

**HABIB BANK LIMITED**  
**BALANCE SHEET**  
**AS AT MARCH 31, 2005**

|   |      | (Unaudited)<br>March 31,<br>2005 | (Audited)<br>December 31,<br>2004 |
|---|------|----------------------------------|-----------------------------------|
|   | Note | (Rupees in '000)                 |                                   |
| <b>ASSETS</b>                                       |      |                                  |                                   |
| Cash and balances with treasury banks               |      | 31,546,678                       | 31,934,375                        |
| Balances with other banks                           |      | 28,226,519                       | 24,005,342                        |
| Lendings to financial institutions                  |      | 5,762,031                        | 3,755,039                         |
| Investments   | 3    | 124,284,000                      | 129,900,247                       |
| Advances  | 4    | 260,302,544                      | 250,612,460                       |
| Other assets  |      | 12,736,171                       | 11,719,874                        |
| Operating fixed assets                              |      | 10,918,168                       | 10,949,060                        |
| Deferred tax asset - net                            |      | 1,972,526                        | 1,978,144                         |
|   |      | <u>475,748,637</u>               | <u>464,854,541</u>                |
| <b>LIABILITIES</b>                                  |      |                                  |                                   |
| Bills payable                                       |      | 7,111,707                        | 7,359,133                         |
| Borrowings from financial institutions              | 5    | 24,409,497                       | 26,624,558                        |
| Deposits and other accounts                         | 6    | 395,892,707                      | 386,332,570                       |
| Sub-ordinated loans                                 |      | -                                | -                                 |
| Liabilities against assets subject to finance lease |      | -                                | -                                 |
| Other liabilities                                   | 10   | 16,817,346                       | 13,350,205                        |
| Deferred tax liabilities                            |      | -                                | -                                 |
|   |      | <u>444,231,257</u>               | <u>433,666,466</u>                |
| <b>NET ASSETS</b>                                   |      | <u><u>31,517,380</u></u>         | <u><u>31,188,075</u></u>          |
| <b>REPRESENTED BY:</b>                              |      |                                  |                                   |
| <b>Shareholders' equity</b>                         |      |                                  |                                   |
| Share capital                                       |      | 6,900,000                        | 6,900,000                         |
| Other tier 1 capital                                |      | -                                | -                                 |
| Capital reserves                                    |      | 2,705,322                        | 2,893,734                         |
| Unappropriated profit and other reserves            |      | 13,701,327                       | 13,296,954                        |
|   |      | <u>23,306,649</u>                | <u>23,090,688</u>                 |
| Surplus on revaluation of assets - net of tax       | 7    | 8,210,731                        | 8,097,387                         |
|   |      | <u><u>31,517,380</u></u>         | <u><u>31,188,075</u></u>          |
| <b>CONTINGENCIES AND COMMITMENTS</b>                | 8    |                                  |                                   |

The annexed notes 1 to 11 form an integral part of these financial statements.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**

