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Company Information

Board of Directors	Mr. Francis Andrew Rozario Mr. Tan Soo Nan Mr. Phua Kok Kim Mr. Thomas Patrick Sodano Mr. Mahmudul Huq Bhuiyan Mr. Willie Wai Kong Chan Mr. Aamir Zahidi Khawaja Iqbal Hassan	Chairman Director Director Director Director Director Director President & CEO
Company Secretary	Mr. Aurangzeb Amin	
Auditors	M/s. M. Yousuf Adil Saleem & Co. Chartered Accountants	
Legal Advisors	M/s. Rizvi, Isa, Afridi & Angell Advocates & Corporate Counsellors	
Audit Committee	Mr. Tan Soo Nan Mr. Phua Kok Kim Mr. Mahmudul Huq Bhuiyan Mr. Aurangzeb Amin	Chairman Member Member Secretary
Share Registrar	M/s. THK Associates (Pvt.) Limited Ground Floor, State Life Building No. 3, Dr. Ziauddin Ahmed Road, Karachi 75530	
Registered Office	Muhammadi House I.I.Chundrigar Road, Karachi UAN 111-333-111 E-mail: info@nibpk.com URL: www.nibpk.com	
Credit Rating	Long Term A+ Short Term A1 Outlook Positive Rating Agency PACRA	

Notice of Annual General Meeting

Notice is hereby given that the 4th Annual General Meeting of NIB Bank Limited will be held at Hotel Regent Plaza, Main Shahrah-e-Faisal, Karachi on March 30, 2007 at 9:00 a.m. to transact the following Business:

Ordinary Business

1. To approve the Minutes of the Extraordinary General Meeting held on 1st February 2007 at Hotel Regent Plaza, Main Shrah-e-Faisal, Karachi.
2. To receive, consider and adopt the Audited Accounts of the Bank for the year ended December 31, 2006 together with Directors' and Auditors' Report thereon.
3. To approve Pak Rs. 2,622,000/- (Pak Rs. Two Million Six Hundred Twenty Two Thousand only) being remuneration accrued to the Non-Executive Directors & Chairman of the Bank during the year 2006 in terms of SBP, BPD Circular No.45 of 2004.
4. To appoint Auditors and fix their remuneration. The present Auditors, M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment.
5. To transact any other business with the permission of the Chair.

Special Business

To consider the increase in authorized share capital of the NIB Bank Limited and the corresponding amendments in the Memorandum and Articles of Association. Accordingly, if thought fit, pass the following resolutions as and by way of Special Resolutions namely:

- (I) RESOLVED that the authorized share capital of the Bank is to be increased to Rs. 20,000,000,000 (Rs. Twenty Billion only) divided into 2,000,000,000 (Two Billion) ordinary shares of Rs. 10/- (Rs. Ten Only) each and such new shares to rank pari passu in all respects with the existing ordinary shares in the capital of the Bank.
- (II) RESOLVED that the figures and words Rs. 4,500,000,000 (Rs. Four Billion Five Hundred Million only) divided into 450,000,000 (Four Hundred and Fifty Million) shares of Rs. 10/- (Rs. Ten only) appearing in Clause V of the Memorandum of Association of the Bank be and are hereby amended and substituted by the figures and words Rs. 20,000,000,000 (Rs. Twenty Billion only) divided into 2,000,000,000 (Two Billion) shares of Rs. 10/- (Rs. Ten only)
- (III) RESOLVED that the figures and words Rs. 4,500,000,000/- (Rupees Four Billion Five Hundred Million only) divided into 450,000,000 (Four Hundred and Fifty Million) shares of Rs. 10/- (Rs. Ten only) appearing in Article 6 of the Articles of Association of the Bank be and hereby amended and substituted by the figures and words Rs. 20,000,000,000 (Rs. Twenty Billion only) divided into 2,000,000,000 (Two Billion) shares of Rs. 10/- (Rs. Ten only).
- (IV) RESOLVED that the Chief Executive Officer and the Company Secretary of the Bank be and are hereby authorized to sign all necessary documents singly and / or jointly and to take all further necessary actions and steps as may be required for this purpose and deemed appropriate by the President and Chief Executive Officer of the Bank.

A statement as required by Section 160(1)(b) of the Companies Ordinance, 1984 in respect of the special business is attached with this notice.

Karachi
Dated: March 6, 2007

BY THE ORDER OF THE BOARD

Aurangzeb Amin
Company Secretary

Notice of Annual General Meeting

Notes:

- a) The Share Transfer Books of the Bank will remain closed from March 22, 2007 to March 30, 2007 (both days inclusive). Transfers received in order at the office of Share Registrar M/s. THK Associates (Pvt.) Limited, Ground Floor, State Life Building - 3 Dr. Ziauddin Ahmed Road, Karachi by March 21, 2007 will be treated in time for the purpose of transfer of shares.
 - b) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote for him/her. A proxy must be a member of the Bank.
 - c) An instrument of proxy duly stamped, signed and witnessed and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, in order to be valid, must be deposited at the registered office of the Bank at least 48 hours before the time of the meeting.
 - d) Members are requested to immediately inform the Bank's Share Registrar of any change in their addresses.
 - e) CDC Account Holders will further have to follow the under mentioned guidelines as laid down in Circular 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.
- A. For Attending the Meeting:
- (i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original Computerized National Identity Card, (CNIC) or original passport at the time of attending the Meeting.
 - (ii) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.
- B. For Appointing Proxies:
- (i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account, and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.
 - (ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
 - (iii) Attested copies of CNIC or the passport, of the beneficial owners and the proxy shall be furnished with the proxy form.
 - (iv) The proxy shall produce his original CNIC or original passport at the time of the Meeting.
 - (v) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Bank.

Karachi,

Dated: March 6, 2007

BY THE ORDER OF THE BOARD

Registered Office
NIB Bank Limited
Muhammadi House
I.I. Chundrigar Road, Karachi.

Aurangzeb Amin
Company Secretary

Notice of Annual General Meeting

STATEMENT UNDER SECTION 160(1) (b) OF THE COMPANIES ORDINANCE, 1984:

NIB Bank Limited (the "Bank") was incorporated as a public limited company incorporated under the Companies Ordinance, 1984, to carry on the business of a banking company under the Banking Companies Ordinance, 1962.

In order to facilitate the potential acquisition of another financial institution, it was decided by the Board of Directors of the Bank in the 19th Board Meeting held on 23rd February 2007 that the Bank will increase its authorized share capital which will allow the Bank to issue Right Shares to its shareholders in order to help finance the potential acquisition should this proceed to closure.

As such, pursuant to Article 29 of the Articles of Association of the Bank and Section 92 of the Companies Ordinance of 1984, in the 19th Meeting of the Board of Directors, it was resolved that the authorized share capital of the Bank will be increased as per the Special Resolutions in the Notice.

In respect of the increase in share capital as mentioned above and matters related thereto, the necessary approvals by the Bank's Board of Directors were accorded in the 19th Board Meeting held on February 23, 2007, and for this purpose the resolutions as set out under the heading "Special Business" in the Notice convening the Annual General Meeting of the Members to be held on March 30, 2007 be considered and passed as Special Resolutions.

Karachi,
Dated: March 6, 2007

BY THE ORDER OF THE BOARD

Aurangzeb Amin
Company Secretary

Registered Office
NIB Bank Limited
Muhammadi House
I.I. Chundrigar Road, Karachi.

Directors Report to the Shareholders

On behalf of the Board of Directors we are pleased to present the financial results of NIB Bank Limited for the year ended December 31, 2006.

Economy

Pakistan has witnessed a vigorous economic recovery since 2001 peaking with real GDP growth in FY04-05 of 8.6%. Sound fiscal and monetary stabilization policies, a well-controlled privatization process and strong international support have been the major contributors to this growth. GDP growth in FY06-07 is expected to be around 7%, as projected by SBP, up from 6.6% in FY 05-06.

Economic momentum built-up over the last few years has impacted inflation (7.92% in FY05-6 to 8.39% in July-Dec06) and the trade gap. The trade gap may continue to see some widening due to softness in exports as well as the increasing import bill owing to domestic economic expansion. Despite higher oil imports due to increased furnace oil consumption in the power sector, the pace of import growth has sharply slowed during the current fiscal year with first half FY06-07 imports increasing by 9% versus average growth of 35% in the past two years. However, first half FY06-07 trade deficit widened by 15% to USD 6.5bn as the growth in exports slowed to only 5%. The current account deficit increased by 22% during July-Nov06 to USD 3.75bn (2.6% of GDP) with a SBP forecast of 4.2% of GDP by end FY06-07. It is market consensus that strong FDI flows, prompted by privatization and healthy demographic and macroeconomic fundamentals and continued capital markets access will relieve the pressure to finance the current account deficit.

Banking Sector

Net profit of listed commercial banks in the first 9 months of 2006, continued to increase at a healthy rate of 43% compared to the same period last year. The current year will provide a number of challenges to the sector with pressure on deposit rates building. Banks with customized and innovative products serving targeted customer segments are more likely to withstand the increased competition and counter the pressure on banking spreads. Bank deposit generation will also face competition from national savings schemes and the mutual fund industry. Continued interest of foreign players in domestic banks and further GDR offerings from large banks, are expected to retain investor interest in the sector.

Operating Results

Your Bank continued its strong growth momentum in 2006 both in terms of volumes as well as top line revenue. Total assets increased by Rs. 14,410 mln to Rs. 46,429 mln in December 2006 and total revenues increased by 82% reaching Rs. 1,515 mln in 2006. Gross mark up earned doubled from Rs 1,717 mln to Rs 3,499 mln between 2005 and 2006 and net mark up earned grew 75% in the same period. By improving the lending composition towards higher yielding products sold to commercial and consumer customer segments, the yield on interest earning assets improved by 198 basis points between 2005 and 2006. The addition of new customers and incremental business from existing customers allowed non mark up income to increase 98% from Rs 236 mln to Rs 468 mln. By effectively cross selling trade related products, foreign exchange volumes at USD 1,012 mln in 2006 showed a 59% increase over 2005 as well as better profitability per unit of foreign currency.

Given its relatively young age, your Bank did not have access to a large pool of low cost deposits. Consequently, the advances growth was financed through new deposits which, under tight monetary conditions and intense market competition, came at a premium, thereby increasing the cost of funds. Despite this, your Bank managed to improve its net interest spread by 53 basis points between 2005 and 2006 by improving the yield on advances and increasing the proportion of current accounts in the deposit portfolio.

The strong revenue growth highlighted above was supported by expanding our fully on-line branch network from 27 to 41 in December 2006 in 14 cities and by installing 23 ATMs during the year. Head Office premises for support functions also expanded from 87,000 sq ft to 112,000 sq ft. This rapid expansion of our franchise would not have been possible without hiring staff to support revenue growth as well as to strengthen our risk management and other support functions. Consequently your Bank's permanent staff count increased from 593 in 2005 to 912 in 2006. As a result, operating costs increased to Rs. 1,224 mln in 2006 from Rs. 713 mln in 2005. Despite the substantial increase in operating costs, the cost to revenue ratio reduced to 81% in 2006 from 85% in 2005. The cost to revenue is consistent with our business plan and reasonable for a Bank which is in its development stage.

In mid 2006, your Bank launched a very successful Personal Installment Loan product. The monthly disbursements of this product were higher than those of other banks that have been selling this product for some years. The collection experience to date on such loans has also been better than our expectations. The Prudential Regulations require a 5% general provisioning against the total outstanding balance on such loans at the year end. This being the first year, the regulatory requirement has generated a non tax deductible provision charge of Rs.194 mln in the 2006 profit and loss account of your Bank. It is important to highlight that this charge acts as a reserve and is not an actual provision related to specific loans going bad.

Despite the general provisioning explained above, profit after tax showed an increase from Rs. 104 mln in 2005 to Rs. 126 mln in 2006, primarily as a result of tax credits related to the acquisition of Credit Agricole Pakistan. Operating profit before provisions increased by 154% over 2005 to reach Rs 300 mln in 2006.

Your Bank's NPL as a percentage of gross advances reduced from 3.46% in 2005 to 3.21% in 2006. Improved collection efforts led to provision reversals of Rs. 74 mln, plus recoveries against written-off loans of Rs. 12.5 mln in 2006. However, mainly due to regulatory requirements explained above, provisioning against loans and advances increased by Rs. 179 mln

Directors Report to the Shareholders

PACRA's rating for your Bank in June 2006 was maintained at Long-term: A+, Short-term: A1, with a Rating Watch with "Positive" implications in December 2006.

