

**SME BANK LIMITED**  
**BALANCE SHEET AS AT DECEMBER 31, 2005**

	Notes	2005 Rupees in '000	2004
<b>ASSETS</b>			
Cash and balances with treasury banks	7	188,460	22,859
Balances with other banks	8	112,047	403,872
Lendings to financial institutions	9	-	-
Investments	10	4,807,743	4,383,800
Advances	11	1,184,844	1,136,390
Other assets	12	967,207	2,024,164
Operating fixed assets	13	160,438	124,861
Deferred tax asset	14	439,338	315,035
		<u>7,860,077</u>	<u>8,410,981</u>
<b>LIABILITIES</b>			
Bills payable	15	6,271	-
Borrowings from financial institutions	16	1,530,000	1,680,000
Deposits and other accounts	17	1,022,702	203,776
Sub-ordinated loans		-	-
Loan from the State Bank of Pakistan	18	2,500,000	4,000,000
Liabilities against assets subject to finance lease	19	21,684	20,178
Other liabilities	20	617,097	710,388
Deferred tax liabilities		-	-
		<u>5,697,754</u>	<u>6,614,342</u>
<b>NET ASSETS</b>		<u><u>2,162,323</u></u>	<u><u>1,796,639</u></u>
<b>REPRESENTED BY</b>			
Share capital	21	1,500,000	1,100,000
Reserves		146,638	105,396
Unappropriated profit		586,546	421,579
		<u>2,233,184</u>	<u>1,626,975</u>
(Deficit)/ surplus on revaluation of investments - net of tax	22	<u>(70,861)</u>	<u>169,664</u>
		<u><u>2,162,323</u></u>	<u><u>1,796,639</u></u>
<b>CONTINGENCIES AND COMMITMENTS</b>	23		

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

President/ Chief Executive

Director

Director

Director

**SME BANK LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Notes	2005	2004
		Rupees in '000	
Mark-up / return / interest earned	24	844,666	786,812
Mark-up / return / interest expensed	25	<u>337,437</u>	<u>320,254</u>
Net mark-up/ interest income		507,229	466,558
Provision against non-performing loans and advances	11.4	<u>(311,863)</u>	<u>(201,802)</u>
Provision for impairment in the value of investments	10.8	5,690	(19,500)
Bad debts written off directly	11.5	<u>-</u>	<u>-</u>
		<u>(306,173)</u>	<u>(221,302)</u>
Net mark-up / interest income after provisions		813,402	687,860
<b>NON MARK-UP/ INTEREST INCOME</b>			
Fee, commission and brokerage income		<u>690</u>	<u>3,680</u>
Dividend income		341	1,345
Income from dealing in foreign currencies		-	-
Gain on sale of Government Securities		40	7,837
Other Income	26	<u>26,518</u>	<u>19,993</u>
Total non-markup/ interest income		<u>27,589</u>	<u>32,855</u>
		840,991	720,715
<b>NON MARK-UP/ INTEREST EXPENSES</b>			
Administrative expenses	27	<u>507,715</u>	<u>430,375</u>
Other provisions/ write offs	12.2	<u>(36,645)</u>	<u>171</u>
Other charges	28	<u>809</u>	<u>-</u>
Total non-markup/ interest expenses		471,879	430,546
Gain on settlement related to retirement benefit plans		<u>-</u>	<u>421,158</u>
<b>PROFIT BEFORE TAXATION</b>		369,112	711,327
Taxation - current	29	<u>144,817</u>	<u>243,764</u>
- prior years'	29	23,886	4,502
- deferred	29	<u>(5,800)</u>	<u>4,123</u>
		<u>162,903</u>	<u>252,389</u>
<b>PROFIT AFTER TAXATION</b>		206,209	458,938
Unappropriated profit brought forward		421,579	54,429
Profit available for appropriation		<u>627,788</u>	<u>513,367</u>
<b>APPROPRIATIONS:</b>			
Transfer to:			
Statutory reserve		<u>41,242</u>	<u>91,788</u>
Capital reserve		-	-
Revenue reserve		-	-
Proposed cash dividend		<u>-</u>	<u>-</u>
		<u>41,242</u>	<u>91,788</u>
Unappropriated profit carried forward		<u>586,546</u>	<u>421,579</u>
Basic/ diluted earnings per share - Rupees	30	<u>1.66</u>	<u>4.17</u>

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President/ Chief Executive

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**SME BANK LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Note	2005	2004
		Rupees in '000	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		369,112	711,327
Less: Dividend income		(341)	(1,345)
		<u>368,771</u>	<u>709,982</u>
Adjustments for non-cash charges			
Depreciation		25,208	27,362
Amortization		2,261	3,057
Provision against non-performing advances		(311,863)	(201,802)
Provision for diminution in the value of investments/ other as		(30,955)	(19,329)
Gain on sale of fixed assets		(4,169)	(2,292)
Finance charges on leased assets		833	1,422
		<u>(318,685)</u>	<u>(191,582)</u>
		50,086	518,400
(Increase)/ decrease in operating assets			
Lendings to financial institutions		-	480,000
Advances		263,409	455,829
Others assets (excluding advance taxation)		985,694	(1,810,966)
		<u>1,249,103</u>	<u>(875,137)</u>
Increase/ (decrease) in operating liabilities			
Bills payable		6,271	-
Borrowings from financial institutions		(150,000)	380,000
Deposits		818,926	(29,689)
Other liabilities (excluding current taxation)		51,648	(196,366)
		<u>726,845</u>	<u>153,945</u>
		2,026,034	(202,792)
Income tax paid		<u>(313,641)</u>	<u>(63,808)</u>
Net cash flow from operating activities		<u>1,712,393</u>	<u>(266,600)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investments in available-for-sale securities		(122,431)	70,485
Net investments in held-to-maturity securities		(558,323)	389,920
Dividend income		341	1,345
Investments in operating fixed assets		(51,410)	(11,335)
Sale proceeds of property and equipment disposed-off		7,490	9,662
Net cash flow from investing activities		<u>(724,333)</u>	<u>460,077</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Payment of loan from the State Bank of Pakistan		(1,500,000)	(392,507)
Payments of lease obligations		(14,284)	(11,488)
Issue of share capital		400,000	-
Net cash flow from financing activities		<u>(1,114,284)</u>	<u>(403,995)</u>
(Decrease) in cash and cash equivalents		(126,224)	(210,518)
Cash and cash equivalents at beginning of the year	31	<u>426,731</u>	<u>637,249</u>
Cash and cash equivalents at end of the year	31	<u><u>300,507</u></u>	<u><u>426,731</u></u>

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**SME BANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Share capital	Statutory reserve	Unappropriated profit	Total
	Rupees in '000			
Balance as at January 1, 2004	364,975	13,608	54,429	433,012
Net profit for the year	-	-	458,938	458,938
Transfer to statutory reserve	-	91,788	(91,788)	-
Issue of share capital	735,025	-	-	735,025
Balance as at December 31, 2004	<u>1,100,000</u>	<u>105,396</u>	<u>421,579</u>	<u>1,626,975</u>
Net profit for the year	-	-	206,209	206,209
Transfer to statutory reserve	-	41,242	(41,242)	-
Issue of share capital	400,000	-	-	400,000
Balance as at December 31, 2005	<u><u>1,500,000</u></u>	<u><u>146,638</u></u>	<u><u>586,546</u></u>	<u><u>2,233,184</u></u>

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**SME BANK LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**1. STATUS AND NATURE OF BUSINESS**

- 1.1 SME Bank Limited (the Bank) is a public limited company incorporated in Pakistan on October 30, 2001 under the Companies Ordinance, 1984 having its registered office in Islamabad. The Bank obtained its business commencement certificate on April 16, 2005 which became effective from the date of its issue. The Bank is now a Scheduled Commercial Bank engaged in the business of banking with the primary objective to support and develop SME sector in Pakistan by providing necessary financial assistance and business support services on a sustainable basis. The Bank is operating through a network of 28 branches including 10 Commercial banking branches. Based on the latest credit rating report dated March 10, 2005 issued by JCR-VIS Credit Rating Company Limited, credit rating of the Bank was BBB (triple B) in the long term and A - 2 (A two) in the short term
- 1.2 In terms of the provisions of the State Bank of Pakistan BSD Circular No. 12 of 2004 and the Banking license issued to SME Bank Limited, the Bank was required to increase its paid-up capital (net of losses) from existing Rs 1.5 billion to Rs 2 billion till December 31, 2005. The shareholders of the Bank have passed a special resolution to issue additional 50 million shares of Rs 10 each to the Government of Pakistan (GOP) without right issue. Relevant approval of the Securities and Exchange Commission of Pakistan (SECP) has also been obtained. Bank has requested GOP for release of Rs 500 million for increase of share capital of the Bank to Rs 2 billion.
- 1.3 Amalgamation of defunct RDFC and SBFC

The Federal Government promulgated the Regional Development Finance Corporation (RDFC) and Small Business Finance Corporation (SBFC) (Amalgamation and Conversion) Ordinance, 2001 (the Ordinance 2001) setting forth the mechanism of amalgamation of defunct RDFC and SBFC. Both these entities were Development Financial Institutions (DFIs). In pursuance of the Ordinance 2001, Finance Division, Ministry of Finance issued an Order (SRO (1) 2001) dated December 29, 2001 setting forth the scheme of amalgamation of RDFC and SBFC with the Bank effective January 1, 2002. Pursuant to this scheme entire assets and liabilities of defunct RDFC and SBFC as at December 31, 2001 were transferred to the Bank at fair value. These two institutions stand dissolved and ceased to exist effective January 1, 2002. The Bank allotted its shares to the share holders of defunct RDFC and SBFC in proportion to their shareholding therein based on the fair net assets value of defunct RDFC and SBFC on December 31, 2001.