**HABIB BANK LIMITED**  
**PROFIT AND LOSS ACCOUNT (Unaudited)**  
**FOR THE QUARTER ENDED MARCH 31, 2005**

| Note   | Quarter ended              |                   |
|--|----------------------------|-------------------|
|  | March 31,<br>2005          | March 31,<br>2004 |
|  | (Rupees in '000)           |                   |
| Mark-up / return / interest earned   | 5,555,135                  | 3,687,451         |
| Mark-up / return / interest expensed   | 1,229,885                  | 981,968           |
| Net mark-up / interest income  | 4,325,250                  | 2,705,483         |
| Provision against non-performing loans and advances - net                    | 144,430                    | 560,195           |
| Provision against off-balance sheet obligations                              | -                          | -                 |
| Reversal of provision against diminution in value of investments             | (3,933)                    | (10,108)          |
| Bad debts written off directly   | -                          | -                 |
|  | 140,497                    | 550,087           |
| Net mark-up / interest income after provisions                               | 4,184,753                  | 2,155,396         |
| <b>Non mark-up / interest income</b>   |                            |                   |
| Fee, commission and brokerage income   | 559,931                    | 543,943           |
| Gain on sale of investments  | 217,089                    | 662,292           |
| Dividend income including share of profit of subsidiaries and joint ventures | 187,580                    | 219,330           |
| Income from dealing in foreign currencies                                    | 222,912                    | 156,049           |
| Other income   | 385,911                    | 468,232           |
| Total non-mark-up / interest income  | 1,573,423                  | 2,049,846         |
|  | 5,758,176                  | 4,205,242         |
| <b>Non mark-up / interest expense</b>  |                            |                   |
| Administrative expenses  | 3,174,371                  | 2,883,667         |
| Cost of Voluntary Staff Separation Scheme                                    | 2,100,000                  | -                 |
| Other provisions - net   | (23,870)                   | 21,489            |
| Other charges  | 123                        | 926               |
| Total non mark-up / interest expenses  | 5,250,624                  | 2,906,082         |
| <b>PROFIT BEFORE TAXATION</b>  | 507,552                    | 1,299,160         |
| Taxation - current   | 115,144                    | 114,402           |
| - prior periods  | -                          | (13,218)          |
| - deferred   | (2,380)                    | 254,209           |
|  | 112,764                    | 355,393           |
| <b>PROFIT AFTER TAXATION</b>   | 394,788                    | 943,767           |
| Basic and Diluted earnings per share   | 2.29                       | 5.47              |
|  | ( ----- annualised ----- ) |                   |

The annexed notes 1 to 11 form an integral part of these financial statements.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**

**HABIB BANK LIMITED**  
**PROFIT AND LOSS ACCOUNT (continued)**  
**FOR THE QUARTER ENDED MARCH 31, 2005**

|   | <b>Quarter ended</b>      |                            |
|---|---------------------------|----------------------------|
|   | <b>March 31,<br/>2005</b> | <b>March 31,<br/>2004</b>  |
|   | <b>(Rupees in '000)</b>   |                            |
| <b>PROFIT AFTER TAXATION</b>  | 394,788                   | 943,767                    |
| Unappropriated profit / (accumulated loss) brought forward                      | <u>1,219,282</u>          | <u>(13,278,495)</u>        |
|   | 1,614,070                 | (12,334,728)               |
| <b>APPROPRIATIONS AND TRANSFERS:</b>  |                           |                            |
| Transferred from :  |                           |                            |
| Surplus on revaluation of fixed assets  |                           |                            |
| Current period - net of tax   | 22,433                    | 12,634                     |
| Transferred to:   |                           |                            |
| Statutory reserve   | (78,958)                  | -                          |
| Capital reserve   | -                         | -                          |
| General reserve   | -                         | -                          |
| Reserves set aside as per regulatory requirements of<br>overseas joint ventures | (12,848)                  | -                          |
|   | <u>(91,806)</u>           | <u>-</u>                   |
| Unappropriated profit / (accumulated loss) carried forward                      | <u><u>1,544,697</u></u>   | <u><u>(12,322,094)</u></u> |

The annexed notes 1 to 11 form an integral part of these financial statements.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**