The Positive Ratings Watch emanated from your Bank's offer to acquire a majority stake in Pakistan Industrial Credit and Investment Corporation Limited (PICIC).

Future Outlook

By our continuing efforts in market research, building a branch network and investing in people and infrastructure, your Bank is now well-positioned to implement its business strategies. Our primary goal is to deliver a unique value proposition that meets the needs of our customers in each of our targeted customer segments. Through this structured and disciplined approach with clear performance targets in each area of business we expect to continue the growth in your Bank's revenues.

After careful deliberation, the Directors have decided to omit any dividend for the year ended 2006 since all earnings will be required to finance the expansion program of your Bank.

CORPORATE GOVERNANCE :

Being aware of our responsibilities under by the Code of Corporate Governance issued by Securities and Exchange Commission of Pakistan, the following statements are made with regard to the Corporate and Financial Reporting Framework to meet with the requirement of the Code:

- q The financial statements prepared by the management of the Bank present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- q Proper books of account of the Bank have been maintained.
- q Accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent assessments.
- q International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and there were no departures therefrom. However, the State Bank of Pakistan has specifically deferred the implementation of International Accounting Standard 39, Financial Instruments: Recognition and Measurement and International Accounting Standard 40, Investment Property, till further instructions. Accordingly the requirements of those standards have not been followed in the preparation of the financial statements.
- q There are no doubts upon the Bank's ability to continue as a going concern.
- q There has been no material departure from the best practices of corporate governance as detailed in the listing regulations of the stock exchanges of Pakistan.
- q Since these are the fourth financial results of the Bank, key operating and financial information for the last ten years is not available.
- q There are no statutory payments on account of taxes, duties, levies and charges which are outstanding, except as disclosed in the financial statements.
- q As of December 31, 2006, the value of investments of the Provident Fund (un-audited) was Rs. 66,060,475.
- q During the period, the Board of Directors met five times. The attendance by each director was as follows :

Name of Director	Board Meetings (No.)	
	Eligible	Attended
Mr. Francis A. Rozario, Chairman of the Board	5	5
Mr. Khawaja Iqbal Hassan, President & CEO	5	5
Mr. Tan Soo Nan	5	4
Mr. Phua Kok Kim	5	5
Mr. Thomas Sodano	5	5
Mr. Mahmudul Huq Bhuiyan	2	2
Mr. Willie Chan	1	1
Mr. Aamir Zahidi	1	1
Mr. S.M. Saleem (resigned on August 17, 2006)	2	1
Dr. Chowdhury Saleh Ahmed (resigned on August 17, 2006)	2	2

Leave of absence was granted in case the Directors were not able to attend Board Meetings.

Directors Report to the Shareholders

INTERNAL CONTROL AND RISK MANAGEMENT FRAMEWORK

The Board is pleased to endorse the statements made by the management relating to internal control and risk assessment framework to meet the requirements of State Bank of Pakistan (SBP) BSD Circular No. 7 of 2004, BSD Circular letter No 2 of 2005 and the Code of Corporate Governance issued by the Securities & Exchange Commission of Pakistan (SECP). The management's statements are included in the annual report.

SHAREHOLDING PATTERN

A statement reflecting the pattern of shareholding is contained in the Annual report.

AUDITORS

The Audit Committee has recommended the appointment of the retiring auditors, Messrs M. Yousuf Adil Saleem & Co., Chartered Accountants for the year 2007.

ACKNOWLEDGEMENT

The performance and reputation of your Bank is inevitably linked to the performance and dedication of its employees and the patronage of its customers. We would like to thank our employees, who, in this period of rapid growth, rose to the challenge and delivered to the best of their abilities. We would also like to thank our customers for allowing us to serve their personal and business needs. Finally, we appreciate the help and guidance provided to us by the State Bank of Pakistan, the SECP and other regulatory authorities.

On behalf of the Board :



Francis A. Rozario
Chairman of the Board



Khawaja Iqbal Hassan
President & CEO

Statement of Compliance with Code of Corporate Governance For the year ended December 31, 2006

This statement is being presented to comply with Code of Corporate Governance contained in Listing Regulations of stock exchanges where the Bank's shares are listed for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

The Bank has applied the principles contained in the code in the following manners:

1. The Bank encourages representation of independent non-executive directors on its Board including those representing minority interests. At present all the directors are non executive except for the Chief Executive Officer.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Bank.
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution or Non Banking Finance Company. None of the directors of the Bank are members of any Stock Exchange.
4. Casual vacancies occurring in the Board during the year were duly filled in.
5. The Bank has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Bank.
6. The Board has developed a vision/mission statement and overall corporate strategy. Significant policies of the Bank have been prepared and approved by the Board. A complete record of particulars of significant policies along with the dates on which these were approved is being maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board at the appropriate time.
8. The meetings of the Board were presided over by the Chairman. The Board held five meetings during the year. Written notices of Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors of the Bank have given a declaration that they are aware of their duties, powers and responsibilities. The in-coming directors on the Board will attend talks, workshops and/or seminars on subject of corporate governance in order to apprise themselves of their duties and responsibilities. A formal orientation course on Code of Corporate Governance for the Directors was conducted on August 17, 2006.
10. The Board has approved the appointment of the Chief Financial Officer, Company Secretary and Head of Internal Audit and the terms and conditions of their employment, determined by the CEO, are duly authorized by the Board of Directors.
11. The Directors' report has been prepared in compliance with the requirements of the code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by the CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the code.
15. The Audit Committee comprises of three members, all of whom are non-executive directors.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Bank as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Bank has an effective Internal Audit department. An Internal Audit Manual has been developed by the Board. The Internal Audit department has conducted audit of branches and various departments of the Bank during the year.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firms, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all the material principles contained in the code have been complied with.



Francis A. Rozario
Chairman of the Board

On behalf of the Board,



Khawaja Iqbal Hassan
President & CEO

Statement on Internal Controls For the year ended December 31, 2006

Internal Control System

Management acknowledges its responsibility for establishing and maintaining a system of internal control directly related to and designed to provide reasonable assurance to achieve the following objectives:

- q Efficiency and effectiveness of operations
- q Compliance with applicable laws and regulations
- q Reliability of financial reporting

The bank is continuously adding to its internal control systems by enhancing quality of processes, staff and IT infrastructure and would keep on improving and strengthening it as it grows its business volumes and activities. During the year, the management has broadly evaluated the internal control system in the light of internal control guidelines issued by the State Bank of Pakistan, and is pleased to make the following disclosures on the components of internal control system.

Control Environment

1. The bank has written and implemented policies and procedures for most of the areas of the bank's business, which have been approved by the Board of Directors.
2. The Bank has adopted a mission/vision statement and corporate strategy, duly approved by the Board.
3. Clear organizational structure exists which supports clear lines of communication.
4. The management has defined roles and responsibilities of key management personnel.
5. The Audit Committee, which comprises of non-executive directors, has written terms of reference and reports to the Board. It reviews the approach adopted by the company's internal audit department and the scope of, and the relationship with, the external auditors. It also receives reports from the internal audit department and the external auditors on the system of internal control and any material control weakness that have been identified, and discusses the actions to be taken in areas of concern with the executive management.
6. An effective internal audit system exists which is responsible for evaluation of internal control system on continuous basis and reports directly to the Audit Committee.
7. The Bank has adopted a statement of ethics and business practices that is signed by all employees; Further, this statement is annually signed by all Directors.
8. Management has set up an effective compliance function to ensure ongoing monitoring of the Bank's adherence with all laws and regulations.
9. The Bank has also developed a 'Regulatory Matrix' that allows mapping each applicable regulations with a specific control. The underlying controls are periodically tested by means of a continuous process of self assessment.

Risk Assessment

10. The bank is largely compliant with the risk management guidelines issued by the SBP and has given a separate statement on the same.

Control Activities

11. The Bank has successfully consolidated multiple IT environments into one Core Banking application thereby strengthening IT controls. The Bank has also developed a Business Continuity Plan and has also successfully tested operation of its Disaster Recovery site.
12. The Bank has strict Know Your Customer/Anti Money Laundering policies and has developed stringent anti-fraud programs and controls. The Bank has recently introduced e-KYC form to further strengthen its KYC/AML regime.

Information and Communication

13. The Bank has brought about significant improvements in its Management Information System and has developed Key Performance Indicators for its businesses enabling them to monitor budget versus actual performance.

Monitoring

14. Internal Audit periodically carries out audits for branches and Head Office Divisions to monitor compliance with the Bank's standards.
15. Management gives due consideration to the recommendations made by the internal, external auditors and regulators especially for improvements in the internal control system and take timely action to implement such recommendations.

Based on the results of an evaluation of the internal control system and key features of the control framework enumerated above, management is of the view that the internal control system during the year was acceptable in design and has been effectively implemented throughout the year.

It is pertinent to mention that development of an internal control system is an ongoing process through which management reviews and strengthens the internal control system, which is designed to manage rather than eliminate risks. As such, it can only provide reasonable but not absolute assurance against material misstatement or loss.

Statement on Internal Controls For the year ended December 31, 2006

Risk Management Framework

The acceptance and management of financial risk is inherent to banking business activities. It involves the identification, measurement, monitoring and controlling of Risk.

In accordance with the Risk Management guidelines issued by the SBP, an Integrated Risk Management Group has been created in the Bank to formulate risk management Policies and Procedures in line with Bank's defined strategies and to monitor the following areas:

- a) Credit Risk Management
- b) Market Risk Management
- c) Operational Risk Management

Credit Risk Management (CRM)

CRM is viewed as an ongoing activity where credit risks are regularly identified and assessed. It determines the quality of credit portfolio and assists in minimizing risks. To manage credit risks appropriately, credit committees at different locations have been established.

In order to achieve earnings targets with a high degree of reliability and to avoid losses through a strong credit process, the Risk Management & Credit Policy and Procedures Manual has been developed and duly implemented. This Manual is under constant review and regular updates are made therein through the issuance of various "Credit Bulletins", thereby, not only incorporating therein best practices but also ensuring the establishment of a robust credit control environment.

To ensure that the Credit Policies are implemented in their true letter and spirit, Regional Credit Administration Departments (RCADs) have been set up in Karachi, Lahore and Islamabad, which operate independently under the supervision of Country CAD Head. To manage problem credits, Special Assets Management (SAM) division has been established under CRM.

Market Risk Management (MRM)

Market Risk Management is a control system, which allows management to closely supervise and monitor risks caused by movements in market rates or prices such as interest rates, FX rates, equity prices, credit spreads and / or commodity prices, resulting in a potential loss to earnings and capital.

With the establishment of the Treasury Mid Office, under the supervision of Risk Management Group, controls established by the management over the market risk operations have been further strengthened. Furthermore, it also places emphasis on the management efforts to put in place the best industry practices, regarding Market Risk Management.

Operational Risk Management (ORM)

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank has written and implemented its Operational Risk Policy duly approved by the Board. The Bank has also implemented tools for identification, monitoring, and management of key operational risks and has also implemented a template for collecting Operational loss data on a periodic basis.

On behalf of the Board :



Francis A. Rozario
Chairman of the Board

Karachi

Date: February 23, 2007



Khawaja Iqbal Hassan
President & CEO

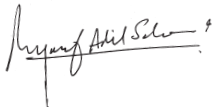
Auditors' Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of NIB Bank Limited to comply with the Prudential Regulation No.G-1, Responsibilities of the Board of Directors vide BSD Circular No. 15, dated June 13, 2002, Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange where the Bank is listed.

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

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

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



M. Yousuf Adil Saleem & Co.
Chartered Accountants

Karachi.