Further, pursuant to clause 6 of the Ordinance 2001, notwithstanding anything contained in any other law for the time being in force, the Bank shall take and maintain existing deposits, continue lending and any other business which were being undertaken by defunct RDFC and SBFC, respectively, without prejudice to SBP permission for commencement of banking business.

**2. BASIS OF PRESENTATION**

These financial statements have been prepared in accordance with the requirements of BSD Circular No 36 dated October 10, 2001 issued by the State Bank of Pakistan (SBP). In accordance with the directives of the Federal Government regarding shifting of the banking system to Islamic modes, SBP has issued a number of circulars. One permissible form of trade related mode of financing comprises of purchase of goods by the Bank from its customers and 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 facilities actually utilised and the appropriate portion of mark-up thereon.

### 3. STATEMENT OF COMPLIANCE

These financial statements are prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the directives issued by SECP and SBP. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by SECP and SBP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence.

In terms of provisions of BSD Circular Letter No 11 dated September 11, 2002, SBP has deferred applicability of International Accounting Standards on Financial Instruments: Recognition and Measurement (IAS 39) and Investment Property (IAS 40) for Banking Companies in Pakistan till further instructions. Accordingly, requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been presented in accordance with the requirements of the format prescribed by the State Bank of Pakistan's BSD Circular No. 36 dated October 10, 2001 and have been classified in accordance with the requirements of BSD Circular No. 10 dated July 13, 2004.

The following published amendments to existing standards are not yet effective and are mandatory for the Bank's accounting periods beginning on or after January 1, 2006 or later periods:

- |    |   |                                |
|----|---|--------------------------------|
| i  | IAS 19 (Amendments) - Employee Benefits                             | effective from January 1, 2006 |
| ii | IAS 1 Presentation of Financial Statements<br>- Capital Disclosures | effective from January 1, 2007 |

Effect of adoption of the above amendments on the future financial statements is not likely to be material.

### 4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention as modified for certain investments which are shown at revalued amounts.

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks and balances with other banks in current and deposit accounts.

#### 5.2 Revenue recognition

Income on non interest based loans, except loans disbursed by defunct SBFC, is accounted for on accrual basis on principal outstanding amounts giving consideration to total mark-up price, and suspended, in compliance with requirements of prudential regulations of SBP. Income on loans disbursed by defunct SBFC is suspended when accrued and recognised as income on cash basis owing to the nature and status of the portfolio.

Income on interest based loans, except loans disbursed by defunct SBFC, is accounted for on accrual basis on principal outstanding amounts and suspended, in compliance with requirements of prudential regulations of SBP. Income on loans disbursed by defunct SBFC is suspended and recognised on cash basis owing to the nature and status of the portfolio.

Dividend income on investment is accounted for on declaration of dividend while profit on other investments, bank deposits and staff loans is recognised on accrual basis. Income on non-funded facilities (fee, commission, documentation charges etc.) is recognised on receipt basis.

The Bank follows finance method in recognising income on lease contracts. Under this method, un-earned income i.e., the excess of aggregate lease rentals and the estimated residual value over the cost of the leased asset is taken to income over the lease term so as to produce a constant periodic rate of return on outstanding net investment in lease. Unrealised lease income is suspended, where required, in accordance with prudential regulations. Gain or loss on termination of lease contracts, documentation charges, front end fee and other lease income are recognised on receipt basis.

### 5.3 Advances

These are stated net of provision for doubtful advances. Provision for doubtful advances is determined in accordance with the requirements of prudential regulations issued by SBP from time to time. In addition to this all advances outstanding for more than one year are fully provided for in accordance with the requirements of the loan agreement for SME Sector Development Programme between GOP and Asian Development Bank.

### 5.4 Investments

In accordance with SBP's BSD circular No. 10 of 2004, investments have been classified into following categories

#### Held for trading

These represent investments acquired by the Bank with the intention to trade by taking advantage of short-term market/ interest rate movements.

#### Held to maturity

These represent investments acquired by the Bank with the intention and ability to hold them upto maturity.

#### Available for sale

These represent investments which do not fall under held for trading or held to maturity categories.

All these investments are initially measured at cost. In accordance with requirements of SBP's BSD circular No. 14 of 2004, 'held to maturity' investments are carried at amortised costs, while 'held for trading' and 'available for sale' investments for which ready quotations are available on Reuters Page (PKRV) or Stock Exchanges are valued at market value at balance sheet date. Investments where ready quotations are not available are stated at cost less permanent impairment in value thereof. Any surplus/deficit arising as a result of revaluation of 'held for trading' investments is taken to income statement. Further, the surplus/deficit on revaluation of 'available for sale' investments is taken to 'surplus/deficit on revaluation of investments'. However, any impairment in the value of 'available for sale' investments is provided for by charging it to the income statement. Gain/ loss on sale of investments is accounted for in the year of sale.

Any premium paid or discount received on purchase of Government Securities is amortised. Full year amortisation is charged in the year of purchase while no amortisation is charged in the year of maturity.

Investment in subsidiary is carried at cost. At subsequent reporting dates, the recoverable amount is estimated in order to determine the extent of impairment loss, if any and carrying amount of investment is adjusted accordingly. Impairment loss is recognised as an expense. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount but limited to the extent of initial cost of investment. A reversal of impairment loss is recognised in income.

#### 5.5 Capital work-in-progress, operating fixed assets and depreciation

Capital work-in-progress is stated at cost.

Fixed assets are stated at cost/value on their acquisition less accumulated depreciation/amortisation except for freehold land which is stated at cost. Depreciation and amortisation is charged on straight line method at the rates given in note 13.2 and 13.3 respectively, commencing from the month in which the asset is acquired. No depreciation/amortisation is charged in the month the asset is disposed off. Gain or loss on deletion of assets is charged to profits currently.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised.

Assets subject to finance lease are stated at lower of present value of minimum lease payments under the lease agreements and the fair value of assets acquired on lease less accumulated depreciation at the rates and basis applicable to the Bank's owned assets. The outstanding obligation under finance lease less financial charges allocated to future periods is shown as liability. Finance charges are calculated at interest rates implicit in the lease and are charged to profit and loss account in the period in which these are incurred.

#### Intangible assets

An intangible asset is recognized only if it is identifiable, the Bank has control over the asset, it is probable that economic benefits will flow to the enterprise and the cost of the asset can be measured reliably. All intangible assets that meet the recognition criteria are initially measured at cost and are amortized on a straight line basis over their estimated useful life.

#### 5.6 Taxation

Provision for current taxation represents expected tax payable on the taxable income for the year using applicable tax rates after taking into account tax credits and tax rebates, if any.

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit at the rates that are expected to apply to the period when the differences reverse based on the tax rates that have been enacted. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

## 5.7 Staff retirement and other benefits

The Bank operates following staff retirement and other benefit schemes for its employees.

### Pension and gratuity scheme

Fully funded defined benefit pension and gratuity scheme for permanent employees. Contributions are made in accordance with the actuarial valuation which is carried out periodically using projected unit credit method. The actuarial gain/ loss in excess of corridor (10% of higher of fair value of plan assets or present value of obligation) are recognized over the expected average remaining working lives of employees participating in the plan. For its contractual employees, the Bank operates a defined benefit non funded gratuity scheme for which provision is made annually to cover the liability at the balance sheet date and charged to profit and loss account for the year.

### Provident fund

Non-contributory scheme for permanent employees. Monthly contributions are made by employees only, at the rate of 8% of basic salary.

### Benevolent fund

Defined benefit scheme for permanent employees. Contributions to this fund were made equally by the Bank and employees till March 2002. Thereafter it is wholly contributed by the Bank at the rate of 2% of basic salary with a ceiling of Rs 200 per month per employee.

### Compensated absences

The Bank allows compensated absences, an unfunded scheme, per entitlement to all its permanent and contractual employees. Related provision is made in accordance with actuarial valuation.

## 5.8 Agreements for sale and purchase of securities (repo and reverse repo)

Securities sold under repurchase agreement (repo) are retained in the books as investments and its counter-part liability is included in borrowings from financial institutions. The difference between sale and repurchase price is treated as mark-up expense and recognized over the period of contract.

Securities purchased under agreement to resell (reverse repo) are included in lending to financial institutions. The difference between purchase and resale price is treated as mark-up income and recognized over the period of the contract.

## 5.9 Off setting

Financial assets and liabilities are off set and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or realize the asset and settle the liability simultaneously.

#### 5.10 Borrowing costs

All borrowing costs are recognized as expense in the period in which these are incurred.

#### 5.11 Government grants

Government grants are recognized when the conditions attaching to the grant are complied with. Such grants are credited to income over the period necessary to match them with the related costs which they are intended to compensate and are netted off from the related expense.

#### 5.12 Provisions

Provisions are recorded when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

### 6. FINANCIAL RESTRUCTURING

6.1 The Government of Pakistan (GOP) assisted by Asian Development Bank (ADB) is working on SME Sector Development Programme (SME SDP). Loan agreement for this programme between GOP and ADB and project agreement between ADB, SBP, Small and Medium Enterprise Development Authority and the Bank have been signed on February 10, 2004. This programme, apart from other aspects on policy matrix relating to SME sector of Pakistan, also envisages restructuring of SME Bank Limited. Salient features of the restructuring of the Bank are given below:

- i) adjustment of accumulated balances due from SBP on account of its share in profits and losses of the Bank against credit lines provided by SBP;
- ii) payment of Rs 3 billion to SBP before January 1, 2004 against outstanding credit lines and conversion of balance of remaining credit lines into a loan repayable in full by June 30, 2006;
- iii) raising the paid-up capital to Rs 1,100 million by issuing additional shares to GOP;
- iv) the Ministry of Finance (MOF) shall ensure that SBP's shareholding in the Bank is terminated through the purchase of SBP held shares at nominal value by shareholders or otherwise;
- v) 100% provision to be made against non performing financial assistance extended by the defunct RDFC and SBFC prior to January 1, 2002 which provision to be adjusted against SBP credit lines. SBP will recover this amount from proceeds of ADB loan to GOP;
- vi) reduction in the number of recovery branches, staff rationalization through Voluntary Separation Scheme (VSS), human resource audit and hiring of new professional staff on merit;
- vii) reimbursement by GOP of costs related to VSS launched for all regular employees;
- viii) SBP to issue a banking license to the Bank on compliance with all conditions of restructuring and applicable SBP regulations. The commercial banking operations will be separate from the recovery operations of the defunct RDFC and SBFC portfolio and the two operations will be run as independent units within the Bank; and
- ix) privatization of the Bank by June 2006.

