate %		Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Above 10 years	
On balance sheet financial instruments											
Rupees in '000											
Assets											
Cash and balances with treasury banks Balances with other banks Lendings to financial institutions Investments Advances Other assets	4.35%	1,644,570	—	—	—	—	—	—	—	—	9,703,592
	3.25% to 8.50%	4,665,011	—	—	—	—	—	—	—	—	1,631,553
	9.00% to 11.80%	2,664,600	2,582,510	200,000	—	—	—	—	—	—	—
	8.45 to 15.00%	1,001,457	4,533,806	6,045,692	15,140,757	1,044,752	444,083	5,660,791	1,923,334	23,880	3,760,818
	6.50% to 23.00%	1,374,307	29,657,910	34,972,950	519,997	9,745,002	3,137,047	2,982,202	606,189	—	304,575
		—	—	—	—	—	—	—	—	—	—
		11,349,945	36,774,226	41,218,642	15,660,754	10,789,754	3,581,130	8,642,993	2,529,523	23,880	17,448,347
Liabilities											
Bills payable Borrowings Deposits and other accounts Other liabilities	6.50% to 9.00%	—	—	—	—	—	—	—	—	—	—
	2.25% to 10.80%	3,747,208	17,896,242	6,577,168	506,366	7,325	321,922	124,130	—	—	1,619,796
	—	5,440,014	26,999,855	24,108,116	12,006,653	1,444,399	1,724,161	1,980,230	2,165,174	—	338,097
		—	—	—	—	—	—	—	—	—	—
		9,187,222	44,896,097	30,685,284	12,513,019	1,451,724	2,046,083	2,104,360	2,165,174	2,165,174	29,834,534
On-balance sheet gap		10,970,523	2,162,723	10,533,358	3,147,735	9,338,030	1,535,047	6,538,633	364,349	(2,141,294)	(12,386,187)
Off-balance sheet financial instruments											
Forward lending		688,200	—	—	—	—	—	—	—	—	—
Forward borrowing		—	—	—	—	—	—	—	—	—	—
Off-balance sheet gap		688,200	—	—	—	—	—	—	—	—	—
Total Yield/Interest Risk Sensitivity Gap		2,850,923	(8,121,871)	10,533,358	3,147,735	9,338,030	1,535,047	6,538,633	364,349	(2,141,294)	(12,386,187)
Cumulative Yield/Interest Risk Sensitivity Gap		2,850,923	(5,270,948)	5,262,410	8,410,145	17,748,175	19,283,222	25,821,855	26,186,204	24,044,910	11,658,723

40.3 Liquidity risk

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

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

40.3.1 Maturities of assets and liabilities

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

40.4 Operational risk

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

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

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

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

41. KEY FINANCIAL FIGURES OF THE ISLAMIC BANKING BRANCHES

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

The Branches' financial statements are as follows:

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

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

42. DATE OF AUTHORISATION FOR ISSUE

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

43. RECENT ACCOUNTING DEVELOPMENTS

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

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

44. GENERAL

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

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

ANWAR H. JAPANWALA
Chairman

KASSIM PAREKH
President & Chief Executive

FIRASAT ALI
Director

ZIA SHAFI KHAN
Director

PROXY FORM

I/We _____
of _____
being member (s) of Habib Metropolitan Bank Limited and holding _____
ordinary shares, as per Register folio _____
hereby appoint _____ Folio No. _____
of _____
or failing him _____ Folio No. _____
of _____
another member of the Bank to vote for me/us and on my/our behalf at the 15th Annual General Meeting
of the Bank to be held on March 29, 2007 and at any adjournment thereof.
As Witness my/our hand this _____ day of March 2007

REVENUE
STAMP
RS. 5

SIGNATURE OF MEMBER(S)

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

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

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