Date: February 23, 2007

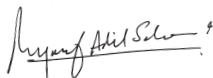
Auditors' Report to the Members

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

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

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than 60% of the total loans and advances of the bank, we report that:

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



M. Yousuf Adil Saleem & Co.
Chartered Accountants

Karachi.
Date: February 23, 2007

Balance Sheet as at December 31, 2006

	Notes	2006	2005
		(Rupees '000')	
ASSETS			
Cash and balances with treasury banks	7	2,928,404	2,085,141
Balances with other banks	8	1,362,497	1,966,118
Lendings to financial institutions	9	2,600,000	2,270,000
Investments	10	6,594,036	5,129,285
Advances	11	31,052,169	19,622,929
Operating fixed assets	12	622,216	368,551
Deferred tax assets	13	127,158	-
Other assets	14	1,142,363	576,691
		46,428,843	32,018,715
LIABILITIES			
Bills payable	15	215,769	274,325
Borrowings	16	9,164,121	4,547,096
Deposits and other accounts	17	30,566,540	21,123,556
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	13	-	2,465
Other liabilities	18	2,150,538	1,858,398
		42,096,968	27,805,840
NET ASSETS		<u>4,331,875</u>	<u>4,212,875</u>
REPRESENTED BY :			
Share capital	19	3,361,522	3,361,522
Reserves		719,810	694,623
Unappropriated profit		298,376	197,626
		4,379,708	4,253,771
Deficit on revaluation of securities - net	20	(47,833)	(40,896)
		<u>4,331,875</u>	<u>4,212,875</u>

CONTINGENCIES AND COMMITMENTS

21

The annexed notes from 1 to 40 form an integral part of these financial statements.



Khawaja Iqbal Hassan
PRESIDENT AND CHIEF EXECUTIVE



Francis A. Rozario
DIRECTOR / CHAIRMAN



Thomas P. Sodano
DIRECTOR



Tan Soo Nan
DIRECTOR

Profit and Loss Account for the year ended December 31, 2006

	Notes	2006	2005
		(Rupees '000')	
Mark-up / Return / Interest earned	22	3,499,278	1,716,917
Mark-up / Return / Interest expensed	23	2,452,192	1,118,957
Net Mark-up / Interest Income		1,047,086	597,960
Provision against non-performing loans and advances	11.4	269,583	120,931
Provision/(Reversal) for diminution in the value of investments		-	(29,643)
Bad debts written off directly		-	-
		(269,583)	(91,288)
Net Mark-up / Interest income after provisions		777,503	506,672
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		179,994	91,707
Dividend income		14,528	16,668
Income from dealing in foreign currencies		208,627	109,145
Gain on sale of securities		222	4,040
Unrealized gain/(loss) on revaluation of investments classified as held for trading		-	-
Other income	24	64,721	14,599
Total Non-Markup / Interest income		468,092	236,159
		1,245,595	742,831
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	25	1,221,423	711,545
Other (reversals) / provisions / write offs		(328)	327
Other charges	26	2,587	1,182
Total Non-Markup / Interest expense		(1,223,682)	(713,054)
		21,913	29,777
Share of profit / (loss) from associates		8,079	(2,776)
Extra ordinary / Unusual items		-	-
Profit before taxation		29,992	27,001
Taxation - Current	27	(33,422)	(20,178)
- Prior years		-	-
- Deferred	27	129,367	96,948
Profit after taxation		95,945	76,770
Unappropriated Profit brought forward		125,937	103,771
Profit available for Appropriation		197,626	114,609
		323,563	218,380
Basic earnings per share	28	0.37	0.45
Diluted earnings per share	28	0.37	0.45

The annexed notes from 1 to 40 form an integral part of these financial statements.



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Tan Soo Nan
DIRECTOR

Cash Flow Statement for the year ended December 31, 2006

	2006	2005
	(Rupees '000')	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	29,992	27,001
Less: Dividend income	14,528	16,668
Gain on sale of investments	222	4,040
Gain on sale of property and equipment	10,114	6,337
	(24,864)	(27,045)
	5,128	(44)
Adjustments for non-cash items		
Depreciation	104,856	47,461
Amortization	11,176	3,713
Provision against non-performing loans and advances	269,583	120,931
Reversal of provision against investments	-	(29,643)
Financial charges on leased assets	-	-
Share of (profit) / loss from associates	(8,079)	2,776
Other (reversals) / provisions	(328)	327
	377,208	145,565
	382,336	145,521
Increase in operating assets		
Lendings to financial institutions	(330,000)	(457,093)
Advances	(11,698,823)	(8,006,585)
Other assets	(530,838)	(324,001)
	(12,559,661)	(8,787,679)
Increase / (Decrease) in operating liabilities		
Bills Payable	(58,556)	175,705
Borrowings	4,617,025	387,902
Deposits and other accounts	9,442,984	10,474,986
Other liabilities	292,142	1,670,232
	14,293,595	12,708,825
	2,116,270	4,066,667
Income tax (paid) / refunded	(67,925)	133,291
Net cash from operating activities	2,048,345	4,199,958
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments	(1,463,645)	(3,936,926)
Dividend received	14,528	16,668
Payments for capital work in progress	(275,609)	(134,281)
Acquisition of intangible assets	(9,934)	(31,262)
Acquisition of property and equipment	(104,789)	(130,379)
Sale proceeds of property and equipment disposed-off	30,746	11,379
Net cash used in investing activities	(1,808,703)	(4,204,801)

Cash Flow Statement for the year ended December 31, 2006

	Notes	2006	2005
		(Rupees '000')	
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of share capital		-	2,772,225
Cash from financing activities		-	2,772,225
Net increase in cash and cash equivalents		239,642	2,767,382
Cash and cash equivalents at beginning of the year		4,051,259	1,283,877
Cash and cash equivalents at end of the year	29	4,290,901	4,051,259

The annexed notes from 1 to 40 form an integral part of these financial statements.



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Tan Soo Nan
DIRECTOR

Statement of Changes in Equity for the year ended December 31, 2006

	Share capital	Capital reserves		Revenue reserves		Total
		Share premium	Statutory reserve	General reserve	Unappropriated profit	
	-----Rupees '000'-----					
Balance as at December 31, 2004	1,229,041	-	28,653	5,472	114,609	1,377,775
Profit after taxation	-	-	-	-	103,771	103,771
Transferred to Statutory reserve	-	-	20,754	-	(20,754)	-
Issue of shares	2,132,481	639,744	-	-	-	2,772,225
Balance as at December 31, 2005	3,361,522	639,744	49,407	5,472	197,626	4,253,771
Profit after taxation	-	-	-	-	125,937	125,937
Transferred to Statutory reserve	-	-	25,187	-	(25,187)	-
Balance as at December 31, 2006	3,361,522	639,744	74,594	5,472	298,376	4,379,708

The annexed notes from 1 to 40 form an integral part of these financial statements.



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Notes to the Financial Statements for the year ended December 31, 2006

1. STATUS AND NATURE OF BUSINESS

NIB Bank Limited "the Bank" is incorporated in Pakistan with its registered office situated at Muhammadi House, I.I.Chundrigar Road, Karachi in the province of Sindh. The Bank is listed on all the stock exchanges in Pakistan and has 41 branches (2005: 27 branches). The Bank is a scheduled commercial bank and is principally engaged in the business of banking as defined in the Banking Companies Ordinance, 1962.

NIB Bank Limited is a subsidiary of Bugis Investments (Mauritius) Pte Limited which is a wholly owned subsidiary of Asia Financial Holdings Pte. Limited which in turn is a wholly owned subsidiary of Temasek Holdings, an investment arm of the Government of Singapore.

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchase and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

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

The following amendment to the existing standard has been published that is applicable to the Bank's financial statements covering annual periods, beginning on or after the following date:

- i) IAS-1, "Presentation of financial statements" - Capital disclosures effective from January 01, 2007.

Adoption of the above amendment may only impact the extent of disclosures presented in the financial statements.

In addition to the above, following four IFRSs have been adopted by SECP vide its S.R.O (1)/2006 dated December 06, 2006: -

- (i) IFRS-2 "Share-based Payments"
- (ii) IFRS-3 "Business Combinations"
- (iii) IFRS-5 "Non-current Assets Held for Sale and Discontinued Operations" and
- (iv) IFRS-6 "Exploration for and Evaluation of Mineral Resources"

The Bank expects that the adoption of these pronouncements will have no significant impact on the Bank's financial statements in the period of initial application.

The SBP as per BSD Circular No.10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" and International Accounting Standard 40, "Investment Property" for Banking Companies. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for the measurement of certain investments and commitments in respect of forward exchange contracts that are taken at revalued amounts and staff retirement benefit (Gratuity) stated at present value.

Notes to the Financial Statements for the year ended December 31, 2006

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Revenue recognition

Mark-up / interest on advances and return on investments is recognized on accrual basis except on non-performing advances and investments which is recognized on receipt basis, in accordance with Prudential Regulations issued by the SBP.

The financing method is used in accounting for income on finance leases and hire purchase transactions. Under this method, the unearned income, i.e. the excess of aggregate lease rentals and the estimated residual value over the net investment (cost of leased assets) is deferred and then amortized to income over the term of the lease on a pattern reflecting a constant periodic rate of return on the net investment in lease.

Rental income from assets given on operating lease is recognized on accrual basis over the lease period.

Gains / losses on termination of lease contracts, documentation charges and other lease income are recognized as income when they are realized.

Fee and commission income is recognized on accrual basis.

Dividend income is recorded when the right to receive dividend is established.

5.2 Investments

Investments of the bank, other than investments in associates are classified as securities held-to-maturity, held-for trading and available-for-sale.

Held-to-maturity

These are securities with fixed or determinable payments and fixed maturity and the bank has the positive intent and ability to hold upto maturity.

Held-for-trading

These securities are either acquired for generating a profit from short-term fluctuations in prices or securities included in portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

Available-for-sale

These are securities which do not fall under held-for-trading or held-to-maturity securities.

Initial Measurement

Investments in securities are recognized on trade-date basis and initially measured at cost.

Subsequent measurement

Held-to-maturity

These are measured at amortized cost using effective interest rate method, less any impairment loss recognized to reflect irrecoverable amount.

Held-for-trading

These are measured at subsequent reporting dates at fair value. Gains and losses on remeasurement are included in the net profit and loss for the year.

Available for sale

Quoted securities classified as available for sale investments are measured at subsequent reporting dates at fair value and surplus / deficit arising thereon is kept in a separate account shown in the balance sheet below equity. The surplus / deficit arising on these securities is taken to the profit and loss account when actually realized upon disposal.

Notes to the Financial Statements for the year ended December 31, 2006

Unquoted equity securities are valued at the lower of cost and break-up value, subsequent increase or decrease in the carrying value are credited / charged to profit and loss account. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses.

Investments in associates

Investments in associates are valued using equity method of accounting.

Gain or loss on sale of investments is included in profit and loss for the year.

5.3 Sale and repurchase agreement transactions

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. Securities purchased under agreement to resale (reverse repo) are not recognized in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. In case of continuous funding system, transactions are shown under advances. The difference between sale and repurchase / purchase and resale price is treated as mark-up / return expensed or earned as the case may be.

5.4 Advances

Advances including net investment in finance lease are stated net of provisions. Provisions comprises of :

- Specific provision
- General provision

Specific provision

The bank maintains specific provisions for doubtful debts at a level that can reasonably be anticipated, keeping in view the requirements of the Prudential Regulations issued by the SBP.

General provision

The bank maintains general provision at the rate of 5% against unsecured consumer portfolio and at the rate of 1.5% against secured consumer portfolio in accordance with the Prudential Regulations issued by the SBP.

Net investment in finance lease

Lease including hire purchase where the bank transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance lease. Net investment in finance lease is recognized at an amount equal to the aggregate of minimum lease payments including any guaranteed residual value and excluding unearned finance income, if any.

5.5 Operating fixed assets / depreciation and amortization

5.5.1 Property and equipment

Property and equipment except leasehold land are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Leasehold land is stated at cost.

Depreciation is charged to income applying the straight line method over the estimated useful lives while taking into account any residual value, at the rates given in Note 12.2 to the financial statements. In respect of additions and deletions to assets during the year, depreciation is charged from the month of acquisition and upto the month preceding the deletion or upto the month of deletion if sold after the fifteenth day of the month respectively.

Normal repairs and maintenance are charged to profit and loss account for the year as and when incurred.

Major repairs and improvements are capitalized and assets so replaced are retired.

Gains and losses on disposal of property and equipment if any, are taken to profit and loss account for the year.

Notes to the Financial Statements for the year ended December 31, 2006

5.5.2 Capital work in progress

These are stated at cost.

5.5.3 Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment loss, if any. Amortization is carried out on the straight line method at the rates given in Note 12.3 to the financial statements.