**HABIB BANK LIMITED**  
**CASH FLOW STATEMENT (Unaudited)**  
**FOR THE QUARTER ENDED MARCH 31, 2005**

| Note   | March 31,<br>2005 | March 31,<br>2004 |
|--|-------------------|-------------------|
|  | (Rupees in '000)  |                   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                   |                   |
| Profit before taxation   | 507,552           | 1,299,160         |
| Less: Dividend income including share of profit of subsidiaries / joint ventures                       | (187,580)         | (219,330)         |
| Profit from investment securities  | (217,089)         | (662,292)         |
|  | (404,669)         | (881,622)         |
|  | 102,883           | 417,538           |
| Adjustment for non-cash charges  |                   |                   |
| Depreciation   | 178,272           | 154,335           |
| Reversal of provision against diminution in the value of investments                                   | (3,933)           | (10,108)          |
| Provision against non-performing loans and advances - net of reversals                                 | 144,430           | 560,195           |
| Amortisation of premium on investments   | 96,680            | 114,370           |
| Profit on sale of fixed assets   | (2,758)           | (634)             |
| Miscellaneous provisions   | 42,751            | 102,489           |
|  | 455,442           | 920,647           |
|  | 558,325           | 1,338,185         |
| (Increase) / decrease in operating assets  |                   |                   |
| Government securities  | 5,364,597         | (3,568,303)       |
| Lendings to financial institutions   | (2,006,992)       | 12,814,454        |
| Loans and advances   | (9,834,513)       | (7,767,844)       |
| Other assets - net   | (1,101,336)       | (1,851,496)       |
|  | (7,578,244)       | (373,189)         |
| Increase / (decrease) in operating liabilities   |                   |                   |
| Deposits and other accounts  | 9,560,137         | 10,933,369        |
| Borrowings from financial institutions   | (2,215,061)       | (6,508,853)       |
| Bills payable  | (247,426)         | (1,823,100)       |
| Other liabilities - net  | 3,424,390         | (1,465,657)       |
|  | 10,522,040        | 1,135,759         |
|  | 3,502,121         | 2,100,755         |
| Income tax refunded / (paid)   | 7,381             | (371,238)         |
| Net cash flows from operating activities   | 3,509,502         | 1,729,517         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                   |                   |
| Net investments in held to maturity and available-for-sale securities and joint ventures               | 572,538           | 106,156           |
| Investment in subsidiary companies   | 78,917            | (68,133)          |
| Dividend income received   | 18,500            | 167,671           |
| Fixed capital expenditure  | (150,687)         | (179,517)         |
| Proceeds from sale of fixed assets   | 5,970             | -                 |
| Net cash flows from investing activities   | 525,238           | 26,177            |
| Exchange adjustment on translation of balances in foreign branches,<br>subsidiaries and joint ventures | (201,260)         | 158,743           |
| Increase in cash and cash equivalents during the period  | 3,833,480         | 1,914,437         |
| Cash and cash equivalents at beginning of the period   | 55,939,717        | 41,220,702        |
| Effects of exchange rate changes on cash and cash equivalents  | -                 | -                 |
|  | 55,939,717        | 41,220,702        |
| Cash and cash equivalents at end of the period   | 59,773,197        | 43,135,139        |

The annexed notes 1 to 11 form an integral part of these financial statements.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**