6.2 Current status of the above referred financial restructuring is given below:

- i) accumulated balances of Rs 3,275.752 million due from SBP on account of its share in profits and losses of the Bank have been adjusted against credit lines provided by SBP;
- ii) Rs 4.893 billion has been paid to SBP during 2003, 2004 and 2005 against outstanding credit lines;
- iii) paid-up capital has been increased to Rs. 1,500 million by issue of 73,502,453 additional shares of Rs 10 each to GOP without right issue in 2004 and issue of 40,000,000 additional shares of Rs 10 each to GOP without right issue in 2005. Proceeds against issue of additional shares in 2004 were paid by GOP to SBP against the Bank's loan balance due to SBP;
- iv) provision of Rs 1,283.196 million against non performing financial assistance extended by the defunct RDFC and SBFC was adjusted against credit lines of SBP in 2003;
- v) number of recovery branches was reduced to 18 by December 31, 2005;
- vi) VSS was approved by the Board of Directors of the Bank on November 7, 2003. Costs of VSS are reimbursable by GOP under the Small and Medium Enterprise Sector Development Programme loan agreement between GOP and Asian Development Bank. 712 employees opted for VSS. Aggregate estimated cost of VSS for 712 employees amounts to approximately Rs. 1,800 million. 707 employees were relieved under the scheme upto December 31, 2005, while 5 employees have been retained by the Bank. Out of total related cost of Rs 1,763.986 million, Rs 1,028.121 million has been received from GOP during the year, while remaining amount of Rs 735.865 million has been reflected in the financial statements as reimbursable by GOP under other assets, which amount has been claimed from GOP.
- vii) Human resource technical audit has been completed and report has been submitted to the Bank; and
- viii) Banking license was issued by SBP on September 13, 2004 and the Bank has started banking operations after the issue of certificate for commencement of banking business by SBP on April 16, 2005.

7. CASH AND BALANCES WITH TREASURY BANKS

		2005	2004
		Rupees in '000	
In hand - local currency		28,830	1,274
In transit - local currency		7,276	1,056
National prize bonds		301	-
With the State Bank of Pakistan in			
Local currency current accounts	7.1	151,869	19,612
With National Bank of Pakistan in			
Local currency deposit account		184	917
		<u>188,460</u>	<u>22,859</u>

7.1 Deposits with the State Bank of Pakistan are maintained to comply with their requirements issued from time to time.

		2005	2004
		Rupees in '000	
8. BALANCES WITH OTHER BANKS			
In Pakistan			
On deposit account	8.1	122,047	413,872
Provision for doubtful balance with a bank	8.2	(10,000)	(10,000)
		<u>112,047</u>	<u>403,872</u>

8.1 These carry interest rate ranging from 1.00% to 5.50% (2004: 0.70% to 2.00%) per annum.

8.2 Provision for doubtful balance is in respect of deposit of Rs 10 million with Indus Bank Limited which is under liquidation.

		2005	2004
		Rupees in '000	

9. LENDINGS TO FINANCIAL INSTITUTIONS

Repurchase agreement lendings (reverse repo)	9.1	<u>-</u>	<u>-</u>
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9.1 Lendings to financial institutions during the year represented transactions with financial institutions for purchase of government securities under resale obligation (reverse repo) in the inter-bank money market at mark-up rates ranging from 0.5% to 8.9% (2004: 0.3% to 7.4%) per annum for periods upto three days. These lendings were secured against underlying government securities. The difference between purchase and resale price is treated as mark-up income and recognised over the period of reverse repo agreement.

10. INVESTMENTS	2005			2004		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	Rupees in '000					
10.1 INVESTMENTS BY TYPES:						
Available-for-sale securities						
Market Treasury Bills	96,198	-	96,198	-	-	-
Pakistan Investment Bonds	1,912,689	1,737,297	3,649,986	1,567,923	1,857,060	3,424,983
Federal Investment Bonds		-	-	4,000	-	4,000
WAPDA Bonds	35,000	-	35,000	35,000	-	35,000
Fully paid ordinary shares	33,754	-	33,754	88,838	-	88,838
Term Finance Certificates (TFCs)	226,536	-	226,536	339,222	-	339,222
Stock exchange membership	18,000	-	18,000	-	-	-
Carry over transactions	-	-	-	45,000	-	45,000
	<u>2,322,177</u>	<u>1,737,297</u>	<u>4,059,474</u>	<u>2,079,983</u>	<u>1,857,060</u>	<u>3,937,043</u>
Held-to-maturity securities						
Letter of placements	45,012	-	45,012	-	-	-
Certificates of investment	284,481	-	284,481	108,364	-	108,364
Term deposit receipts	367,672	-	367,672	30,478	-	30,478
	697,165	-	697,165	138,842	-	138,842
Investment in subsidiary						
SME Leasing Limited	200,000	-	200,000	200,000	-	200,000
	<u>3,219,342</u>	<u>1,737,297</u>	<u>4,956,639</u>	<u>2,418,825</u>	<u>1,857,060</u>	<u>4,275,885</u>
(Deficit)/surplus on revaluation of investments - net	45,220	(154,576)	(109,356)	193,397	56,276	249,673
Provision for impairment in value of investments	(39,540)	-	(39,540)	(141,758)	-	(141,758)
	<u>3,225,022</u>	<u>1,582,721</u>	<u>4,807,743</u>	<u>2,470,464</u>	<u>1,913,336</u>	<u>4,383,800</u>

10.2 INVESTMENTS BY SEGMENTS :	Notes	2005 Rupees in '000	2004
Federal Government Securities:	10.3		
- Market Treasury Bills		96,198	-
- Pakistan Investment Bonds		3,649,986	3,424,983
- Federal Investment Bonds		-	4,000
		<u>3,746,184</u>	<u>3,428,983</u>
(Deficit)/ surplus on revaluation of Government Securities - net		<u>(110,687)</u>	<u>227,897</u>
		3,635,497	3,656,880
Fully paid up ordinary shares:			
- Listed companies/mutual funds	10.4	12,751	67,835
- Unlisted companies/mutual funds	10.5	21,003	21,003
		33,754	88,838
(Deficit)/ surplus on revaluation of shares - net		<u>(166)</u>	<u>1,293</u>
		33,588	90,131
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- Listed TFCs	10.6	226,536	339,222
- WAPDA Bonds	10.6	35,000	35,000
		261,536	374,222
Surplus on revaluation of listed TFCs and WAPDA bonds - net		<u>1,497</u>	<u>20,483</u>
		263,033	394,705
Subsidiary company			
SME Leasing Limited	10.7	200,000	200,000
Other investments			
- Letter of placements		45,012	-
- Certificates of investment		284,481	108,364
- Term deposit receipts		367,672	30,478
- Islamabad Stock Exchange membership		18,000	-
- Carry over transactions		-	45,000
		715,165	183,842
Surplus/(deficit) on revaluation of other investments		<u>-</u>	<u>-</u>
		715,165	183,842
		<u>4,847,283</u>	<u>4,525,558</u>
Provision for impairment in value of investments	10.8	(39,540)	(141,758)
		<u>4,807,743</u>	<u>4,383,800</u>

10.3 Principal terms of investments in Federal Government securities

Name of investment	Maturity	Principal payment	Rate	Coupon payment
Market Treasury Bills	June 2006	On maturity	8.29%	at maturity
Pakistan Investment Bonds	Nov-06 to June-13	On maturity	9% to 14%	Semi-annually

Market Treasury Bills and Pakistan Investment Bonds are securities eligible for re-discounting with the State Bank of Pakistan.