5.6 Impairment

At each balance sheet date, the bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the greater of net selling price and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

Where an impairment loss reverses subsequently, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

5.7 Staff retirement benefits

Defined contribution plan

The bank operates a defined contribution provident fund for all employees. Equal monthly contributions are made both by the bank and the employees to the fund at the rate of 10% of basic salary.

Defined benefit plan

The bank operates an unfunded gratuity scheme covering all eligible employees who have attained the minimum qualifying period of five years. Provision is made in accordance with the actuarial recommendations. Actuarial valuation is carried out periodically using "Projected Unit Credit Method".

Actuarial gain / loss is recognized using 10% corridor approach. Corridor is defined as greater of 10% of present value of defined benefit obligation and plan assets.

5.8 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration the tax credits and rebates available, if any.

Deferred

Deferred tax is recognized using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The bank records deferred tax assets / liabilities using the tax rates, enacted or substantially enacted at the balance sheet date expected to be applicable at the time of its reversal.

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

The bank recognizes deferred tax asset / liability on (deficit) / surplus on revaluation of securities in accordance with the requirements of the International Accounting Standard (IAS) 12 "Income Taxes". The related deferred tax asset / liability is adjusted against the related (deficit) / surplus.

Notes to the Financial Statements for the year ended December 31, 2006

5.9 Provisions

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

5.10 Foreign currencies

Assets and liabilities in foreign currencies are translated into Rupees at the rates of exchange approximating those prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts other than those relating to foreign currency deposits are valued at the rates applicable to the respective maturities of the relevant foreign bills purchased and forward foreign exchange contracts.

Exchange gains and losses are included in profit and loss account for the year.

5.11 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks.

5.12 Related party transactions

Transactions between the bank and its related parties are carried out on an arm's length basis. The relevant rates are determined in accordance with the "Comparable Uncontrolled Price Method".

5.13 Offsetting

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

5.14 Financial instruments

All financial assets and liabilities are recognized at the time when the bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the bank loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any loss on derecognition of the financial assets and financial liabilities is taken to income directly. Financial assets carried on the balance sheet include cash and bank balances, lendings to financial institutions, investments, advances, certain receivables and financial liabilities include borrowings, deposits, bills payable and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

5.15 Derivative financial instruments

Derivative financial instruments are recognized at their fair value on the date on which a derivative contract is entered into. These instruments are marked to market and changes in fair values are taken to the profit and loss account. Fair values are obtained from quoted market prices in active markets.

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATING UNCERTAINTY

In the process of applying the bank's accounting policies, which are described in note 5, management has made the following judgments and estimated uncertainty that have the significant effect on the amounts recognized in the financial statements.

6.1 Held-to-maturity securities

As described in note 5.2, held-to-maturity securities are investments where the management has positive intent and ability to hold-to-maturity. The classification of these securities involves management judgment whether the financial assets are held to maturity investments.

Notes to the Financial Statements for the year ended December 31, 2006

6.2 Provision against non-performing advances

Apart from the provision determined on the basis of time based criteria given in Prudential Regulations of the SBP, management also applies subjective criteria of classification and accordingly the classification of an advance is downgraded on the basis of evaluation of credit worthiness of borrower, its cash flows, operations in account and adequacy of security in order to ensure accurate measurement of the provision.

6.3 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plan and the sources of estimation are disclosed in note 31 to the financial statements.

6.4 Useful life of property and equipment

Estimates of useful life of the property and equipment are based on management's best estimate.

7. CASH AND BALANCES WITH TREASURY BANKS

	Notes	2006	2005
		(Rupees '000')	
In hand			
Local currency		419,041	254,750
Foreign currencies		176,910	73,592
With State Bank of Pakistan in			
Local currency current account	7.1	1,853,586	1,225,762
Foreign currency current accounts	7.2	124,085	154,301
Foreign currency deposit account	7.3	354,496	376,646
With National Bank of Pakistan in local currency current account		286	90
		<u>2,928,404</u>	<u>2,085,141</u>

7.1 The current account is maintained under the requirements of Section 22 of the Banking Companies Ordinance, 1962.

7.2 This includes special cash reserve amounting to Rs. 118.165 million (2005: Rs. 125.549) million at nil return required to be maintained with the SBP on deposits held under the new foreign currency scheme.

7.3 This represents special cash reserve at 15% required to be maintained with SBP on deposits held under the new foreign currency account scheme at the rate of return specified by the SBP on monthly basis.

Notes to the Financial Statements for the year ended December 31, 2006

8. BALANCES WITH OTHER BANKS	Notes	2006	2005
		(Rupees '000)	
In Pakistan			
On current accounts		1,652	577
On deposit accounts	8.1	1,100,000	1,400,000
Outside Pakistan			
On current accounts		264,809	569,505
On deposit accounts		-	-
		<u>1,366,461</u>	<u>1,970,082</u>
Provision against doubtful balances		<u>(3,964)</u>	<u>(3,964)</u>
		<u>1,362,497</u>	<u>1,966,118</u>

8.1 These represent short term placements carrying interest rates ranging from 11.50% to 12.55% (2005:10.75% to 12%) per annum maturing within three months.

9. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	9.2	1,850,000	2,270,000
Repurchase agreement lendings (Reverse Repo)	9.3 & 9.4	<u>750,000</u>	<u>-</u>
		2,600,000	2,270,000

9.1 Particulars of Lendings

In local currency	2,600,000	2,270,000
In foreign currencies	-	-
	<u>2,600,000</u>	<u>2,270,000</u>

9.2 These represent call money lendings to financial institutions carrying mark-up rates ranging from 11.25% to 12.70% (2005: 9.9% to 12.95%) per annum and having maturity upto three months.

9.3 These represent repurchase agreement lendings to financial institutions carrying mark-up rates ranging from 9% to 9.4% (2005: nil) per annum and having maturity upto two months.

9.4 Securities held as collateral against lendings to financial institutions

	2006			2005		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	----- Rupees '000' -----					
Pakistan Investment Bonds	<u>750,000</u>	<u>-</u>	<u>750,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements for the year ended December 31, 2006

10. INVESTMENTS

10.1 Investments by types:

		2006			2005		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
		----- Rupees '000' -----					
Available for sale securities							
Market Treasury Bills	10.3	4,343,209	922,613	5,265,822	1,755,902	266,764	2,022,666
Cumulative Preference shares	10.4	25,000	-	25,000	25,000	-	25,000
Ordinary shares in listed companies		207,383	-	207,383	207,383	-	207,383
		4,575,592	922,613	5,498,205	1,988,285	266,764	2,255,049
Held to maturity securities							
Market Treasury Bills	10.3	-	-	-	1,387,076	577,634	1,964,710
Pakistan Investment Bonds	10.3	439,591	-	439,591	45,309	400,000	445,309
Term Finance Certificates		466,513	-	466,513	512,874	-	512,874
		906,104	-	906,104	1,945,259	977,634	2,922,893
Investment in Associates	10.8	272,803	-	272,803	27,224	-	27,224
Investments at cost		5,754,499	922,613	6,677,112	3,960,768	1,244,398	5,205,166
Provision for diminution in value of investments	10.9 & 10.10	(35,488)	-	(35,488)	(35,488)	-	(35,488)
Investments - net of provisions		5,719,011	922,613	6,641,624	3,925,280	1,244,398	5,169,678
Surplus / (Deficit) on revaluation of securities - Available for sale	20	(47,703)	115	(47,588)	(40,593)	200	(40,393)
Total Investments at market value		<u>5,671,308</u>	<u>922,728</u>	<u>6,594,036</u>	<u>3,884,687</u>	<u>1,244,598</u>	<u>5,129,285</u>

Notes to the Financial Statements for the year ended December 31, 2006

	Notes	2006	2005
(Rupees '000')			
10.2 Investments by segments:			
Federal Government Securities			
- Market Treasury Bills	10.3	5,265,822	3,987,376
- Pakistan Investment Bonds	10.3	439,591	445,309
		5,705,413	4,432,685
Cumulative Preference Shares - Listed	10.4	25,000	25,000
Fully Paid-up Ordinary Shares - Listed	10.5	207,383	207,383
Term Finance Certificates			
- Listed Term Finance Certificates	10.6	101,210	55,814
- Unlisted Term Finance Certificates	10.7	365,303	457,060
		466,513	512,874
Associated Undertakings	10.8	272,803	27,224
Total investments at cost		6,677,112	5,205,166
Provision for diminution in value of investments	10.9	(35,488)	(35,488)
Investments - net of provisions		6,641,624	5,169,678
(Deficit) on revaluation of securities - available for sale	20	(47,588)	(40,393)
Total investments at market value		6,594,036	5,129,285

10.3 Market Treasury Bills and Pakistan Investment Bonds are held with SBP and are eligible for rediscounting. Market Treasury Bills embody effective yield ranging from 8.8% to 9.01% maturing within 3 to 12 months and Pakistan Investment Bonds carry markup of 8% per annum on semi-annual basis maturing within 7 to 8 years. Certain government securities are required to be maintained with SBP to meet statutory liquidity requirement calculated on the basis of demand and time liabilities.

10.4 Particulars of investment in Cumulative Preference Shares - Listed

Investee	Number of Shares held	Paid-up value per share Rupees	Total paid-up value Rupees '000'
Pak Electron Limited (PEL)	10.4.1	2,500,000	10
		10	25,000

10.4.1 These preference shares carry fixed dividend of 9.5% on cumulative basis. For redemption, the payment of call option can be exercised by PEL up to 75% after 3 years and 100% after 5 years of issue date on 1% premium of issue price. Conversion option of preference shares into ordinary shares can be exercised by the bank up to 25% after 3 years and 100% after 5 years of issue date as per ratio specified in the agreement.

Notes to the Financial Statements for the year ended December 31, 2006

10.5 Particulars of investments in listed Companies and Modarabas	Number of shares/ certificates held	Paid-up value per share/ certificate Rupees	2006 Total nominal value Rupees
Investee			
Ordinary shares			
Awan Textile Mills Limited	39,000	10	390,000
Brother Textile Mills Limited	87	10	870
Glamour Textile Mills Limited	200,000	10	2,000,000
Hub Power Company Limited	3,919,000	10	39,190,000
Ibrahim Fibres Limited	300	10	3,000
Mohib Textile Mills Limited	5	10	50
Nimir Industrial Chemical Limited	5,076,759	10	50,767,590
Oil and Gas Development Company Limited	441	10	4,410
Security Investment Bank Limited	10	10	100
Telecard Limited	25,000	10	250,000
Yousuf Weaving Mills Limited	100	10	1,000
Chakwal Cement (GDR)	10,000	10	100,000
Modaraba certificates			
First Fidelity Lease Modaraba	1	10	10
LTVCM (face value Rs.15/- to 65/- per Certificate)	171,473		5,573,000
Trust Modaraba	100	10	1000

10.6 Particulars of investment in Listed Term Finance Certificates

Investee	Number of Certificates held	Paid-up value per certificate Rupees	Total paid-up value Rupees '000'
Bank Al-Habib Limited-1st TFCs	425	99,920	42,466
Soneri Bank Limited	5,000	1,999	9,994
Bank Al-Habib Limited-2nd TFCs	300	100,000	30,000
Azgard Nine Limited	250	100,000	18,750
			<u>101,210</u>

Notes to the Financial Statements for the year ended December 31, 2006

10.7	Particulars of investment in unlisted Term Finance Certificates	Notes	Rupees '000'
	Dewan Mushtaq Cement Limited		243,038
	Dewan Hattar Cement Limited		122,265
		10.7.1	<u>365,303</u>

10.7.1 This includes unlisted Term Finance Certificates (TFCs) of Rs. 365.303 million which have been issued by Dewan Mushtaq Cement Limited (Formerly Pakland Cement Limited) and Dewan Hattar Cement Limited (Formerly Saadi Cement Limited). The exposure of various financial institutions against the above customers was restructured under a scheme of arrangement sanctioned by the High Court of Sindh. The State Bank of Pakistan (SBP) vide their letter No. BPD/PU-22/22.03/X/2005/1836 dated February 15, 2005 allowed that the above restructuring would constitute fresh facility by treating the existing outstanding amounts as paid-off.