**HABIB BANK LIMITED**  
**STATEMENT OF CHANGES IN EQUITY (Unaudited)**  
**FOR THE QUARTER ENDED MARCH 31, 2005**

|   | Share Capital | Other tier 1 Capital | RESERVES                     |                                 |                |           | Total        |  |
|---|---------------|----------------------|------------------------------|---------------------------------|----------------|-----------|--------------|--|
|   |               |                      | Capital                      |                                 | Other Reserves |           |              |  |
|   |               |                      | Exchange Translation Reserve | Joint Ventures and Subsidiaries | Statutory      | General   |              | Unappropriated profit / (accumulated loss) |
| ----- (Rupees in '000) -----  |               |                      |                              |                                 |                |           |              |  |
| Balance as at December 31, 2003   | 12,178,495    | 8,000,000            | 1,274,578                    | 610,511                         | 4,870,741      | 3,112,919 | (13,278,495) | 16,768,749                                 |
| Profit after taxation for the period  | -             | -                    | -                            | -                               | -              | -         | 943,767      | 943,767                                    |
| Issue of right shares during the period   | 8,000,000     | (8,000,000)          | -                            | -                               | -              | -         | -            | -  |
| Transferred from surplus on revaluation of fixed assets to accumulated losses for:                    |               |                      |                              |                                 |                |           |              |  |
| - Current period - net of tax   | -             | -                    | -                            | -                               | -              | -         | 12,634       | 12,634                                     |
| Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies | -             | -                    | 158,743                      | -                               | -              | -         | -            | 158,743                                    |
| Balance as at March 31, 2004  | 20,178,495    | -                    | 1,433,321                    | 610,511                         | 4,870,741      | 3,112,919 | (12,322,094) | 17,883,893                                 |
| Profit after taxation for the period  | -             | -                    | -                            | -                               | -              | -         | 4,721,829    | 4,721,829                                  |
| Reduction in share capital  | (13,278,495)  | -                    | -                            | -                               | -              | -         | 13,278,495   | -  |
| Share of statutory reserves of joint ventures   | -             | -                    | -                            | 75,074                          | -              | -         | (75,074)     | -  |
| Share premium reserve of Joint Venture  | -             | -                    | -                            | 31,123                          | -              | -         | -            | 31,123                                     |
| Transferred from surplus on revaluation of fixed assets to accumulated losses for:                    |               |                      |                              |                                 |                |           |              |  |
| - Adjustment  | -             | -                    | -                            | -                               | -              | -         | -            | -  |
| - Current period - net of tax   | -             | -                    | -                            | -                               | -              | -         | 55,138       | 55,138                                     |
| Transferred to statutory reserves   | -             | -                    | -                            | -                               | 1,133,119      | -         | (1,133,119)  | -  |
| Transferred to general reserves   | -             | -                    | -                            | -                               | -              | 2,960,893 | (2,960,893)  | -  |
| Cash dividend   | -             | -                    | -                            | -                               | -              | -         | (345,000)    | (345,000)                                  |
| Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies | -             | -                    | 743,705                      | -                               | -              | -         | -            | 743,705                                    |
| Balance as at December 31, 2004   | 6,900,000     | -                    | 2,177,026                    | 716,708                         | 6,003,860      | 6,073,812 | 1,219,282    | 23,090,688                                 |
| Profit after taxation for the period  | -             | -                    | -                            | -                               | -              | -         | 394,788      | 394,788                                    |
| Share of statutory reserves of joint ventures   | -             | -                    | -                            | 12,848                          | -              | -         | (12,848)     | -  |
| Transferred from surplus on revaluation of fixed assets to accumulated losses for:                    |               |                      |                              |                                 |                |           |              |  |
| - Current period - net of tax   | -             | -                    | -                            | -                               | -              | -         | 22,433       | 22,433                                     |
| Transferred to statutory reserves   | -             | -                    | -                            | -                               | 78,958         | -         | (78,958)     | -  |
| Transferred to general reserves   | -             | -                    | -                            | -                               | -              | -         | -            | -  |
| Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies | -             | -                    | (201,260)                    | -                               | -              | -         | -            | (201,260)                                  |
| Balance as at March 31, 2005  | 6,900,000     | -                    | 1,975,766                    | 729,556                         | 6,082,818      | 6,073,812 | 1,544,697    | 23,306,649                                 |

The annexed notes 1 to 11 form an integral part of these financial statements.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**

Habib Bank Limited  
Notes to the Financial Statements (Unaudited)  
For the quarter ended March 31, 2005

**1 THE BANK AND ITS OPERATIONS**

Habib Bank Limited is incorporated in Pakistan and is engaged in commercial banking, modaraba management and related services in Pakistan and overseas.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements are being presented in a condensed format in accordance with the requirements of IAS 34 "Interim Financial Reporting" and the requirements of BSD circular letter No. 2 dated May 12, 2004.

The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the annual accounts of the bank for the year ended December 31, 2004.