10.4 Investments in listed companies/ mutual funds

No. of ordinary shares/units

2005	2004	Paid-up value per share / average price per unit Rs	Name of companies/ mutual funds	2005 Rupees in '000	2004
12,500	12,500	425.00	National Refinery Limited	5,312	670
137,669	137,669	18.12	PICIC Investment Fund Limited	2,494	2,494
107,000	507,000	18.95	Hub Power Company Limited	2,028	10,234
79,775	79,500	10.15	Pakistan PTA Limited	810	1,472
43,449	33,333	18.24	Dewan Salman Fiber Limited	792	1,515
8,600	-	68.20	Pakistan Telecommunication Company Limited	586	-
4,126	4,126	59.14	D.G. Khan Cement Company Limited	244	244
4,000	4,000	40.41	Faisal Spinning Mills Limited	162	162
500	-	295.00	Treet Corporation Pakistan Limited	147	-
683	-	115.00	Adamjee Insurance Company Limited	79	-
290	-	102.87	Nishat Mills Limited	30	-
516	-	39.20	Crescent Textile Mills Limited	20	-
9,500	-	1.85	Kashmir Polytex Limited	18	-
225	-	37.29	Pioneer Cement Limited	8	-
252	-	32.75	Gandhara Nissan Limited	8	-
100	-	34.18	Maple Leaf Cement Factory Limited	3	-
166	-	13.90	First Allied Bank Modaraba Limited	2	-
56	-	40.46	PICIC Commercial Bank Limited	2	-
72	-	25.30	Services Industries Limited	2	-
20	-	62.05	Cherat Papersack Limited	1	-
3	-	15.55	First Capital Securities Corporation Limited	1	-
1	-	415.00	Pakistan Oilfields Limited	1	-
24	-	11.15	ABAMCO Stock Market Fund Limited	1	-
-	100,000	-	Baifo Industries Limited	-	699
-	20,000	-	Engro Chemical (Pakistan) Limited	-	1,843
-	75,000	-	Fauji Fertilizer Company Limited	-	4,898
-	-	-	Fauji Fertilizer Bin Qasim Limited (formerly FFC-Jordan Fertilizer Company Limited)	-	3,238
-	250,000	-	ICI Pakistan Limited	-	2,945
-	26,500	-	Japan Power Company Limited	-	958
-	100,000	-	Lucky Cement Limited	-	1,415
-	115,000	-	Pakistan International Airlines Corporation Limited	-	634
-	50,000	-	Pakistan State Oil Company Limited	-	34,414
-	189,600	-		-	
				12,751	67,835
(Deficit)/ surplus on revaluation of shares / units				(166)	1,293
Market value as on December 31				12,585	69,128

		2005	2004
		Rupees in '000	
10.5	Particulars of investments held in unlisted companies and mutual funds		
	TMT-PKIC Incubation Fund Limited	20,000	20,000
	Companies delisted from stock exchange	1,003	1,003
		<u>21,003</u>	<u>21,003</u>

	Percentage of holding	Number of units held	Cost / Paid-up value per unit held (Rupees)	Total Paid-up Value (Rupees in '000)	Break up Value	Based on accounts audited as at	Name of Chief Executive
10.5.1							
TMT-PKIC Incubation Fund Limited	10%	2,000,000	10.00	20,000	14,225	June 30, 2005	Kashif Shamim

The difference between the paid up value and break up value of Rs. 5,775 thousand is considered as impairment and has been fully provided for.

10.5.2 Particulars of investments in shares of companies delisted from stock exchange and currently under liquidation.

	Number of shares held	Cost / Paid-up value per share held (Rupees)	Total Paid-up Value (Rupees in '000)
Mohib Exports Company Limited	4,600	23.81	109
Sunflo Citrus Limited	100,000	4.22	422
Tawakal Garments Company Limited	4,000	38.38	154
Tristar Shipping Lines Limited	5,000	23.56	118
Zahoor Textile Mills Limited	15,200	13.16	200
			<u>1,003</u>

10.6 Investment in Term Finance Certificates/ Bonds

No. of certificates		Company's name	Nominal value per certificate Rupees	2005		2004	
2005	2004			Rupees in '000		Rupees in '000	
9,000	9,000	Jahangir Siddiqui & Company Limited	5,006	45,054	45,123		
8,000	8,000	Orix Leasing Pakistan Limited	5,000	40,000	40,468		
7,400	40,000	Dawood Investment Bank Ltd (formerly Dawood Leasing Company Ltd)	5,086	37,636	38,266		
7,200	7,200	Bank Alfalah Limited	5,174	37,253	38,701		
5,000	5,000	Trust Leasing and Investment Bank Limited	4,489	22,445	24,429		
4,000	4,000	Crescent Leasing Corporation Limited	5,000	20,000	20,000		
2,000	-	Chanda Oil & Gas Securitisation Company Limited	4,780	9,560	-		
3,000	3,000	World Call Communication Limited	2,896	8,688	13,209		
2,000	2,000	First Oil & Gas Securitisation Company Limited	1,712	3,424	6,968		
5,953	5,953	Securetel SPV Limited (Paktel SPV)	416	2,476	12,728		
-	9,990	Dewan Salman Fibre Limited	-	-	12,480		
-	10,000	Union Leasing Limited	-	-	24,980		
-	4,324	Saudi Pak Leasing Company Limited	-	-	16,414		
-	4,000	Paramount Spinning Mills Limited	-	-	21,250		
-	2,879	Engro Chemical Pakistan Limited	-	-	15,430		
-	1,678	Gulistan Textile Mills Limited	-	-	8,776		
				<u>226,536</u>	<u>339,222</u>		
7,000	7,000	WAPDA Bonds	5,000	35,000	35,000		
Surplus on revaluation of TFCs/ Bonds					1,497	20,483	
Market value as on December 31					<u>263,033</u>	<u>394,705</u>	

10.7 Subsidiary company

SME Leasing Limited (SMEL), a wholly owned subsidiary of the Bank, was incorporated on July 12, 2002 as a public limited company under the Companies Ordinance, 1984. Value of these shares based on net assets as per audited financial statements as at December 31, 2005 was Rs 277.833 million (2004: Rs 255.097 million).

	2005	2004
	Rupees in '000	
10.8 Particulars of provision for impairment in value of investments		
Opening balance	141,758	161,258
Charge for the year	5,775	-
Reversal for the year	(85)	(19,500)
Transfer to provision against other assets	(107,908)	-
Closing balance	<u>39,540</u>	<u>141,758</u>

11. ADVANCES		2005	2004
		Rupees in '000	
Loans, cash credits, running finances, etc. - In Pakistan			
Extended by:			
Defunct SBFC		5,591,947	6,153,201
Defunct RDFC		1,063,212	1,328,522
SME Bank Limited		1,115,031	1,107,090
Due from ex-employees		27,974	29,407
Due from employees		152,006	108,701
		<u>7,950,170</u>	<u>8,726,921</u>
Net investment in finance lease - In Pakistan	11.2	2,260	2,265
		<u>7,952,430</u>	<u>8,729,186</u>
Provision for non-performing advances	11.4	6,767,586	7,592,796
		<u>1,184,844</u>	<u>1,136,390</u>
11.1 Particulars of advances			
11.1.1 In local currency		7,952,430	8,729,186
In foreign currencies		-	-
		<u>7,952,430</u>	<u>8,729,186</u>
11.1.2 Short term		146,318	44,618
Long term		7,806,112	8,684,568
		<u>7,952,430</u>	<u>8,729,186</u>

11.2 NET INVESTMENT IN FINANCE LEASE	2005				2004			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	Rupees in '000							
Lease rentals receivable	1,751	-	-	1,751	1,747	49	-	1,796
Residual value	510	-	-	510	280	230	-	510
Minimum lease payments	2,261	-	-	2,261	2,027	279	-	2,306
Financial charges for future periods	(1)	-	-	(1)	(40)	(1)	-	(41)
Present value of minimum lease payments	2,260	-	-	2,260	1,987	278	-	2,265

11.3 Advances include Rs. 6,798,211 thousand which have been placed under non-performing status as detailed below:

Category of Classification	Domestic	Overseas	Total	Provision Required	Provision Held
Substandard	25,403	-	25,403	2,540	6,351
Doubtful	23,146	-	23,146	11,573	11,573
Loss	6,749,662	-	6,749,662	6,749,662	6,749,662
	6,798,211	-	6,798,211	6,763,775	6,767,586

11.4 Particulars of provision against non-performing advances

	2005			2004		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	7,584,337	8,459	7,592,796	7,995,565	-	7,995,565
Charge for the year	10,868	-	10,868	87,995	8,459	96,454
Amounts written off	11.5 (513,347)	-	(513,347)	(200,967)	-	(200,967)
Reversals	(314,272)	(8,459)	(322,731)	(298,256)	-	(298,256)
Closing balance	6,767,586	-	6,767,586	7,584,337	8,459	7,592,796

During the year, the Bank changed the method of computation of provision for non-performing advances in order to comply with instructions contained in BSD Circular No. 07 dated November 1, 2005 issued by the State Bank of Pakistan. The amendments in Prudential Regulations for classification and provisioning for loans and advances made vide this circular include elimination of Other Asset Especially Mentioned category, revision of aging criteria and increase in provisioning requirement for substandard category to 25 percent. Further, during the year the Board of Directors of the Bank resolved to withdraw the requirement of maintaining general provision as well. Had the above mentioned changes not taken place, the provision against non-performing advances would have been lower and profit before tax for the year would have been higher by Rs 4,921 thousand.

11.5 PARTICULARS OF WRITE OFFS:		2005	2004	
		Rupees in '000		
11.5.1	Against provisions Directly charged to Profit & Loss account	11.4	513,347	200,967
			-	-
			<u>513,347</u>	<u>200,967</u>
11.5.2	Write Offs of Rs. 500,000 and above Write Offs of Below Rs. 500,000	11.6	85,390	28,572
			<u>427,957</u>	<u>172,395</u>
			<u>513,347</u>	<u>200,967</u>

11.6 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 written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2005 is given at Annexure-1.

11.7 PARTICULARS OF LOANS AND ADVANCES TO DIRECTORS, ASSOCIATED COMPANIES, ETC.	Balance as at December 31, 2005	*Maximum total amount of advances including temporary advances granted during the year Rupees in '000
Debts due by executives or officers of the bank or any of them either severally or jointly with any other persons	12,617	13,239
Debts due by subsidiary company	125,184	130,516
	<u>137,801</u>	<u>143,755</u>

\* The maximum amount has been calculated by reference to month-end balance.