10.8	Investment in Associates	Notes	2006	2005
			(Rupees '000')	
	National Fullerton Asset Management Limited	10.8.1	58,336	27,224
	NAFA Cash Fund	10.8.2	<u>214,467</u>	<u>-</u>
			<u>272,803</u>	<u>27,224</u>

10.8.1 Summarized financial information in respect of associate is set out below:

	(Half Yearly) Un-audited Dec. 31, 2006	(Half Yearly) Un-audited Dec. 31, 2005
	Rupees '000'	
Total assets	238,524	82,254
Total liabilities	(22,464)	(2,158)
Net assets	<u>216,060</u>	<u>80,096</u>
Revenue	<u>40,780</u>	<u>-</u>
Loss for the period	<u>24,686</u>	<u>9,254</u>
Share of loss from associate	<u>6,388</u>	<u>2,776</u>

10.8.2 Summarized financial information in respect of associate is set out below:

	(Half Yearly) Un-audited Dec. 31, 2006 Rupees '000'
Total assets	5,271,531
Total liabilities	(119,525)
Net assets	<u>5,152,006</u>
Revenue	<u>358,132</u>
Net income for the period	<u>258,917</u>
Share of profit from associate	<u>14,467</u>

Notes to the Financial Statements for the year ended December 31, 2006

	2006	2005
	(Rupees '000')	
10.9 Particulars of provision for diminution in value of investments		
Opening balance	35,488	127,952
Charge for the year	-	-
Reversals	-	(30,032)
Amount written off	-	(62,432)
Closing balance	35,488	35,488

10.10 Particular of provision in respect of type and segment		
Available for sale securities	35,488	35,488
Held to maturity securities	-	-
Associates	-	-
	35,488	35,488

	2006		2005	
10.11 Quality of available for sale securities (At market value)	Amount	Rating	Amount	Rating
Market Treasury Bills	5,265,822		3,987,376	
Cumulative Preference shares				
Pak Electron Limited	25,000	A & A1	25,000	*
Ordinary shares				
Hub Power Company Limited	105,813	*	94,056	*
Nimir Industrial Chemical Limited	17,515	*	35,539	*
Oil and Gas Development Company Limited	51	AAA & A1+	52	*
Telecard Limited	229	*	419	*
	5,414,430		4,142,442	

* Ratings are not available

Notes to the Financial Statements for the year ended December 31, 2006

	Notes	2006	2005
		(Rupees '000')	
11. ADVANCES			
Loans, cash credits, running finance, etc.			
In Pakistan		25,150,496	11,545,197
Outside Pakistan		-	-
		25,150,496	11,545,197
Net investment in Finance Lease			
In Pakistan		4,763,735	5,367,080
Outside Pakistan		-	-
	11.2	4,763,735	5,367,080
Bills Discounted and Purchased (excluding Treasury Bills)			
Payable in Pakistan		689,977	1,319,548
Payable outside Pakistan		1,270,643	1,949,499
		1,960,620	3,269,047
Advances - Gross		31,874,851	20,181,324
Provision against non-performing advances	11.4	(822,682)	(558,395)
Advances - Net of provision		31,052,169	19,622,929
11.1 Particulars of advances			
11.1.1 In local currency		29,397,914	17,480,469
In foreign currencies		2,476,937	2,700,855
		31,874,851	20,181,324
11.1.2 Short term		25,240,438	14,473,662
Long term		6,634,413	5,707,662
		31,874,851	20,181,324

Notes to the Financial Statements for the year ended December 31, 2006

11.2 Net Investment in Finance Lease

	2006				2005			
	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 '000' -----				----- Rupees '000' -----			
Lease rentals receivable	2,491,908	1,728,801	-	4,220,709	2,809,952	2,003,104	-	4,813,056
Residual value	581,973	924,681	-	1,506,654	518,975	944,535	-	1,463,510
Minimum lease payments	3,073,881	2,653,482	-	5,727,363	3,328,927	2,947,639	-	6,276,566
Financial charges for future periods (including income suspended)	(513,789)	(449,839)	-	(963,628)	(612,354)	(297,132)	-	(909,486)
Present value of minimum lease payments	2,560,092	2,203,643	-	4,763,735	2,716,573	2,650,507	-	5,367,080

11.3 Advances include Rs.1,023.868 million (2005: Rs.699.033) million which have been placed under non-performing status as detailed below:

Category of Classification	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Substandard	200,346	-	200,346	35,354	-	35,354	35,354	-	35,354
Doubtful	75,285	-	75,285	23,220	-	23,220	23,220	-	23,220
Loss	748,237	-	748,237	551,610	-	551,610	551,610	-	551,610
	1,023,868	-	1,023,868	610,184	-	610,184	610,184	-	610,184

11.4 Particulars of provision against non-performing advances

		2006			2005		
		Specific	General	Total	Specific	General	Total
		----- Rupees '000' -----					
Opening balance		539,741	18,654	558,395	601,072	11,040	612,112
Charge for the year		150,151	194,512	344,663	161,195	7,614	168,809
Reversals		(74,412)	(668)	(75,080)	(47,878)	-	(47,878)
		75,739	193,844	269,583	113,317	7,614	120,931
Amounts written off	11.5	(5,296)	-	(5,296)	(174,648)	-	(174,648)
Closing balance		610,184	212,498	822,682	539,741	18,654	558,395

Notes to the Financial Statements for the year ended December 31, 2006

11.4.1 Particulars of provision against non-performing advances - currency wise

	Specific	General	Total	Specific	General	Total
	----- Rupees '000' -----					
In local currency	610,184	212,498	822,682	539,741	18,654	558,395
In foreign currencies	-	-	-	-	-	-
	<u>610,184</u>	<u>212,498</u>	<u>822,682</u>	<u>539,741</u>	<u>18,654</u>	<u>558,395</u>

11.5	Particulars of write off:	Notes	2006	2005
(Rupees '000')				
11.5.1	Against provisions Directly charged to profit & loss account	11.4	5,296 -	174,648 -
			<u>5,296</u>	<u>174,648</u>
11.5.2	Write offs of Rs. 500,000 and above Write offs of below Rs. 500,000	11.6	2,069 3,227	174,648 -
			<u>5,296</u>	<u>174,648</u>

11.6 Details of loans 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 and above allowed to person(s) during the year ended December 31, 2006 is given in Annexure 1.

11.7	Particulars of loans and advances to directors, associated companies, etc.	2006	2005
(Rupees '000')			
	Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons		
	Balance at beginning of year	91,075	21,233
	Loans granted during the year	169,226	73,426
	Repayments	13,689	3,584
	Balance at end of year	<u>246,612</u>	<u>91,075</u>
	Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members		
	Balance at beginning of year	-	-
	Loans granted during the year	-	-
	Repayments	-	-
	Balance at end of year	-	-
	Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
	Balance at beginning of year	-	-
	Loans granted during the year	-	-
	Repayments	-	-
	Balance at end of year	-	-

Notes to the Financial Statements for the year ended December 31, 2006

12. OPERATING FIXED ASSETS	Notes	2006 (Rupees '000')	2005
Capital work in progress	12.1	83,621	33,975
Property and equipment	12.2	503,358	303,452
Intangible assets	12.3	35,237	31,124
		622,216	368,551
12.1 Capital work in progress			
Civil works		7,951	417
Equipment and electric work		9,229	8,034
Advances to suppliers and contractors		6,925	25,024
Advance for acquisition of computer software		59,270	-
Others		246	500
		83,621	33,975

12.2 Property and Equipment

Particulars	----- C O S T -----			----- DEPRECIATION -----			Net Book value at December 31, 2006	Rate of Depreciation % per annum
	As at January 01, 2006	Additions/ (Deletions)	As at December 31, 2006	Accumulated at January 01, 2006	For the year / (on deletion)	Accumulated at December 31, 2006		
----- Rupees in 000 -----								
Leasehold land	7,407	-	7,407	-	-	-	7,407	-
Buildings on leasehold land	23,642	10,138	33,780	19,983	682	20,665	13,115	5%
Furniture and fixtures	27,974	16,325 (3,261)	41,038	9,255	3,304 (3,261)	9,298	31,740	10%
Electrical, office and computer equipment	132,514	120,937 (1,541)	251,910	52,028	44,041 (793)	95,276	156,634	20% & 33%
Vehicles	96,115	67,741 (33,941)	129,915	26,043	23,599 (16,049)	33,593	96,322	20%
Leasehold improvements	139,988	110,253	250,241	19,165	32,936	52,101	198,140	20%
	427,640	325,394 (38,743)	714,291	126,474	104,562 (20,103)	210,933	503,358	
Assets under operating lease								
Non-Commercial Vehicles	3,606	-	-	1,320	294 (1,614)	-	-	15%
	2006	431,246	325,394 (42,349)	714,291	127,794	104,856 (21,717)	210,933	503,358
	2005	210,859	233,639 (13,252)	431,246	88,000	48,005 (8,211)	127,794	303,452

12.2.1 The fair value of property and equipment as per management estimate, is not materially different from the carrying amount.

12.2.2 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs. 51.860 million (2005: Rs. 39.336 million).

Notes to the Financial Statements for the year ended December 31, 2006

12.2.3 Detail of disposal of property and equipment during the year

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposals	Particulars of buyer
(Rupees '000')						
Vehicles	1,277	1,075	202	617	Negotiation	M. Raheel Mithani Clifton Karachi
	591	310	281	450	Employee service rules	Salman Sarwar, Karachi
	595	340	255	431	Negotiation	Adeel Ahmed Khan, PECHS Karachi
	887	580	307	711	Negotiation	Liaquat Ali, Allabad Rawalpindi
	795	437	358	500	Employee service rules	Ms. Shaheen Qureshi Karachi
	795	421	374	700	Negotiation	Sajid Qureshi I-8 Islamabad
	795	407	388	649	Negotiation	Jahangir Pervaiz, Gulberg Lahore
	1,108	545	563	657	Employee service rules	Usman Afzal, Lahore
	555	222	333	466	Negotiation	Adeel Ahmed Khan, PECHS Karachi
	560	215	345	457	Negotiation	Irfan Shakil, KECHS Karachi
	560	261	299	422	Negotiation	M/s. Ittehad Motors, Muslimabad Karachi
	560	224	336	424	Employee service rules	Rizwan Kothari, Karachi
	795	388	407	611	Negotiation	Faheem Khalid Butt, Gulberg Lahore
	1,108	424	683	777	Employee service rules	Mian Muhammad Shareef, Lahore
	559	263	295	441	Negotiation	Sajid Qureshi I-8/1 Islamabad
	559	228	330	437	Negotiation	M/s. Ittehad Motors, Muslimabad Karachi
	559	228	330	418	Negotiation	Argosy Enterprises Gulberg II Lahore
	375	69	306	375	Negotiation	EFU General Insurance
	375	94	281	370	Negotiation	Samina Irfan, Clifton Karachi
	375	119	256	330	Negotiation	Qamar-uz-Zaman, Faisal Town Lahore
	375	119	256	322	Negotiation	Argosy Enterprises Gulberg II Lahore
	375	119	256	318	Negotiation	Argosy Enterprises Gulberg II Lahore
	375	119	256	321	Negotiation	Argosy Enterprises Gulberg II Lahore
	375	119	256	353	Negotiation	Syed Riaz Ahmed, Muslimabad Karachi
	375	119	256	346	Negotiation	Mohammad Shahzad Gulshan-e-Iqbal Karachi
	375	119	256	353	Negotiation	M/s. Ittehad Motors, Muslimabad Karachi
	375	119	256	331	Negotiation	Rahil Mithani, Clifton Karachi
	375	119	256	331	Negotiation	Mohammad Shahzad Gulshan-e-Iqbal Karachi
	555	185	370	472	Negotiation	Mohammad Saud Qureshi I-18-1 Islamabad
	375	119	256	322	Negotiation	Khurram Imtiaz. Argosy Enterprises Lahore
	555	185	370	461	Negotiation	Syed Riaz Ahmed, Gulshan-e-Iqbal Karachi
	560	177	383	457	Negotiation	M/s. Ittehad Motors, Muslimabad Karachi
	560	121	439	473	Negotiation	Rahil Mithani, Clifton Karachi
	835	195	640	687	Employee service rules	Aized Rasheed, Karachi
	1,197	319	878	883	Employee service rules	Akbar Hassan, Karachi
	835	181	654	707	Employee service rules	Ahsan Rashid, Karachi
	560	121	439	504	Insurance claim	EFU General Insurance
	390	52	338	351	Negotiation	Riaz Ahmed DHA Lahore
	390	52	338	367	Negotiation	Khurram Imtiaz. Argosy Enterprises Lahore
	390	59	332	350	Negotiation	Mustafa Mahmood, Johar Town Lahore
	390	59	332	365	Negotiation	Nabeel Riaz Multan Road Lahore
	390	59	332	345	Negotiation	Mustafa Mahmood, Johar Town Lahore
	1,021	498	523	700	Negotiation	Asif Azeem Karachi
	861	406	455	728	Negotiation	Syed Riaz Ahmed, Gulshan-e-Iqbal Karachi
	861	308	554	695	Negotiation	Akhtar Nadir Ali Prince Road Hyderabad
	862	402	460	728	Negotiation	Syed Riaz Ahmed, Gulshan-e-Iqbal Karachi
	3,261	3,261	-	412	Negotiation	M/s. Iqbal Scrap Merchant Timber Market Karachi
Sub Total	31,631	14,561	17,070	22,925		