| 3 INVESTMENTS                              | Note | March 31, 2005     |                     |                    | December 31, 2004  |                     |                    |
|--|------|--------------------|---------------------|--------------------|--------------------|---------------------|--------------------|
|  |      | Held by bank       | Given as collateral | Total              | Held by bank       | Given as collateral | Total              |
| ----- (Rupees in '000) -----               |      |                    |                     |                    |                    |                     |                    |
| <b>Held to Maturity securities (HTM)</b>   |      |                    |                     |                    |                    |                     |                    |
| <i>Federal Government Securities</i>       |      |                    |                     |                    |                    |                     |                    |
|  |      | 19,118,253         | -                   | 19,118,253         | 21,398,951         | -                   | 21,398,951         |
|  |      | 1,617,607          | -                   | 1,617,607          | 1,622,989          | -                   | 1,622,989          |
|  |      | 4,194,576          | -                   | 4,194,576          | 4,571,042          | -                   | 4,571,042          |
|  |      | 279,781            | -                   | 279,781            | 280,417            | -                   | 280,417            |
|  |      | <u>25,210,217</u>  | <u>-</u>            | <u>25,210,217</u>  | <u>27,873,399</u>  | <u>-</u>            | <u>27,873,399</u>  |
| <b>Available-for-sale securities (AFS)</b> |      |                    |                     |                    |                    |                     |                    |
| <i>Federal Government Securities</i>       |      |                    |                     |                    |                    |                     |                    |
|  |      | 45,327,970         | 6,338,303           | 51,666,273         | 47,250,726         | 8,367,090           | 55,617,816         |
|  |      | 969,365            | -                   | 969,365            | 905,446            | -                   | 905,446            |
|  | 3.1  | 24,893,557         | -                   | 24,893,557         | 23,722,271         | -                   | 23,722,271         |
|  |      | 899,993            | -                   | 899,993            | 899,993            | -                   | 899,993            |
|  |      | 1,111,255          | -                   | 1,111,255          | 1,114,367          | -                   | 1,114,367          |
|  |      | 4,931,014          | -                   | 4,931,014          | 5,010,295          | -                   | 5,010,295          |
| <i>Fully paid-up ordinary shares:</i>      |      |                    |                     |                    |                    |                     |                    |
|  |      | 1,459,876          | -                   | 1,459,876          | 1,619,112          | -                   | 1,619,112          |
|  |      | 355,806            | -                   | 355,806            | 355,791            | -                   | 355,791            |
|  |      | 6,425,572          | -                   | 6,425,572          | 6,592,468          | -                   | 6,592,468          |
|  |      | 3,537              | -                   | 3,537              | 3,537              | -                   | 3,537              |
|  |      | 179,472            | -                   | 179,472            | 189,466            | -                   | 189,466            |
|  |      | 82,112             | -                   | 82,112             | 82,112             | -                   | 82,112             |
|  |      | 86,639,529         | 6,338,303           | 92,977,832         | 87,745,584         | 8,367,090           | 96,112,674         |
|  |      | 865,923            | 705                 | 866,628            | 738,037            | (15,278)            | 722,759            |
|  |      | <u>87,505,452</u>  | <u>6,339,008</u>    | <u>93,844,460</u>  | <u>88,483,621</u>  | <u>8,351,812</u>    | <u>96,835,433</u>  |
|  |      | 63,300             | -                   | 63,300             | 63,300             | -                   | 63,300             |
|  |      | 3,724,642          | -                   | 3,724,642          | 3,733,949          | -                   | 3,733,949          |
|  |      | 1,441,381          | -                   | 1,441,381          | 1,394,166          | -                   | 1,394,166          |
|  |      | <u>117,944,992</u> | <u>6,339,008</u>    | <u>124,284,000</u> | <u>121,548,435</u> | <u>8,351,812</u>    | <u>129,900,247</u> |

**3.1** This figure includes an amount of Rs 10,899.739 million in respect of which the Government of Pakistan (GOP) has committed to issue bonds against assessed tax refunds and in respect of certain non-performing advances, debentures and corporate debt instruments transferred to Corporate and Industrial Restructuring Corporation (CIRC).

**3.2 Particulars of provision held against diminution in value of investments**

The balances above are stated net of specific provision held. The analysis of total provision held is as follows:

|   | <b>Quarter ended<br/>March 31,<br/>2005</b> | <b>Year ended<br/>December 31,<br/>2004</b> |
|---|---|---|
|   | ----- (Rupees in '000) -----                |   |
| Opening balance   | 655,870                                     | 904,172                                     |
| Reversed during the period / year                                       | (3,933)                                     | (151,218)                                   |
| Amount written off  | (3,414)                                     | (97,084)                                    |
| Closing balance   | <u>648,523</u>                              | <u>655,870</u>                              |
| <b>4 ADVANCES</b>   |   |   |
| Loans, cash credits, running finances, etc.                             |   |   |
| In Pakistan   | 227,052,388                                 | 220,599,097                                 |
| Outside Pakistan  | <u>28,438,287</u>                           | <u>28,848,157</u>                           |
|   | 255,490,675                                 | 249,447,254                                 |
| Net investment in finance lease - in Pakistan                           | 8,076,780                                   | 6,833,790                                   |
| Bills discounted and purchased<br>(excluding Government treasury bills) |   |   |
| Payable in Pakistan   | <u>10,749,405</u>                           | <u>9,800,467</u>                            |
| Payable outside Pakistan  | <u>12,960,992</u>                           | <u>11,837,563</u>                           |
|   | 23,710,397                                  | 21,638,030                                  |
| Provision against non-performing advances                               |   |   |
| - Specific  | (25,974,692)                                | (26,442,724)                                |
| - General   | (1,000,616)                                 | (863,890)                                   |
|   | <u>260,302,544</u>                          | <u>250,612,460</u>                          |

**4.1** Advances include Rs. 37,022.780 million (2004: Rs 38,468.111 million) which have been placed under non-performing status as detailed below:

| Category of Classification        | Note | <b>March 31, 2005</b>        |                       |
|-----------------------------------|------|------------------------------|-----------------------|
|                                   |      | Non-performing<br>advances   | Provision Required    |
|                                   |      | ----- (Rupees in '000) ----- |                       |
| <b>Pakistan</b>                   |      |                              | <b>Provision Held</b> |
| Other Assets Especially Mentioned |      | 1,232,872                    | -                     |
| Substandard                       |      | 3,218,275                    | 440,840               |
| Doubtful                          |      | 1,414,570                    | 521,702               |
| Loss                              |      | <u>22,740,210</u>            | <u>17,708,173</u>     |
|                                   |      | 28,605,927                   | 18,670,715            |
| <b>Overseas operations</b>        |      | 8,416,853                    | 7,303,977             |
| <b>General Provision</b>          |      | -                            | 1,000,616             |
| <b>Total</b>                      |      | <u>37,022,780</u>            | <u>26,975,308</u>     |

**4.2 Particulars of loans and advances to directors, associated companies, etc.**

|   | <b>Balance as at<br/>March 31, 2005</b> | <b>Maximum total<br/>amount of loans<br/>and advances<br/>including<br/>temporary<br/>advances granted<br/>during the period</b> |
|---|---|--|
|   | <b>(Rupees in '000) **</b>              |  |
| Debts due by directors or executives of the Bank or any of them either severally or jointly with any other persons:                                     |   |  |
| - in respect of directors   | -                                       | -  |
| - in respect of executives *  | 171,513                                 | 171,513  |
| Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members | 372,000                                 | 392,000  |
| Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties  | -                                       | -  |
| * (These represent staff loans given by the Group to its executives as per their terms of employment)   |   |  |
| ** (Maximum amount has been arrived at by reference to month end balance)   |   |  |

| <b>March 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|---------------------------|------------------------------|
| <b>(Rupees in '000)</b>   |                              |

**5 BORROWINGS FROM FINANCIAL INSTITUTIONS**

**Secured**

Borrowings from State Bank of Pakistan under

|   |            |            |
|---|------------|------------|
| Export refinance scheme                         | 15,355,244 | 14,771,718 |
| Locally manufactured machinery refinance scheme | 3,599      | 4,163      |
| Others  | -          | -          |
| Repurchase agreement borrowings                 | 6,338,303  | 8,329,748  |
|   | 21,697,146 | 23,105,629 |

**Unsecured**

In Pakistan

International Development Agency  
Interbank call money borrowing

|            |            |
|------------|------------|
| -          | -          |
| 100,000    | 556,580    |
| 100,000    | 556,580    |
| 705,606    | 349,208    |
| 1,906,745  | 2,613,141  |
| 2,612,351  | 2,962,349  |
| 2,712,351  | 3,518,929  |
| 24,409,497 | 26,624,558 |