2005                      2004  
Rupees in '000

12. OTHER ASSETS

Income / mark-up accrued in local currency	12.1	153,412	157,432
Advances, deposits, advance rent and other prepayments		45,008	22,340
VSS cost reimbursable by GOP		735,865	1,746,603
Refund due from defined benefit pension and gratuity fund		15,552	96,194
Receivable from subsidiary company		265	1,712
Receivable from Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited		57,447	-
Receivable from Speedway Fondmetall Pakistan Limited		19,640	-
Receivable from Equity Participation Fund		1,904	1,904
Receivable against factorized portfolio		25,385	-
Others		36,466	51,042
		<u>1,090,944</u>	<u>2,077,227</u>
Less: Provision held against other assets	12.2	<u>123,737</u>	<u>53,063</u>
Other assets (net of provision)		<u>967,207</u>	<u>2,024,164</u>

12.1 This balance has been arrived at after adjusting interest in suspense of Rs 5,189,451 thousand (2004: Rs 5,634,547 thousand)

12.2 Provision against other assets

Opening balance		53,063	53,305
Transfer from provision for impairment in value of investments		107,908	-
Charge for the year		19,640	171
Reversals		(56,285)	-
Amount written off		(589)	(413)
Closing balance		<u>123,737</u>	<u>53,063</u>

Provision balance is in respect of:

Income / mark-up accrued in local currency			
Asset Investment Bank Limited		15,780	15,780
Prudential Investment Bank Limited		506	506
Universal Leasing Limited		22	22
Receivable from Ravi Securities (Pvt) Limited and Taas Securities (Pvt) Limited		57,447	5,824
Receivable from Speedway Fondmetall Pakistan Limited		19,640	-
Other receivables			
Advance to Invest Capital and Securities (Pvt) Limited		372	372
Legal charges recoverable from borrowers		26,383	26,972
Others		3,587	3,587
		<u>123,737</u>	<u>53,063</u>

13. OPERATING FIXED ASSETS

Capital work-in-progress	13.1	9,742	3,330
Property and equipment	13.2	143,629	118,120
Intangible assets	13.3	7,067	3,411
		<u>160,438</u>	<u>124,861</u>

13.1 Capital work-in-progress

Advances to suppliers and contractors for

assets subject to finance lease		2,487	3,330
other assets		7,255	-
		<u>9,742</u>	<u>3,330</u>

13.2 Property and equipment

	COST			DEPRECIATION				Net book value at December 31, 2005	Annual rate of depreciation %	
	As at January 1, 2005	Transfer from leased assets to owned assets	Additions/ (deletions)	As at December 31, 2005	As at January 1, 2005	Transfer from leased assets to owned assets	Charge for the year/ (disposals)			As at December 31, 2005
Owned assets: Rupees in '000										
Free hold land	2,813	-	-	2,813	-	-	-	-	2,813	-
Lease hold land	60,450	-	-	60,450	-	-	-	-	60,450	-
Buildings on free hold land	2,485	-	15,531	18,016	373	-	189	562	17,454	5
Buildings on lease hold land	194	-	-	194	11	-	10	21	173	
Furniture and fixture	9,731	-	2,922	11,577	5,276	-	2,123	6,661	4,916	20
			(1,076)				(738)			
Office equipment	7,308	-	5,235	11,702	2,682	-	1,354	3,693	8,009	15
			(841)				(343)			
Computer equipment	38,736	-	11,606	50,185	27,493	-	8,092	35,429	14,756	33 1/3
			(157)				(156)			
Vehicles	24,370	19,094	2,353	39,025	14,265	10,299	6,659	26,429	12,596	20
			(6,792)				(4,794)			
Leasehold improvements	4,175	-	1,434	5,552	2,510	-	1,294	3,777	1,775	33 1/3
			(57)				(27)			
Library books	19	-	-	19	12	-	4	16	3	20
	150,281	19,094	39,081	199,533	52,622	10,299	19,725	76,588	122,945	
			(8,923)				(6,058)			
Assets held under finance lease:										
Vehicles	31,920	(19,094)	14,957	27,070	11,459	(10,299)	5,483	6,386	20,684	20
			(713)				(257)			
2005	182,201	-	54,038	226,603	64,081	-	25,208	82,974	143,629	
			(9,636)				(6,315)			
2004	180,851	-	14,690	182,201	42,689	-	27,362	64,081	118,120	
			(13,340)				(5,970)			

13.3 Intangible assets

	COST			AMORTISATION			Net book value at December 31, 2005	Annual rate of amortisation %	
	As at January 1, 2005	Additions	As at December 31, 2005	As at January 1, 2005	Amortisation	As at December 31, 2005			
Rupees in '000									
Computer software	2005	10,704	5,917	16,621	7,293	2,261	9,554	7,067	33 1/3
	2004	8,997	1,707	10,704	4,236	3,057	7,293	3,411	

13.4 Disposal of fixed assets

Particulars of assets	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of buyers
	Rupees in '000					
<b>Vehicles</b>						
Suzuki Cultus	392	268	124	157	As per Bank policy	Mr Shahzad Ahmed - Executive
Suzuki Margalla	212	138	74	85	-do-	Mr Tariq Mehmood Malik - Executive
Suzuki Margalla	212	145	67	85	-do-	Mr Mehfooz Elahi Piracha - Executive
Suzuki Margalla	212	149	63	85	-do-	Mr Ihsan-ul-Haq - Executive
Suzuki Mehran	266	191	75	106	-do-	Syed Mohsin Zaidi - Executive
Suzuki Cultus	399	293	106	160	-do-	Syed Akbar Shah - Executive
Suzuki Baleno	482	362	120	193	-do-	Mr Zafar M Awan - Executive
Suzuki Cultus	397	311	86	159	-do-	Mr Dilshad Ali Ahmed - Executive
Suzuki Baleno	508	389	119	203	-do-	Mr M Azam Khan - Executive
Suzuki Jeep	238	182	56	95	-do-	Mr Jaffar Ali - Executive
Suzuki Jeep	392	300	92	157	-do-	Mr M Ayub - Executive
	<u>3,710</u>	<u>2,728</u>	<u>982</u>	<u>1,485</u>		
<b>Other assets having book value of less than Rs 250,000 or cost of less than Rs 1,000,000</b>						
	5,926	3,587	2,339	6,005		
2005	<u>9,636</u>	<u>6,315</u>	<u>3,321</u>	<u>7,490</u>		
2004	<u>13,340</u>	<u>5,970</u>	<u>7,370</u>	<u>9,662</u>		

(Rupees '000)

13.5 Carrying amount of temporary idle property and equipment

Leasehold land	10,450
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13.6 Gross carrying amount of fully depreciated assets that are still in use

Computer equipment	27,961
Lease hold improvements	1,713
Computer software	7,868

13.7 Carrying amount of land and building retired from active use and held for disposal

Freehold land	2,813
Building	2,485

2005  
Rupees in '000

2004

14. DEFERRED TAX ASSET

Deferred taxation is in respect of:

Deficit/(surplus) on revaluation of investment	38,495	(80,009)
Provision for non-performing loans related to defunct SBFC as at December 31, 2001	382,149	382,149
Preliminary expenses charged off in prior years	145	290
Accelerated tax depreciation	(1,916)	1,574
Excess of accounting book value of leased assets over corresponding liabilities	(520)	(1,265)
Provision for doubtful investments/ receivables	20,985	12,296
	<u>439,338</u>	<u>315,035</u>

	2005	2004
	Rupees in '000	
15. <b>BILLS PAYABLE</b>		
In Pakistan	6,271	-
Outside Pakistan	-	-
	<u>6,271</u>	<u>-</u>
16. <b>BORROWINGS FROM FINANCIAL INSTITUTIONS</b>		
In Pakistan	1,530,000	1,680,000
Outside Pakistan	-	-
	<u>1,530,000</u>	<u>1,680,000</u>
16.1 Particulars of borrowings from financial institutions		
In local currency	1,530,000	1,680,000
In foreign currencies	-	-
	<u>1,530,000</u>	<u>1,680,000</u>
16.2 Details of borrowings from financial institutions		
Repurchase agreement borrowings - secured	<u>1,530,000</u>	<u>1,680,000</u>

These represent transactions with financial institutions for sale of Government Securities under re-purchase agreement (REPO) in the inter bank money market at mark-up rates ranging from 1.20% to 9.00 % (2004: 1.50% to 5.15%) per annum for periods upto 4 months. REPO transactions are secured against investment of the Bank in Pakistan Investment Bonds.

	2005	2004
	Rupees in '000	
17. <b>DEPOSITS AND OTHER ACCOUNTS</b>		
Customers		
Fixed deposits	169,763	1,800
Savings deposits	347,057	201,976
Current accounts - non-remunerative	144,293	-
Margin account	622	-
	661,735	203,776
Financial Institutions		
Remunerative deposits	360,967	-
	<u>1,022,702</u>	<u>203,776</u>
17.1 Particulars of deposits		
In local currency	1,022,702	203,776
In foreign currencies	-	-
	<u>1,022,702</u>	<u>203,776</u>
17.2 Savings deposits include Rs 207.732 million (2004: Rs 193.810 million) related to Equity Participation Fund.		

		(Rupees '000)
18.	LOAN FROM THE STATE BANK OF PAKISTAN	
a)	Credit lines on service charge basis from SBP Extended to defunct SBFC	1,542,200
b)	Credit lines on profit & loss sharing basis from SBP	
	Extended to defunct RDFC	1,426,060
	Extended to defunct SBFC	9,718,220
		11,144,280
		12,686,480
Less:	Additional provision against advances in accordance with restructuring plan, charged to SBP	(1,283,196)
	Receivable from SBP against its share in profit/loss adjusted against borrowing from SBP	(3,275,752)
	Payment to SBP during 2003	(3,000,000)
	Balance at December 31, 2003	5,127,532
Less:	Payment by GOP to SBP against issue of 73,502,453 additional shares of Rs. 10 each to GOP	(735,025)
	Payment to SBP during 2004	(392,507)
	Balance at December 31, 2004	4,000,000
Less:	Payment to SBP during 2005	(1,500,000)
	Balance at December 31, 2005	2,500,000
18.1	Effective January 1, 2004, return on loan from SBP is paid quarterly on the basis of weighted average yield of 3 years Pakistan Investment Bonds (PIB).	