Items having cost less than Rs. 1 million or net book value not exceeding Rs. 0.25 million

	10,718	7,156	3,562	7,821
2006	42,349	21,717	20,632	30,746
2005	13,252	8,211	5,042	11,379

Notes to the Financial Statements for the year ended December 31, 2006

12.3 Intangible Assets

Particulars	C O S T		As at December 31, 2006	AMORTIZATION			Net Book value at December 31, 2006	Rate of Amortization % per annum
	As at January 01, 2006	Additions		Accumulated at January 01, 2006	For the year	Accumulated at December 31, 2006		
----- Rupees in 000 -----								
Computer Softwares	38,184	15,289	53,473	7,060	11,176	18,236	35,237	33.33% & 50%
2006	38,184	15,289	53,473	7,060	11,176	18,236	35,237	
2005	3,952	34,232	38,184	3,347	3,713	7,060	31,124	

	Notes	2006	2005
		(Rupees '000')	
13. DEFERRED TAX ASSETS / (LIABILITIES)			
Deferred tax credit arising due to:			
Excess of accounting base of leased asset over tax base		91,801	247,568
Excess of accounting base of market treasury bills over tax base		245	503
Accelerated accounting depreciation on owned assets		13,808	-
		105,854	248,071
Deferred tax debits arising due to:			
Accelerated accounting depreciation on owned assets		-	879
Provision against loans and advances		213,565	188,909
Provision against other receivables		6,559	6,673
Provision against balances with other banks		1,387	1,387
Gratuity		11,501	8,218
Unused tax losses		-	39,540
		233,012	245,606
		127,158	(2,465)
14. OTHER ASSETS			
Income / mark-up accrued in:			
Local currency		588,511	269,063
Foreign currencies		15,409	7,964
Advances, deposits, advance rent and other prepayments	14.1	298,843	267,120
Advance taxation - net	14.2	84,572	50,069
Unrealized gain on forward exchange contracts - net		23,622	-
Advance for purchase of units in mutual funds of associates		150,000	-
Others		145	1,542
		1,161,102	595,758
Provisions held against other assets	14.3	(18,739)	(19,067)
Other assets - net of provisions		1,142,363	576,691

Notes to the Financial Statements for the year ended December 31, 2006

		2006	2005
14.1	Advances, deposits, advance rent and other prepayments	(Rupees '000')	
	Advances	13,103	41,631
	Deposits	12,321	12,196
	Advance rent	164,644	101,743
	Prepayments	108,775	111,550
		298,843	267,120
14.2	This includes advance tax amounting to Rs.15.699 million pertaining to the amalgamation of Credit Agricole Indosuez Pakistan Operations (CAI) the recovery / adjustment of which is guaranteed by CAI. The bank is entitled to 2% plus 6 months T-bill yield per annum subject to a minimum of 4.5% per annum from CAI till the amount is refunded / adjusted by the tax department.		
14.3	Particulars of provision against other assets		
	Opening balance	19,067	18,740
	Charge for the year	-	327
	Reversals	(328)	-
	Amount written off	-	-
	Closing balance	18,739	19,067
15.	BILLS PAYABLE		
	In Pakistan	206,669	268,003
	Outside Pakistan	9,100	6,322
		215,769	274,325
16.	BORROWINGS		
	In Pakistan	9,157,328	4,510,756
	Outside Pakistan	6,793	36,340
		9,164,121	4,547,096
16.1	Particulars of borrowings with respect to currencies		
	In local currency	9,096,418	4,510,756
	In foreign currencies	67,703	36,340
		9,164,121	4,547,096

Notes to the Financial Statements for the year ended December 31, 2006

	Notes	2006	2005
(Rupees '000')			
16.2 Details of borrowings secured / unsecured			
Secured			
Borrowings from SBP under Export refinance scheme	16.3	6,001,433	3,156,646
Under locally manufactured machinery (LMM) scheme		-	-
Long term finance for export oriented projects	16.4	145,731	109,712
Repurchase agreement borrowings	16.5	917,555	1,244,398
		<u>7,064,719</u>	<u>4,510,756</u>
Unsecured			
Call borrowings	16.6	2,090,910	-
Overdrawn nostro accounts		6,793	36,340
Overdrawn bank accounts		1,699	-
		<u>2,099,402</u>	<u>36,340</u>
		<u>9,164,121</u>	<u>4,547,096</u>
16.3	Borrowings from SBP under export refinance are subject to mark-up at the rates ranging from 6.5% to 7.5% (2005: 7.5%) per annum maturing within six months.		
16.4	Borrowings from SBP under export oriented projects are subject to mark-up ranging from 4.9% to 5% (2005: 4.9% to 5%) per annum maturing within seven years.		
16.5	These borrowings are subject to mark-up at the rate of 8.7 % (2005: 6.75% to 8.50%) per annum maturing within one month. Market treasury bills amounting Rs. 922.613 million have been given as collateral against these borrowings.		
16.6	These borrowings are subject to mark-up at the rate ranging from 6% to 11.75% (2005: nil) per annum maturing within one month		
17. DEPOSITS AND OTHER ACCOUNTS	Notes	2006	2005
(Rupees '000')			
Customers			
Fixed deposits		18,336,843	13,018,636
Savings deposits		6,298,832	5,735,098
Current accounts - Non remunerative		3,517,525	1,939,077
Margin accounts		373,886	263,624
		<u>28,527,086</u>	<u>20,956,435</u>
Financial institutions			
Remunerative deposits		1,947,156	74,372
Non-remunerative deposits		92,298	92,749
		<u>2,039,454</u>	<u>167,121</u>
		<u>30,566,540</u>	<u>21,123,556</u>
17.1 Particulars of deposits			
In local currency		28,016,868	18,401,916
In foreign currencies		2,549,672	2,721,640
		<u>30,566,540</u>	<u>21,123,556</u>
18. OTHER LIABILITIES			
Mark-up / return / interest payable in:			
Local currency		348,764	211,536
Foreign currencies		13,523	12,283
Unearned commission and income on bills discounted		13,622	-
Accrued expenses		138,395	107,807
Advance from lessees		15,583	36,178
Unclaimed dividend		1,289	1,293
Unrealised loss on forward exchange contracts - net		-	7,069
Branch adjustment account		72,652	15,799
Payable to defined benefit plan	31.3	32,859	23,479
Withholding tax payable		19,136	9,471
Security deposits against leases		1,476,560	1,430,718
Others		18,155	2,765
		<u>2,150,538</u>	<u>1,858,398</u>

Notes to the Financial Statements for the year ended December 31, 2006

		2006	2005		
		(Rupees '000')			
19.	SHARE CAPITAL				
19.1	Authorized				
	2006 2005				
	450,000,000 450,000,000	Ordinary shares of Rs.10 each	4,500,000	4,500,000	
19.2	Issued, subscribed and paid up				
	Fully paid up ordinary shares of Rs.10/- each				
	213,258,077 213,258,077	Fully paid in cash	2,132,581	2,132,581	
	122,894,100 122,894,100	Issued for consideration other than cash (under scheme of amalgamation)	1,228,941	1,228,941	
	336,152,177 336,152,177		<u>3,361,522</u>	<u>3,361,522</u>	
19.2.1	The holding Company Bugis Investment (Mauritius) Pte. Limited and associated undertaking IFIC Bangladesh hold 239,914,764 and 24,578,800 ordinary shares respectively.				
20.	DEFICIT ON REVALUATION OF SECURITIES				
	Federal Government Securities				
	Market Treasury Bills	700	1,437		
	Investment in listed shares	(48,288)	(41,830)		
	Related deferred tax liability	(47,588)	(40,393)		
		(245)	(503)		
		<u>(47,833)</u>	<u>(40,896)</u>		
21.	CONTINGENCIES AND COMMITMENTS				
21.1	Direct credit substitutes				
	Contingent liability in respect of guarantees given favoring:				
	Government	186,084	32,627		
	Banking companies	442	821		
	Others	131,753	100,093		
		318,279	133,541		
21.2	Transactions-related contingent liabilities / commitments				
	Guarantees given in favor of:				
	Government	428,593	327,648		
	Banking Companies and other financial institutions	29,952	3,986		
	Others	446,886	118,530		
		905,431	450,164		
21.3	Trade-related contingent liabilities				
	Letters of credit	7,533,499	4,098,484		
	Acceptances	3,224,538	1,454,971		
		10,758,037	5,553,455		

Notes to the Financial Statements for the year ended December 31, 2006

		2006	2005
		(Rupees '000')	
21.4	Commitments in respect of forward lending		
	Forward call lending	-	-
	Forward repurchase agreement lending	-	-
	Commitments to extend credit	-	-
		-	-
21.5	Commitments in respect of forward exchange contracts		
	Purchase	6,042,476	5,811,721
	Sale	5,387,175	4,863,061
		11,429,651	10,674,782
21.6	Commitments in respect of operating leases		
	Not later than one year	4,020	144
	Later than one year and not later than five years	3,103	11,440
	Later than five years	-	-
		7,123	11,584
21.7	Commitments for the acquisition of operating fixed assets	13,468	-
22.	MARK-UP / RETURN / INTEREST EARNED		
	On loans and advances to:		
	Customers	2,688,531	1,388,259
	Financial institutions	-	-
	On investments in:		
	Available for sale securities	191,926	7,484
	Held to maturity securities	201,770	123,878
	On deposits with financial institutions	296,293	106,097
	On securities purchased under resale agreements	119,817	86,188
	Others	941	5,011
		<u>3,499,278</u>	<u>1,716,917</u>
23.	MARK-UP / RETURN / INTEREST EXPENSED		
	Deposits and other accounts	1,732,813	703,395
	Securities sold under repurchase agreements	158,180	60,555
	Other short term borrowings	437,331	256,204
	Long term borrowings	6,457	4,419
	Others	117,411	94,384
		<u>2,452,192</u>	<u>1,118,957</u>
24.	OTHER INCOME		
	Gain on disposal of property and equipment	10,114	6,337
	Service charges	40,814	7,013
	Income from operating lease	-	830
	Recovery against loans written off in prior years	12,500	-
	Others	1,293	419
		<u>64,721</u>	<u>14,599</u>

Notes to the Financial Statements for the year ended December 31, 2006

	Notes	2006	2005
		(Rupees '000')	
25. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		605,675	287,459
Charge to defined benefit plan	31.5	9,377	12,693
Contribution to defined contribution plan		21,104	12,498
Brokerage and commission		21,732	14,401
Rent, taxes, insurance, electricity, etc.		168,038	99,105
Legal and professional		34,663	31,435
Communications		57,484	26,514
Repairs and maintenance		25,011	31,972
Rentals for operating lease		5,257	8,605
Stationery and printing		28,908	20,756
Advertisement and publicity		56,368	49,276
Fees and subscription		14,209	34,122
Auditor's remuneration	25.1	2,715	2,057
Depreciation	12.2	104,856	47,461
Amortization	12.3	11,176	3,713
Traveling and conveyance		24,277	14,089
Security services		15,207	6,779
Others		15,366	8,610
		<u>1,221,423</u>	<u>711,545</u>
25.1 Auditors' remuneration			
Audit fee		650	600
Review fee		325	300
Special certifications and sundry advisory services including fee for branch audit		1,415	535
Tax services		275	562
Out-of-pocket expenses		50	60
		<u>2,715</u>	<u>2,057</u>
26. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		<u>2,587</u>	<u>1,182</u>
27. TAXATION			
For the year			
Current		(33,422)	(20,178)
Deferred		129,367	96,948
		<u>95,945</u>	<u>76,770</u>
27.1 Relationship between tax expense and accounting profit			
Profit before tax		<u>29,992</u>	<u>27,001</u>
Tax at applicable rate of 35% (2005: 38%)		(10,497)	(10,260)
Effect of brought forward losses		221,342	4,901
Tax effect of computational adjustment		(114,900)	82,129
Effect of prior year's tax		-	-
		<u>95,945</u>	<u>76,770</u>

Notes to the Financial Statements for the year ended December 31, 2006

	2006	2005
28. BASIC / DILUTED EARNINGS PER SHARE		
Profit after taxation (Rs. in '000')	<u>125,937</u>	<u>103,771</u>
Weighted average number of shares outstanding during the year (000)	<u>336,152</u>	<u>229,528</u>
Earnings per share - basic and diluted (Rupees)	<u>0.37</u>	<u>0.45</u>

(Rupees '000')

29. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks	2,928,404	2,085,141
Balances with other banks net of provision	<u>1,362,497</u>	<u>1,966,118</u>
	<u>4,290,901</u>	<u>4,051,259</u>

	(Numbers)	
30. STAFF STRENGTH		
Permanent	912	593
Temporary / on contractual basis	4	7
Daily Wages	-	-
Others	-	-
Bank's own staff strength at the end of the year	<u>916</u>	<u>600</u>
Outsourced	<u>716</u>	<u>186</u>
Total Staff Strength	<u>1,632</u>	<u>786</u>

31. DEFINED BENEFIT PLAN

31.1 The benefits under the gratuity scheme are payable on retirement at the age of 60 years or earlier cessation of services in lump sum. The benefit is equal to one month's last drawn basic salary of each year of confirmed service, subject to a minimum of five years of service.