Outside Pakistan

Overdrawn nostro accounts  
Borrowings of overseas branches

**6 DEPOSITS AND OTHER ACCOUNTS**

**Customers**

|                                     |             |             |
|-------------------------------------|-------------|-------------|
| Fixed deposits                      | 58,632,285  | 61,611,013  |
| Savings deposits                    | 253,337,012 | 238,625,324 |
| Current accounts - non-remunerative | 79,075,052  | 81,462,310  |
|                                     | 391,044,349 | 381,698,647 |

**Financial institutions**

|                           |             |             |
|---------------------------|-------------|-------------|
| Remunerative deposits     | 3,306,435   | 2,891,983   |
| Non-remunerative deposits | 1,541,923   | 1,741,940   |
|                           | 4,848,358   | 4,633,923   |
|                           | 395,892,707 | 386,332,570 |



| 7 SURPLUS ON REVALUATION OF ASSETS - net of tax | Note | March 31,<br>2005 | December 31,<br>2004 |
|---|------|-------------------|----------------------|
| (Rupees in '000)                                |      |                   |                      |
| Surplus arising on revaluation of:              |      |                   |                      |
| - fixed assets                                  | 7.1  | 7,301,691         | 7,323,885            |
| - investments                                   | 7.2  | 909,040           | 773,502              |
| Surplus on revaluation of assets - net of tax   |      | <u>8,210,731</u>  | <u>8,097,387</u>     |

### 7.1 Surplus on revaluation of fixed assets

|   |                  |                  |
|---|------------------|------------------|
| Surplus on revaluation of fixed assets as at January 1  | 8,027,572        | 4,074,924        |
| (Adjustment) / surplus on revaluation of bank's properties during the period / year   | (95)             | 4,055,522        |
| Surplus realised on disposal of revalued properties during the period / year  | (2,057)          | (17,259)         |
| Transferred to accumulated losses in respect of incremental depreciation charged during the period / year - net of deferred tax | (20,376)         | (50,513)         |
| Related deferred tax liability of incremental depreciation charged during the period / year                                     | (12,488)         | (35,102)         |
| Surplus on revaluation of fixed assets as at period / year end  | <u>7,992,556</u> | <u>8,027,572</u> |
| Less: related deferred tax liability on:  |                  |                  |
| revaluation as at January 1   | 703,687          | 480,485          |
| revaluation of bank's properties adjusted / recognised during the period / year   | (33)             | 258,567          |
| incremental depreciation charged during the period / year transferred to profit and loss account                                | (12,488)         | (35,102)         |
| disposal of revalued properties reversed during the period / year   | (301)            | (263)            |
|   | <u>690,865</u>   | <u>703,687</u>   |
|   | <u>7,301,691</u> | <u>7,323,885</u> |

### 7.2 Surplus / (deficit) on revaluation of investments

|  |                |                |
|--|----------------|----------------|
| Market treasury bills                                  | (23,545)       | (76,106)       |
| Pakistan Investment Bonds                              | (97,341)       | (67,980)       |
| Listed securities                                      | 900,899        | 806,412        |
| NIT units  | 19,338         | 15,163         |
| Other investments                                      | 67,277         | 45,270         |
|  | 866,628        | 722,759        |
| Add / (Less): related deferred tax asset / (liability) | 42,412         | 50,743         |
|  | <u>909,040</u> | <u>773,502</u> |

|   | <b>March 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|---|---------------------------|------------------------------|
|   | <b>(Rupees in '000)</b>   |                              |
| <b>8 CONTINGENCIES AND COMMITMENTS</b>                |                           |                              |
| <b>8.1 Direct credit substitutes</b>                  | 13,280,491                | 16,326,865                   |
| <b>8.2 Transaction-related contingent liabilities</b> |                           |                              |
| Guarantees in favour of:                              |                           |                              |
| Government  | 9,153,318                 | 10,043,176                   |
| Financial institutions                                | 367,487                   | 421,610                      |
| Others  | 3,214,555                 | 3,502,908                    |
|   | <u>12,735,360</u>         | <u>13,967,694</u>            |
| <b>8.3 Trade-related commitments</b>                  |                           |                              |
| Credit cash   | 58,136,109                | 60,328,860                   |
| Credit documentary acceptance                         | 10,303,084                | 6,946,098                    |
| Credit acceptance                                     | 10,914,107                | 10,179,249                   |
|   | <u>79,353,300</u>         | <u>77,454,207</u>            |