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2005			2004		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	Rupees in '000					
Not later than one year	6,759	686	6,073	11,402	591	10,811
Later than one year and not later than five years	16,237	626	15,611	9,625	258	9,367
Over five years	-	-	-	-	-	-
	<u>22,996</u>	<u>1,312</u>	<u>21,684</u>	<u>21,027</u>	<u>849</u>	<u>20,178</u>

This represents liability against vehicle lease agreements with leasing companies. Monthly lease rentals are payable including financial charges at rates ranging between 6.46 % and 16.52 % (2004: 6.46% and 16.52%) per annum which rates have been used as discounting factor to determine present value of minimum lease payments. The purchase option is available with the Bank at the time of payment of the last installment on surrender of deposit money under the lease agreements.

20. OTHER LIABILITIES		2005	2004
		Rupees in '000	
Mark-up/ return/ interest payable in local currency		49,017	58,837
Accrued expenses		61,973	38,430
Advance payments		4,220	-
Current taxation		290,528	435,466
Accounts payable		14,388	14,790
Sundry creditors		22,426	11,534
Branch adjustment account		271	81
Industrial Credit for Rural Women - Promotional Fund	20.1	30,184	29,597
Provision for central excise duty	20.2	29,233	37,820
Payable against employees benefit plans			
Defined benefit unfunded gratuity scheme	33.2	11,115	7,311
Unfunded compensated absences	33.3.3	67,102	32,733
Benevolent fund	33.4	(12)	112
Security deposits against lease		514	514
Employees' VSS payments withheld		18,591	18,758
Payable to Cash Management Scheme		133	529
Income tax withheld payable		17,166	16,521
Others		248	7,355
		<u>617,097</u>	<u>710,388</u>

20.1 Industrial Credit for Rural Women - Promotional Fund

Funds received including accumulated profit	30,184	33,898
Loan outstanding - net of provision	-	(4,301)
	<u>30,184</u>	<u>29,597</u>

The Fund is in respect of Rs 21.5 million received by the defunct RDFC in 1995 from GOP, National Development Finance Corporation (now amalgamated with National Bank of Pakistan), IDBP and Pakistan Banking Council (now taken over by SBP) for providing industrial credit to rural women. The Fund balance at year end date is included in assets of the Bank.

20.2 Provision for central excise duty

Central Excise Duty (CED) and penalty thereon was imposed on defunct RDFC in June 1999 by the Additional Collector, Central Excise, Rawalpindi. Defunct RDFC filed an appeal against the order and the case was set-aside by the Collector (Appeals) in November 1999 for due reconciliation and fresh examination by the Additional Collector, Central Excise, Rawalpindi.

The reconciliation and fresh examination of the records of the CED maintained by RDFC was carried out by a team of the office of Central Excise during the year. Payments of Rs 8.59 million was made during the year. Additional Collector of Customs, Sales Tax and Central Excise (Adjudication), Rawalpindi, issued an order on July 30, 2005, thereby, additional duties were levied. The Bank filed an appeal against the order before the Appellate Tribunal, Customs, Sales Tax and Central Excise, Islamabad, on August 30, 2005, which appeal was pending with the Tribunal.

21. SHARE CAPITAL

21 Authorized Capital

2005	2004		2005	2004
Rupees in '000				
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs 10 ea	<u>10,000,000</u>	<u>10,000,000</u>

21 Issued, subscribed and paid up

Ordinary shares of Rs 10 each

2005	2004		2005	2004
113,602,453	73,602,453	Fully paid in cash	1,136,025	736,025
36,397,547	36,397,547	Issued for consideration other than cash	363,975	363,975
<u>150,000,000</u>	<u>110,000,000</u>		<u>1,500,000</u>	<u>1,100,000</u>

	Number of shares	%	2005	2004
21 Break-up of share capital is as follows:				
Federal Government	139,023,682	92.68	1,390,237	943,386
The State Bank of Pakistan	-	-	-	46,851
National Bank of Pakistan	4,590,936	3.06	45,909	45,909
United Bank of Pakistan	2,981,327	1.99	29,813	29,813
Habib Bank Limited	1,490,663	0.99	14,907	14,907
MCB Bank Limited	1,117,992	0.75	11,180	11,180
Allied Bank Limited	580,778	0.39	5,808	5,808
Industrial Bank of Pakistan Limited	214,615	0.14	2,146	2,146
Directors	7	-	-	-
	<u>150,000,000</u>	<u>100</u>	<u>1,500,000</u>	<u>1,100,000</u>

22. (DEFICIT)/ SURPLUS ON REVALUATION OF INVESTMENTS

Federal Government securities	(110,687)	227,897
Quoted shares	(166)	1,293
Redeemable capital	1,497	20,483
	<u>(109,356)</u>	<u>249,673</u>
Deferred tax thereon	38,495	(80,009)
	<u>(70,861)</u>	<u>169,664</u>

23. CONTINGENCIES AND COMMITMENTS	2005	2004
	Rupees in '000	
23.1 Transaction-related contingent liabilities		
Guarantees in favour of:		
Government	-	-
Banks and financial institutions	-	-
Others	17,080	12,820
	<u>17,080</u>	<u>12,820</u>
23.2 Other Contingencies		
a) Claims not acknowledged as debt from various borrowers for loss sustained due to non-disbursement	32,866	16,101
b) Damages claim by Ravi Securities (Private) Limited and Taas Securities (Private) Limited, not acknowledged as debt	23,800	23,800
c) Tax demands raised by the income tax authorities related to defunct SBFC for assessment years 2001-02 and 2002-03 related to excess perquisites, write-off of consumable stores and payment under voluntary separation scheme. No provision in this respect has been made in the financial statements pending decision of the appeal filed with the Commissioner of Income Tax. The Bank is confident of a favourable decision	209,604	-
d) Adjustment of loan guarantee amount against borrowing from IDBP repaid in prior years, disputed by IDBP	9,939	9,939
23.3 Commitments in respect of forward lending		
Commitments to extend credit	56,350	115,475
23.4 Commitments for the acquisition of operating fixed assets	9,103	8,297
23.5 Commitments against REPO transactions		
Purchase and resale agreements	-	-
Sale and repurchase agreements	1,530,000	1,680,000
23.6 Other commitments		
Undrawn facilities	30,613	-
Forward purchases	-	350,000
Forward sales	-	100,000
23.7 Bills for collection		
Payable in Pakistan	1,582	-
Payable outside Pakistan	-	-

		2005	2004
		Rupees in '000	
24.	MARK-UP/ RETURN/ INTEREST EARNED		
	On loans and advances to		
	Customers		
	Extended by:		
	Defunct RDFC	10,423	12,467
	Defunct SBFC	273,733	211,453
	SME Bank Limited	137,063	142,001
	Employees	<u>2,952</u>	<u>2,625</u>
		424,171	368,546
	Financial Institution - SME Leasing Limited	<u>5,923</u>	<u>6,873</u>
		430,094	375,419
	On investments in		
	Available for sale securities	<u>402,151</u>	<u>390,971</u>
	Held to maturity securities	<u>5,826</u>	<u>10,488</u>
		407,977	401,459
	On deposits with financial institutions	6,186	5,760
	On securities purchased under resale agreements	409	4,242
	Mark-up on investment in finance lease	-	(68)
		<u>844,666</u>	<u>786,812</u>
25.	MARK-UP/ RETURN/ INTEREST EXPENSED		
	Deposits	8,244	1,908
	Securities sold under repurchase agreements	112,142	44,758
	Other short term borrowings	11	-
	Loan from the State Bank of Pakistan	146,961	181,641
	Amortisation of premium/ discount on investments	68,271	90,041
	Brokerage and commission	536	1,086
	Bank charges	<u>1,272</u>	<u>820</u>
		<u>337,437</u>	<u>320,254</u>
26.	OTHER INCOME		
	Net profit on sale of property and equipment	4,169	2,292
	Profit on off-balance sheet items	26.1 17,634	17,701
	Others	<u>4,715</u>	<u>-</u>
		<u>26,518</u>	<u>19,993</u>
26.1	Profit on off-balance sheet items		
	Cash Management Scheme		
	Net income	634	2,615
	Reversal of provision against investment in First Leasing Corporation Limited	<u>17,000</u>	<u>13,000</u>
		17,634	15,615
	Equity Participation Funds	-	2,086
		<u>17,634</u>	<u>17,701</u>

		2005	2004
		Rupees in '000	
27. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		320,575	212,390
Charge for defined benefit plans			
- pension fund		(10,092)	62,270
- unfunded gratuity scheme		7,152	5,714
Contribution to defined contribution plan - benevolent fund		672	917
Non-executive directors' fees, allowances and other expenses		639	59
Rent, taxes, insurance, electricity, etc.		45,555	36,235
Legal and professional charges		9,344	7,464
Communications		11,391	8,521
Repairs and maintenance		2,272	3,503
Finance charges on leased assets		833	1,422
Stationery and printing		6,284	3,490
Advertisement and publicity		7,006	2,200
Depreciation	13.2	25,208	27,362
Amortization	13.3	2,261	3,057
Donations	27.1	719	-
Auditors' remuneration	27.2	1,851	1,620
Staff separation costs		6,511	4,431
Staff recovery costs		11,371	3,951
Recovery expenses - outsourced portfolio		23,695	15,211
Recruitment expenses		247	950
Travel and transport		12,255	11,783
Vehicle running and maintenance expenses		9,998	9,412
Entertainment		1,078	732
Training		3,627	1,730
Books, subscription and newspapers		2,443	1,117
Other receivables written-off		25	335
Other expenses		4,795	4,499
		<u>507,715</u>	<u>430,375</u>

27.1 Donations

This represents donation given to the President's Relief Fund for earthquake victims in Pakistan. None of the directors or their spouses had any interest in the donee fund.