31.2 Principal actuarial assumptions

The actuarial valuation is carried out periodically. The actuarial valuation was carried out for the year ended December 31, 2006 using "Projected Unit Credit Method". The main assumptions used for actuarial valuation are as follows:

	2006	2005	
	(Per Annum)		Sources of assumptions
- Discount rate	10%	9%	Yield on PIBs and high quality TFCs
- Expected rate of increase in salaries	9%	9%	Market trend

	2006	2005
	(Rupees '000')	
31.3 Reconciliation of payable to defined benefit plan		
Present value of defined benefit obligations	22,109	23,453
Fair value of any plan assets	-	-
Unrecognised prior service cost	4,892	-
Net actuarial gains not recognized	<u>5,858</u>	<u>29</u>
Net liability in balance sheet	<u>32,859</u>	<u>23,482</u>

Notes to the Financial Statements for the year ended December 31, 2006

	2006	2005
31.4 Movement in payable to defined benefit plan	(Rupees '000')	
Opening balance	23,482	10,789
Charge for the year	9,377	12,693
Payment to the outgoing members	-	-
Closing balance	<u>32,859</u>	<u>23,482</u>
31.5 Charge for defined benefit plan		
Current service cost	9,357	11,317
Interest cost	1,651	1,376
Expected return on plan assets	-	-
Recognition of actuarial gains and losses	-	-
Past service cost	-	-
Amortisation of prior service cost	(1,631)	-
Cost for the year	<u>9,377</u>	<u>12,693</u>

32. DEFINED CONTRIBUTION PLAN

The bank has established a provident fund scheme administered by the Board of Trustees for all permanent employees. Equal monthly contributions are made both by the bank and employees to the fund @ 10% of basic salary

33. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2006	2005	2006	2005	2006	2005
	-----Rupees '000'-----					
Fees	-	-	2,622	1,767	-	-
Managerial remuneration	12,452	5,462	-	-	106,245	45,239
Charge for defined benefit plan	346	686	-	-	3,432	3,902
Contribution to defined contribution plan	1,214	546	-	-	8,993	7,273
Rent and house maintenance	5,120	2,458	-	-	37,186	15,287
Utilities	484	-	-	-	10,625	5,070
Others	2,552	2,336	-	-	36,970	5,772
	<u>22,168</u>	<u>11,488</u>	<u>2,622</u>	<u>1,767</u>	<u>203,451</u>	<u>82,543</u>
Number of persons	<u>1</u>	<u>1</u>	<u>8</u>	<u>8</u>	<u>92</u>	<u>56</u>

President and other executives are also provided with free use of bank maintained cars.

Notes to the Financial Statements for the year ended December 31, 2006

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

34.1 On-balance sheet financial instruments

	2006		2005	
	Book value	Fair value	Book value	Fair value
-----Rupees '000'-----				
Assets				
Cash balances with treasury banks	2,928,404	2,928,404	2,085,141	2,085,141
Balances with other banks	1,362,497	1,362,497	1,966,118	1,966,118
Lending to financial institutions	2,600,000	2,600,000	2,270,000	2,270,000
Investments	6,594,036	6,594,036	5,129,285	5,129,285
Advances	31,052,169	31,052,169	19,622,929	19,622,929
Other assets	781,940	781,940	304,922	304,922
	<u>45,319,046</u>	<u>45,319,046</u>	<u>31,378,395</u>	<u>31,378,395</u>
Liabilities				
Bills payable	215,769	215,769	274,325	274,325
Borrowings	9,164,121	9,164,121	4,547,096	4,547,096
Deposits and other accounts	30,566,540	30,566,540	21,123,556	21,123,556
Sub-ordinated loans	-	-	-	-
Other liabilities	382,712	382,712	234,583	234,583
	<u>40,329,142</u>	<u>40,329,142</u>	<u>26,179,560</u>	<u>26,179,560</u>
Off-balance sheet financial instruments				
Forward purchase of foreign exchange	<u>6,042,476</u>	<u>6,042,476</u>	<u>5,811,721</u>	<u>5,811,721</u>
Forward sale of foreign exchange	<u>5,387,175</u>	<u>5,387,175</u>	<u>4,863,061</u>	<u>4,863,061</u>

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

All quoted investments have been stated at their market value. All unquoted investments have been stated at lower of cost or realizable value, being their estimated fair values.

Fair values of loans and advances cannot be determined with reasonable accuracy due to absence of current and active market. Loans and advances are repriced frequently on market rates and are reduced for an impairment against non-performing advances determined in accordance with Prudential Regulations.

Fair values of all other assets and liabilities including long term deposits cannot be calculated with sufficient accuracy as active market does not exist for these instruments. In the opinion of the management, fair value of these assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short term in nature or in case of deposits are frequently repriced.

Notes to the Financial Statements for the year ended December 31, 2006

35. Segment Details with respect to Business Activities

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

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services	Assets Management	Retail Brokerage	Others
.....Rupees in '000'									
Current Period									
Total income	1,830	1,364,685	3,494,827	2,038,416	134,725	-	-	-	42,841
Total expenses	(1,798)	(1,361,561)	(3,480,144)	(2,037,467)	(132,355)	-	-	-	(42,089)
Net income before tax and share of associates	32	3,125	14,684	950	2,370	-	-	-	752
Segment Assets (Gross)	-	13,838,321	32,044,215	25,172,211	-	-	-	-	-
Segment Non Performing Loans	-	-	211,383	812,485	-	-	-	-	-
Segment Provision (including general provisions)	-	-	345,103	477,579	-	-	-	-	-
Segment Assets (Net)	-	13,838,321	31,699,112	24,694,632	-	-	-	-	-
Segment Liabilities	-	12,984,782	29,743,931	23,171,574	-	-	-	-	-
Segment Return on net assets (ROA) (%)	-	0.023%	0.046%	0.004%	-	-	-	-	-
Segment Cost of funds (%)	-	9.8%	8.45%	9.8%	-	-	-	-	-

The respective segment assets and liabilities incorporate funding gaps and excess funding between segments, with appropriate transfer pricing.

Prior year's figures are not available on the prescribed format.

Notes to the Financial Statements for the year ended December 31, 2006

36. RELATED PARTY TRANSACTIONS

The bank has related party relationships with its holding company, associated undertaking, joint venture, employee benefit plans and its directors and executive officers (including their associates).

Transactions with related parties are executed on the same terms as those prevailing at the time for comparable transactions with unrelated parties.

The detail of transactions with related parties, apart from compensation to executives as disclosed in note 33, is given below :

	Notes	2006 (Rupees '000')	2005
Profit paid to provident fund		1,441	465
Profit paid on deposits of associated undertakings		3,535	11
Contribution to provident fund		21,104	12,498
Consultancy charges paid to associated undertaking		850	7,537
Brokerage paid to associated undertaking		1,982	3,440
Brokerage payable to associated undertaking		59	136
Deposits of provident fund	36.1	29,752	32,836
Deposits of holding company - Bugis Investments (Mauritius) PTE Limited	36.2	16,469	16,149
Deposits of associated undertaking - NAFA	36.3	149,555	79,671
Deposits of associated undertaking - Global Securities	36.4	2,092	3,212
Net share of profit / (loss) from associated undertakings-NAFA and NAFA Cash Fund		8,079	(2,776)
Investment in associated undertaking - NAFA		58,336	27,224
Investment in associated undertaking - NAFA Cash Fund		214,467	-
Advance for purchase of NAFA Stock Market Fund		75,000	-
Advance for purchase of NAFA Multi Asset Fund		75,000	-
The bank has not extended loans and advances to any of its related parties either in the current or prior year.			
36.1 Deposits of Provident Fund			
Opening balance		32,836	8,482
Deposits during the year		46,051	30,605
		<u>78,887</u>	<u>39,087</u>
Withdrawals during the year		(49,135)	(6,251)
Closing balance		<u>29,752</u>	<u>32,836</u>
36.2 Deposits of Holding Company - Bugis Investments (Mauritius) Pte Limited			
Opening balance		16,149	-
Deposits during the year		-	6,798,345
Exchange difference		320	-
		<u>16,469</u>	<u>6,798,345</u>
Withdrawals during the year		-	(6,782,196)
Closing balance		<u>16,469</u>	<u>16,149</u>
36.3 Deposits of Associated undertaking - NAFA			
Opening balance		79,671	-
Deposits during the year		1,256,787	150,211
		<u>1,336,458</u>	<u>150,211</u>
Withdrawals during the year		(1,186,903)	(70,540)
Closing balance		<u>149,555</u>	<u>79,671</u>
36.4 Deposits of Associated undertaking - Global Securities			
Opening balance		3,213	510
Deposits during the year		57,313	216,424
		<u>60,526</u>	<u>216,934</u>
Withdrawals during the year		(58,434)	(213,722)
Closing balance		<u>2,092</u>	<u>3,212</u>

Notes to the Financial Statements for the year ended December 31, 2006

37. CAPITAL ADEQUACY

The risk weighted assets to capital ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:-

	2006	2005
	------(Rupees '000')-----	
Regulatory Capital Base		
Tier I Capital		
Shareholders Capital/Assigned Capital	3,361,522	3,361,522
Reserves	719,810	694,623
Unappropriated / unremitted profits (Net of Losses)	298,376	197,626
Less: Adjustments	47,833	40,896
Total Tier I Capital	<u>4,331,875</u>	<u>4,212,875</u>
Tier II Capital		
Subordinated Debt (upto 50% of total Tier I Capital)	-	-
General Provisions subject to 1.25% of	-	-
Total Risk Weighted Assets	212,498	18,654
Revaluation Reserve (upto 50%)	-	-
Total Tier II Capital	212,498	18,654
Eligible Tier III Capital	-	-
Total Regulatory Capital (a)	<u>4,544,373</u>	<u>4,231,529</u>

Risk-Weighted Exposures

	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
	------(Rupees)-----			
Credit Risk				
Balance Sheet Items:-				
Cash and other Liquid Assets	4,290,901	272,500	4,051,259	393,242
Money at call	2,600,000	1,850,000	2,270,000	2,270,000
Investments	6,594,036	887,908	5,129,285	693,484
Loans and Advances	28,491,918	26,535,568	17,086,998	16,052,284
Fixed Assets	622,216	622,216	368,551	368,551
Other Assets	1,269,521	1,177,809	576,691	510,944
	<u>43,868,592</u>	<u>31,346,001</u>	<u>29,482,784</u>	<u>20,288,505</u>
Off Balance Sheet items				
Loan Repayment Guarantees	3,527,668	3,527,668	1,583,361	1,583,361
Purchase and Resale Agreements	-	-	-	-
Performance Bonds, etc.	863,778	351,231	426,655	213,422
Revolving Underwriting Commitments	-	-	-	-
Stand-by Letters of Credit	7,255,243	3,627,621	3,870,014	1,935,007
Outstanding Foreign Exchange Contracts	-	-	-	-
- Purchase	6,042,476	77,530	5,811,721	71,260
- Sale	5,387,175	29,047	4,863,061	25,319
	<u>23,076,340</u>	<u>7,613,097</u>	<u>16,554,812</u>	<u>3,828,369</u>
Credit risk-weighted exposures		<u>11.66%</u>		<u>17.55%</u>
Market Risk				
General market risk		13,497		12,240
Specific market Risk		-		-
Market risk-weighted exposures		<u>168,713</u>		<u>152,999</u>
Total Risk-Weighted exposures (b)		<u>39,127,811</u>		<u>24,269,873</u>
Capital Adequacy Ratio [(a) / (b) x 100]		<u>11.61%</u>		<u>17.44%</u>

Notes to the Financial Statements for the year ended December 31, 2006

38. RISK MANAGEMENT

The acceptance and management of financial risk is inherent to banking business activities. It involves identification, measurement, monitoring and controlling risks to ensure that:

- Bank's risk exposure is within the limits established by the board of directors.
- Risk taking decisions are in line with the business strategy and objectives set by the board of directors.
- The expected payoffs compensate the risks taken.
- Risk taking decisions are explicit and clear.
- Sufficient capital as buffer is available to take risk.