**8.4 Commitments in respect of forward lending**

The bank makes commitments to extend credit in the normal course of its business but none of these commitments are irrevocable and do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

|   | <b>March 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|---|---------------------------|------------------------------|
|   | <b>(Rupees in '000)</b>   |                              |
| <b>8.5 Other contingencies</b>  |                           |                              |
| Claims against the Bank not acknowledged as debts                       | 41,695,906                | 41,826,303                   |
| <b>8.6 Commitments in respect of forward foreign exchange contracts</b> |                           |                              |
| Purchase  | 27,485,432                | 41,686,319                   |
| Sale  | 22,557,709                | 33,126,909                   |
| <b>8.7 Commitments for acquisition of operating fixed assets</b>        | 109,992                   | 132,285                      |

**8.8** The Group has committed to upgrade its computer software system for all its international and domestic operations and the remaining committed cost in this respect is approximately Rs 201.750 million.

**8.9 Taxation**

In respect of the assessment proceedings relating to Azad Jammu and Kashmir (AJK), the Bank has filed a reference application with the High Court of AJK regarding excessive assessments made by the AJK taxation authorities in the financial years 1982 to 2003 on account of profits relating to AJK branches. The difference in tax assessed and the amount acknowledged by the Bank relating to the above years amounts to Rs 3,538 million. No provision has been made in the financial statements for these amounts, as the management is confident that the eventual outcome of these cases will be in favor of the Bank.

## 9 RELATED PARTY TRANSACTIONS

The Bank has related party relationship with its associated undertakings, subsidiary companies, joint venture companies, employee benefit plans, and its directors and executive officers (including their associates) and retirement benefit funds.

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk (i.e. under the comparable uncontrolled price method).

Contributions to and accruals in respect of staff retirement and other benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan. Remuneration to the executives, are determined in accordance with the terms of their appointment.

Details of transactions with related parties except those under the terms of employment and balances with them as at the period-end were as follows:

|   | <b>March 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|---|---------------------------|------------------------------|
|   | <b>(Rupees in '000)</b>   |                              |
| Balances outstanding as at the period / year end  |                           |                              |
| - Borrowings from related parties   | 8,236,378                 | 6,933,316                    |
| - Deposits from retirement benefit funds  | 158,900                   | 218,510                      |
| - Deposits from other related parties   |                           | -                            |
| - Payable to staff welfare fund   | -                         | -                            |
| - Receivable from defined benefit plan  | 3,571,606                 | 3,584,238                    |
| - Balances with related parties   | 396,231                   | 450,502                      |
| - Other contingencies and commitments   | 12,285                    | 17,660                       |
| - Guarantees favouring related parties  | -                         | 24,687                       |
| - Acceptances from related parties  | 11,115                    | 34,730                       |
| Profit / Expense for the period   |                           |                              |
|   | <b>March 31,<br/>2005</b> | <b>March 31,<br/>2004</b>    |
|   | <b>(Rupees in '000)</b>   |                              |
| - Share of profit of subsidiaries and joint venture companies - net of tax under equity basis of accounting | 116,736                   | 105,415                      |
| - Interest paid during the period   | 9,020                     | 36,983                       |
| - Modaraba management fees  | 2,000                     | 1,474                        |
| - Interest income for the period  | 32,145                    | 39,515                       |
| - Other income  | -                         |                              |
| - Other expense   | 415                       | -                            |

Transactions entered into with directors / executive officers as per their terms of employment are excluded from related party transactions.

- 10 During the year the Bank has offered Voluntary Staff Separation Scheme (VSSS) to some of its employees. Under this scheme 2,030 number of employees opted for the separation for which the Bank has incurred additional cost of Rs 2.100 billion being incentives offered to employees.

## 11 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on

by the Board of Directors of the Bank.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**