		2005	2004
		Rupees in '000	
27.2 Auditors' remuneration			
Audit fee		1,000	975
Special certifications, half yearly review and audit of consolidated financial statements		665	495
Out-of-pocket expenses		186	150
		<u>1,851</u>	<u>1,620</u>

27.3 Government grant

Administrative expenses for the year ended December 31, 2005 are net of government grants related to expenses incurred by the Government of Pakistan on consultants' services hired to appraise the existing credit activities of the Bank and to develop credit based products to cater the need of SMEs. These are also net of Government grants of Rs 17,383 thousand (2004: Rs 1,746,603 thousand) towards voluntary separation scheme and related cost incurred by the Bank.

		2005	2004
		Rupees in '000	
28. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		<u>809</u>	<u>-</u>

	2005	2004
	Rupees in '000	
29. TAXATION		
For the year		
Current	144,817	243,764
Deferred	<u>(5,800)</u>	<u>4,123</u>
	139,017	247,887
For prior years		
Current	<u>23,886</u>	<u>(10,532)</u>
Deferred	<u>-</u>	<u>15,034</u>
	<u>23,886</u>	<u>4,502</u>
	<u>162,903</u>	<u>252,389</u>
29.1 Relationship between tax expense and accounting profit		
Accounting profit for the current year	<u>369,112</u>	<u>711,327</u>
	%	%
Applicable tax rate	38.00	35.00
Tax effect of		
- income chargeable at reduced tax rates	(0.03)	(0.15)
- temporary differences on which deferred tax has been enacted at reduced tax rate for subsequent years	(0.13)	-
- expenses that are not deductible for tax purposes	(0.18)	-
Average effective tax rate	<u>37.66</u>	<u>34.85</u>
30. BASIC/ DILUTED EARNINGS PER SHARE	2005	2004
	Rupees in '000	
Profit for the year	<u>206,209</u>	<u>458,938</u>
	Number of shares	
Weighted average number of ordinary shares	<u>124,246,575</u>	<u>110,000,000</u>
	Rupees	
Basic/ diluted earnings per share	<u>1.66</u>	<u>4.17</u>
31. CASH AND CASH EQUIVALENTS	2005	2004
	Rupees in '000	
Cash and balances with treasury banks	188,460	22,859
Balance with other banks	<u>112,047</u>	<u>403,872</u>
	<u>300,507</u>	<u>426,731</u>
32. STAFF STRENGTH	2005	2004
	Number	
Total number of employees at the end of the year	<u>632</u>	<u>563</u>

33. EMPLOYEE BENEFIT PLANS

33.1 Defined benefit pension and gratuity plan

33.1.1 General description

Bank operates an approved defined benefit pension and gratuity fund for all its permanent and regular employees. Contributions are made in accordance with the actuarial recommendations.

The scheme entitles the members to:

- Gratuity payable to members who have completed a minimum of 5 years of service and total service on retirement or cessation of service or death is less than 10 years.
- Pension payable to members who have completed a minimum of 10 years of service with the Bank on retirement at age of sixty years or on completion of 25 years of service with the Bank or on permanent disability or on death during service.

33.1.2 Principal actuarial assumptions

Actuarial valuation is carried out periodically. Latest actuarial valuation was carried out as at December 31, 2005 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	2005	2004
Discount rate - per annum	10.00%	9.00%
Expected return on plan assets - per annum	10.00%	9.00%
Salaries increase rate - per annum	9.00%	8.00%

	2005 (Rupees '000)	2004
33.1.3 Reconciliation of payable to defined benefit pension and gratuity plans		
Present value of defined benefit obligation	215,652	135,631
Fair value of plan assets	<u>(205,580)</u>	<u>(288,426)</u>
Deficit/ (surplus)	10,072	(152,795)
Unrecognized actuarial gain/ (loss)	(15,833)	42,974
Unrecognised past service cost	(9,791)	-
Asset ceiling effect	-	13,627
Net (asset)/ liability	<u><u>(15,552)</u></u>	<u><u>(96,194)</u></u>
33.1.4 Movement in the asset/ (liability) recognized in the balance sheet		
Balance at the beginning of the year	(96,194)	123,543
Expense for the year	(10,092)	62,270
Gain on settlement	-	(269,788)
Payment from/ (to) fund during the year	90,734	(12,219)
Balance at the end of the year	<u><u>(15,552)</u></u>	<u><u>(96,194)</u></u>
33.1.5 Expense for the year		
Current service cost	11,900	41,620
Interest cost	12,207	23,130
Expected return on plan assets	(19,002)	(16,107)
Asset ceiling effect	(1,570)	13,627
Reversal of amount not recognised as an asset	(13,627)	-
Expense for the year	<u><u>(10,092)</u></u>	<u><u>62,270</u></u>
33.1.6 Actual return on plan assets	<u><u>9,212</u></u>	<u><u>54,776</u></u>

	2005	2004
	(Rupees '000)	
33.2 Defined benefit unfunded gratuity scheme	<u>11,115</u>	<u>7,311</u>

For its contractual employees, the Bank operates a defined benefit unfunded gratuity scheme for which provision is made annually to cover the liability at the balance sheet date and charged to profit and loss account for the year.

33.3 Unfunded compensated absences

33.3.1 General description

Bank allows compensated absences, an unfunded scheme, per entitlement to all its permanent and contractual employees. Related provision is made in accordance with the actuarial valuation.

33.3.2 Principal actuarial assumptions

Actuarial valuation was carried out as at December 31, 2005 using Projected Unit Credit Method. Significant actuarial assumptions used were as follows:

	2005	2004
Discount factor - per annum	10.00%	9.00%
Salaries increase rate - per annum	9.00%	8.00%

	2005	2004
	(Rupees '000)	
33.3.3 Movement in liability recognized in the balance sheet		
Balance at beginning of the year	32,733	187,417
Gain on settlement	-	(151,370)
Expense for the year	40,819	(879)
Benefits paid during the year	(6,450)	(2,435)
Balance at end of the year	<u>67,102</u>	<u>32,733</u>

33.3.4 Expense for the year		
Current service cost	2,071	9,404
Interest cost	2,946	13,119
Actuarial loss/ (gain) recognised	<u>35,802</u>	<u>(23,402)</u>
	<u>40,819</u>	<u>(879)</u>

	Staff Benevolent Fund	Officers Benevolent Fund	Total
	(Rupees '000)		
33.4 Benevolent fund			
Total liability	10,776	21,616	32,392
Investment against funds			
Defense Savings Certificates (including accrued income)	8,299	11,318	19,617
Term deposit receipts	2,784	9,732	12,516
Bank deposit account	68	203	271
	<u>11,151</u>	<u>21,253</u>	<u>32,404</u>
Net liability/ (asset) - December 31, 2005	<u>(375)</u>	<u>363</u>	<u>(12)</u>
Net liability/ (asset) - December 31, 2004	<u>10</u>	<u>102</u>	<u>112</u>

34. REMUNERATION OF DIRECTORS AND EXECUTIVES

	President/ Chief Executive		Directors		Executives	
	2005	2004	2005	2004	2005	2004
	Rupees in '000					
Fees	26	-	172	4	-	-
Managerial remuneration	1,841	1,762	-	-	31,764	17,991
Charge for defined benefit plan	180	170	-	-	4,045	3,328
Contribution to defined contribution plan	-	-	-	-	-	-
Rent and house maintenance	787	715	-	-	2,879	1,612
Utilities	92	88	-	-	3,177	1,799
Medical	31	50	-	-	2,050	1,009
Conveyance	-	-	-	-	212	48
Leave fare assistance	442	777	-	-	1,008	710
Bonus/ ex-gratia	538	210	-	-	6,583	2,212
Others	175	161	-	-	2,701	1,597
	<u>4,112</u>	<u>3,933</u>	<u>172</u>	<u>4</u>	<u>54,419</u>	<u>30,306</u>
Number of persons	<u>1</u>	<u>1</u>	<u>6</u>	<u>7</u>	<u>40</u>	<u>20</u>

35. MATURITIES OF ASSETS AND LIABILITIES

	2005				
	Total	Upto three months	Over 3 months to one year	Over one year to five years	Over five years
	Rupees in '000				
<b>Assets</b>					
Cash and balances with treasury banks	188,460	188,460	-	-	-
Balances with other banks	112,047	112,047	-	-	-
Lending to financial institutions	-	-	-	-	-
Investments	4,807,743	653,247	278,502	1,317,376	2,558,618
Advances	1,184,844	213,978	367,212	496,453	107,201
Other assets	967,207	922,655	31,448	13,104	-
Operating fixed assets	160,438	13,922	5,719	58,027	82,770
Deferred tax asset	439,338	-	145	57,044	382,149
	<u>7,860,077</u>	<u>2,104,309</u>	<u>683,026</u>	<u>1,942,004</u>	<u>3,130,738</u>
<b>Liabilities</b>					
Bills payable	6,271	6,271	-	-	-
Borrowings from financial institutions	1,530,000	1,530,000	-	-	-
Deposits and other accounts	1,022,702	879,639	143,063	-	-
Sub-ordinated loans	-	-	-	-	-
Loan from the State Bank of Pakistan	2,500,000	500,000	2,000,000	-	-
Liabilities against assets subject to finance lease	21,684	1,231	4,842	15,611	-
Other liabilities	617,097	168,964	307,827	31,917	108,389
Deferred tax liabilities	-	-	-	-	-
	<u>5,697,754</u>	<u>3,086,105</u>	<u>2,455,732</u>	<u>47,528</u>	<u>108,389</u>
Net assets	<u>2,162,323</u>	<u>(981,796)</u>	<u>(1,772,706)</u>	<u>1,894,476</u>	<u>3,022,349</u>
Share capital	1,500,000				
Reserves	146,638				
Unappropriated profit	586,546				
(Deficit) on revaluation of investments	(70,861)				
	<u>2,162,323</u>				

36. YIELD/INTEREST RATE RISK

Yield/ interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.

	Effective Yield/ Interest rate	Total	2005				Not exposed to Yield/ Interest risk
			Exposed to Yield/ Interest risk	Upto three months	Over 3 months to one year	Over one year to five years	
			Rupees in '000				
On-balance sheet financial instruments							
Assets							
Cash and balances with treasury banks		188,460	184	-	-	-	188,276
Balances with other banks	1.00% - 5.50%	112,047	112,047	-	-	-	-
Lendings to financial institutions		-	-	-	-	-	-
Investments	7.25% - 16.00%	4,807,743	640,662	260,502	1,317,376	2,344,393	244,810
Advances	3.00% - 21.00%	1,184,844	213,978	367,212	496,453	107,201	-
Other assets		936,619	-	-	-	-	936,619
		<u>7,229,713</u>	<u>966,871</u>	<u>627,714</u>	<u>1,813,829</u>	<u>2,451,594</u>	<u>1,369,705</u>
Liabilities							
Bills payable		6,271	-	-	-	-	6,271
Borrowings from financial institutions	1.20% - 9.00%	1,530,000	1,530,000	-	-	-	-
Deposits and other accounts	1.00% - 12.00%	1,022,702	735,346	143,063	-	-	144,293
Sub-ordinated loans		-	-	-	-	-	-
Loan from the State Bank of Pakistan	4.235%	2,500,000	500,000	2,000,000	-	-	-
Liabilities against assets subject to finance lease	6.46% - 16.52%	21,684	1,231	4,842	15,611	-	-
Other liabilities		262,435	-	-	-	-	262,435
		<u>5,343,092</u>	<u>2,766,577</u>	<u>2,147,905</u>	<u>15,611</u>	<u>-</u>	<u>412,999</u>
On-balance sheet gap		<u>1,886,621</u>	<u>(1,799,706)</u>	<u>(1,520,191)</u>	<u>1,798,218</u>	<u>2,451,594</u>	<u>956,706</u>
Off-balance sheet financial instruments							
Commitments to extend credit		56,350	56,350	-	-	-	-
Off-balance sheet gap		<u>56,350</u>	<u>56,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Yield/ Interest Risk Sensitivity Gap			<u>(1,856,056)</u>	<u>(1,520,191)</u>	<u>1,798,218</u>	<u>2,451,594</u>	
Cumulative Yield/ Interest Risk Sensitivity Gap			<u>(1,856,056)</u>	<u>(3,376,247)</u>	<u>(1,578,029)</u>	<u>873,565</u>	

36.1 Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

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

	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
37. CURRENCY RISK	Rupees in '000			
Pakistan rupee	7,229,713	5,343,092	56,350	-
United States dollar	-	-	-	-
Great Britain pound	-	-	-	-
Deutsche mark	-	-	-	-
Japanese yen	-	-	-	-
Euro	-	-	-	-
Other currencies	<u>7,229,713</u>	<u>5,343,092</u>	<u>56,350</u>	<u>-</u>

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

38.1 On-balance sheet financial instruments

	2005		2004	
	Book value	Fair value	Book value	Fair value
	Rupees in '000			
Assets				
Cash balances with treasury banks	188,460	188,460	22,859	22,859
Balances with other banks	112,047	112,047	403,872	403,872
Lendings to financial institutions	-	-	-	-
Investments	4,807,743	4,807,743	4,383,800	4,383,800
Advances	1,184,844	1,184,844	1,136,390	1,136,390
Other assets	936,619	936,619	2,004,298	2,004,298
	<u>7,229,713</u>	<u>7,229,713</u>	<u>7,951,219</u>	<u>7,951,219</u>
Liabilities				
Bills payable	6,271	6,271	-	-
Borrowings from financial institutions	1,530,000	1,530,000	1,680,000	1,680,000
Deposits and other accounts	1,022,702	1,022,702	203,776	203,776
Sub-ordinated loans	-	-	-	-
Loan from the State Bank of Pakistan	2,500,000	2,500,000	4,000,000	4,000,000
Liabilities against assets subject to finance	21,684	21,684	20,178	20,178
Other liabilities	262,435	262,435	177,926	177,926
	<u>5,343,092</u>	<u>5,343,092</u>	<u>6,081,880</u>	<u>6,081,880</u>

38.2 Off-balance sheet financial instruments

Commitments to extend credit	<u>56,350</u>	<u>56,350</u>	<u>115,475</u>	<u>115,475</u>
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The fair value of investments is based on quoted market prices and rates quoted at Reuters Pages (PKRV) with the exception of unlisted securities, National Prize Bonds, Certificates of Investments, Term Deposits Receipts and Letter of Placements.

Fair value of the remaining financial assets and liabilities except fixed term loans, non-performing advances and fixed term deposits is not significantly different from the carrying amounts since the assets and liabilities are either short term in nature or in the case of customer loans and deposits are frequently repriced.

Fair value of fixed term loans, staff loans, non-performing advances and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets 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 5.3. The maturity profile and effective rates are stated in note 36.

### 39. CONCENTRATION OF CREDIT AND DEPOSITS

Out of total financial assets of Rs 7,229.713 million, the financial assets which were subject to credit risk amounted to Rs 2,858.351 million. Investments and other assets amounting to Rs 3,635.497 million and Rs 735.865 million respectively are guaranteed by the Government of Pakistan.

#### 39.1 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The Bank is not exposed to major concentration of credit risk. Written procedures for credit and risk management functions have been developed and implemented. Credit evaluation system comprise of well designed loan approval and review responsibilities and it is ensured that Bank's credit-granting activities conform to the established strategy, prudential regulations and SBP instructions are strictly followed. To ensure that credit granting activities are adequately diversified, besides fixing limits on individual credit, it is ascertained that there is no concentration in a particular industry or economic sector, geographical region and specific product. Special attention is placed on such non-performing loans and a special Recovery Division follows up and recovers all such loans. Recovery against certain specific non-performing loans has been outsourced to independent Recovery Service Providers.

#### 39.2 Foreign exchange risk

Presently the Bank does not deal in foreign exchange.

#### 39.3 Interest rate risk

Financial assets include balances of Rs 5,860,008 thousand (2004: Rs 5,698,086 thousand) which were subject to interest rate risk. An Assets Liability Committee of the Bank meets periodically and ensures that the investments are made in an appropriate manner to mitigate any interest rate and liquidity risk.

#### 39.4 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. In order to avoid liquidity risk, the Bank has a policy to maintain sufficient liquidity. To closely watch liquidity position, the Assets Liability Committee meets periodically to ensure that adequate liquidity is maintained to meet any future financial obligation.

39.5 Segment by class of business	2005					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and Pharmaceuticals	235,477	3%	902	1%	2,028	-
Aqribusiness	221,351	3%	662	-	-	-
Textile	375,959	5%	13,188	1%	-	-
Cement	56,222	1%	-	-	-	-
Sugar	5,440	-	-	-	-	-
Shoes and leather garment	213,863	3%	5,635	1%	-	-
Automobile and transportation	83,967	1%	11,006	1%	1,282	-
Financial Insurance	128,431	2%	360,967	35%	1,539,939	80%
Electronics and electrical appliances	-	-	-	-	10	-
Production and transmission of energy	191,139	2%	887	-	2,622	-
Individuals	-	-	-	-	32,997	2%
Public/ Government	2,023,392	25%	202,457	20%	1,359	-
Others	-	0%	25,000	2%	209,604	11%
	4,417,189	55%	401,998	39%	131,096	7%
	<u>7,952,430</u>	<u>100%</u>	<u>1,022,702</u>	<u>100%</u>	<u>1,920,937</u>	<u>100%</u>

39.6 Segment by sector	2005					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/ Government	-	-	25,000	2%	209,604	11%
Private	7,952,430	100%	997,702	98%	1,711,333	89%
	<u>7,952,430</u>	<u>100%</u>	<u>1,022,702</u>	<u>100%</u>	<u>1,920,937</u>	<u>100%</u>

#### 40. GEOGRAPHICAL SEGMENT ANALYSIS

	2005			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000			
Pakistan	369,112	7,860,077	2,162,323	1,920,937
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>369,112</u>	<u>7,860,077</u>	<u>2,162,323</u>	<u>1,920,937</u>

#### 41. RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its wholly owned subsidiary - SME Leasing Limited (SMEL), its directors and executive officers.

Details of balances outstanding at year end and transactions with related parties are as follows:

	2005	2004			
	Rupees in '000				
Balances outstanding at the year end					
SME Leasing Limited					
Investment in subsidiary	200,000	200,000			
Loan to SMEL	125,184	90,943			
Receivable from SMEL	265	1,712			
Liability against assets subject to finance lease	6,265	-			
Executive officers					
Loan to executives	14,460	12,049			
Transactions during the year					
SME Leasing Limited					
Interest income on loan to SMEL	5,923	6,873			
Mark-up on liability against assets subject to finance lease	94	-			
Payment for liability against assets subject to finance lease	246	-			
Down payment for acquisition of vehicles under finance lease	3,256	-			
Payment of loan	60,000	-			
Repayment of loan during the year	25,759	19,057			
Principal terms of loan to SMEL					
Year	Amount (Rupees '000)	Term	Interest rate	Repayment	Number of installments
2003	110,000	5 years	7%	Quarterly	20
2005	60,000	3 years	6 months KIBOR + 1.5% with a floor of 11%	Quarterly	12
Executive officers					
Income on loan to executives				415	354