The bank is primarily subject to credit risk, market risk, liquidity risk and operational risk. The policies and procedures for managing these risks are outlined below. The bank has designed and implemented a framework of controls to identify, monitor and manage these risks.

38.1 Credit Risk

The bank has established an appropriate credit risk environment which is operating under a sound credit-granting process; maintaining an appropriate credit administration, measurement and monitoring process and ensuring adequate controls.

Credit approval process is followed by all businesses in the Bank. Initial credit approvals and extensions are only approved by Credit Committee established at various levels (a credit committee has minimum of three members). Further, in order to measure credit risk, an indigenously developed rating system is followed which has served the Bank well in the past. This rating system is being fine tuned to address Basel II requirements and is under testing.

The Bank manages credit risk through:

- Accurate detailed information about the borrower, cash flows, production, service and operation of the company.
- Insights into the major factors influencing customer attrition and product cancellation.
- Credit and collections treated as a highly people-intensive business.
- Establishment of acceptable risk levels.

Notes to the Financial Statements for the year ended December 31, 2006

38.1.1 Segmental Information

38.1.1.1 Segments by class of business

	2006					
	Advance (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000'	Percent	Rupees in '000'	Percent	Rupees in '000'	Percent
Agriculture, Forestry, Hunting and Fishing	161,656	0.51	107,811	0.35	800	0.01
Mining and Quarrying	14,433	0.05	4,723	0.02	-	-
Textile	11,139,201	34.95	881,421	2.88	2,434,708	20.32
Chemical and Pharmaceuticals	113,631	0.36	683,192	2.24	172,583	1.44
Cement	649,578	2.04	99,700	0.33	563,314	4.70
Sugar	386,321	1.21	9,534	0.03	210,599	1.76
Footwear and Leather garments	153,651	0.48	15,984	0.05	59,862	0.50
Automobile and transportation equipment	303,868	0.95	61,262	0.20	142,731	1.19
Electronics and electrical appliances	876,026	2.75	373,517	1.22	423,704	3.54
Construction	224,656	0.70	199,857	0.65	161,299	1.35
Power (electricity), Gas, Water, Sanitary	237,709	0.75	-	-	11,100	0.09
Wholesale and Retail Trade	1,525,871	4.79	607,516	1.99	830,302	6.93
Exports/Imports	1,912,547	6.00	-	-	1,777,928	14.84
Transport, Storage and Communication	435,100	1.37	1,733,757	5.67	3,035,301	25.33
Non profit organization/Trust	-	-	3,330,883	10.90	-	-
Financial	696	0.00	3,084,820	10.09	-	-
Services	687,350	2.16	-	-	230,581	1.92
Individuals	6,362,513	19.96	12,292,930	40.22	-	-
Others	6,690,044	20.97	7,079,633	23.16	1,926,936	16.08
	<u>31,874,851</u>	<u>100.00</u>	<u>30,566,540</u>	<u>100.00</u>	<u>11,981,748</u>	<u>100.00</u>

38.1.1.2 Segment by sector

	Advance (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000'	Percent	Rupees in '000'	Percent	Rupees in '000'	Percent
Public / Government	13,874	0.04	2,549,671	8.34	-	-
Private	31,860,977	99.96	28,016,869	91.66	11,981,748	100.00
	<u>31,874,851</u>	<u>100.00</u>	<u>30,566,540</u>	<u>100.00</u>	<u>11,981,748</u>	<u>100.00</u>

Notes to the Financial Statements for the year ended December 31, 2006

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

	2006		2005	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
-----Rupees in '000'-----				
Agriculture, Forestry, Hunting and Fishing	-	-	-	-
Mining and Quarrying	-	-	-	-
Textile	375,673	235,423	260,109	192,823
Chemical and Pharmaceuticals	4,111	4,111	21,495	12,376
Cement	-	-	-	-
Sugar	8,227	8,227	8,227	8,227
Footwear and Leather garments	-	-	1,158	1,158
Automobile and transportation equipment	1,288	-	-	-
Electronics and electrical appliances	2,628	-	-	-
Construction	51,761	11,762	-	-
Power (electricity), Gas, Water, Sanitary	94,891	66,610	108,591	76,445
Wholesale and Retail Trade	-	-	-	-
Exports/Imports	-	-	-	-
Transport, Storage and Communication	59,254	40,301	-	-
Financial	-	-	-	-
Insurance	-	-	-	-
Services	11,502	7,625	-	-
Individuals	130,597	85,690	82,051	71,948
Others	283,936	150,435	217,402	176,764
	<u>1,023,868</u>	<u>610,184</u>	<u>699,033</u>	<u>539,741</u>

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

Public/ Government	8,227	8,227	8,227	8,227
Private	1,015,641	601,957	690,806	531,514
	<u>1,023,868</u>	<u>610,184</u>	<u>699,033</u>	<u>539,741</u>

38.1.1.5 GEOGRAPHICAL SEGMENT ANALYSIS

	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
-----Rupees in '000'-----				
Pakistan	29,992	46,428,843	4,331,875	11,981,748
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>29,992</u>	<u>46,428,843</u>	<u>4,331,875</u>	<u>11,981,748</u>

Notes to the Financial Statements for the year ended December 31, 2006

38.2 Market Risk

Market risk is primarily composed of price risk and arises out of treasury trading and investment activities. It is the risk that the value of on and off-balance sheet positions of the bank will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, and/or commodity prices resulting in a loss to earnings and capital.

The bank recognizes that it may be exposed to market risk in a variety of ways. Market risk exposure may be explicit in portfolio of securities / equities and foreign currencies that are actively traded. Conversely it may be implicit such as interest rate risk due to mismatch of loans and deposits. Besides, market risk may also arise from activities categorized as off-balance sheet items.

38.2.1 Foreign Exchange Risk

Foreign exchange risk is the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates. It refers to the impact of adverse movement in currency exchange rates on the value of open foreign currency positions. The bank is also exposed to interest rate risk, which arises from the maturity mismatching of foreign currency positions. Even in cases where spot and forward positions in individual currencies are balanced, the maturity pattern of forward transactions may produce mismatches. As a result, the bank may suffer losses due to changes in discounts of the currencies concerned. In the foreign exchange business, the bank might also face the risk of default of the counter parties or settlement risk. While such type of risk crystallization does not cause principal loss, bank may have to undertake fresh transactions in the cash/spot market for replacing the failed transactions. Thus, the bank may incur replacement cost, which depends upon the currency rate movements. The bank might also face another risk called time-zone risk, which arises out of time lags in settlement of one currency in one center and the settlement of another currency in another time zone. Foreign exchange transactions with counter parties situated outside Pakistan also involve sovereign or country risk.

The bank has set the following objectives for managing the inherent risk on foreign currency exposures:

- Maximize profitability with minimum risk by keeping the exposure at desirable levels in view of strict compliance of regulatory/ international standards and the bank's internal guidelines.
- Manage appropriate maturity mismatch gaps.
- Identify warning and stress zones for mismatch gaps.
- Usage of different tools to manage the inherent risk of product and market, such as compliance of credit limit, monitoring of foreign exchange exposure limit, review of mark to market portfolio and safe settlement, etc.
- The SBP has defined each bank's foreign exchange net open position exposure as 10% of its paid-up capital. This serves the purpose of ensuring that banks stay within reasonable boundaries of exposure. This 10% limit is termed as Foreign Exchange Exposure Limit (FEEL).
- At the bank, dealers are required not to exceed the limit set, i.e. they may not oversell / overbuy beyond these limits.
- Foreign exchange mis-match position / gap analysis is monitored between purchase & sale of currencies in buckets of maturities:

Up to 1 month
Over 1 to 3 months
Over 3 to 6 months
Over 6 to 12 months

Notes to the Financial Statements for the year ended December 31, 2006

	2006			
	Assets	Liabilities	Off Balance sheet items	Net foreign currency exposure
	-----Rupees '000'-----			
Pakistan Rupee	43,031,601	39,437,240	568,805	4,163,166
United States Dollar	3,041,957	2,149,415	(834,321)	58,221
Great Britain Pound	41,503	313,266	307,396	35,633
Euro	288,872	196,887	(38,894)	53,091
Japanese Yen	7,733	-	(2,986)	4,747
Swiss Franc	1,978	152	-	1,826
Others	15,199	8	-	15,191
	<u>46,428,843</u>	<u>42,096,968</u>	<u>-</u>	<u>4,331,875</u>

38.2.2 Equity Price Risk

It is the risk to earnings or capital that results from adverse changes in the value of equity related portfolios of the bank. Price risk associated with equities could be systematic or unsystematic. The former refers to sensitivity of portfolio's value to changes in overall level of equity prices, while the later is associated with price volatility that is determined by firm specific characteristics.

The bank conducts stress testing analysis over the equity portfolio, by anticipating changes/ shocks of -5%, -10%, and -20% on the current price of shares within a portfolio, thereby, monitoring the effects of the predicted changes in the structure of shares portfolio on the Capital Adequacy Ratio (CAR).

Notes to the Financial Statements for the year ended December 31, 2006

38.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk										
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-interest bearing financial instruments	
-----Rupees in '000'-----												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.35%	2,928,404	354,496	-	-	-	-	-	-	-	-	2,573,908
Balances with other banks	12.25%	1,362,497	200,000	900,000	-	-	-	-	-	-	-	262,497
Lending to financial institutions	11.06%	2,600,000	700,000	1,900,000	-	-	-	-	-	-	-	-
Investments	9.09%	6,594,036	194,928	199,030	-	5,107,131	73,027	73,138	2,042	504,974	-	439,766
Advances	12.68%	31,052,169	11,878,226	5,452,900	5,606,055	1,480,575	2,388,516	1,745,520	2,190,317	158,571	151,489	-
Other assets	10.49%	781,940	15,699	-	-	-	-	150,000	-	-	-	616,241
		45,319,046	13,343,349	8,451,930	5,606,055	6,587,706	2,461,543	1,968,658	2,192,359	663,545	151,489	3,892,412
Liabilities												
Bills payable	-	215,769	-	-	-	-	-	-	-	-	-	215,769
Borrowings	7.64%	9,164,121	3,450,508	2,805,434	2,771,590	9,142	18,284	18,284	36,568	54,311	-	-
Deposits and other accounts	9.95%	30,566,540	9,620,876	5,799,261	1,554,736	1,577,642	2,035,800	2,228,000	3,769,594	-	-	3,980,631
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	382,712	-	-	-	-	-	-	-	-	-	382,712
		40,329,142	13,071,384	8,604,695	4,326,326	1,586,784	2,054,084	2,246,284	3,806,162	54,311	-	4,579,112
On-balance sheet gap		<u>4,989,904</u>	<u>271,965</u>	<u>(152,765)</u>	<u>1,279,729</u>	<u>5,000,922</u>	<u>407,459</u>	<u>(277,626)</u>	<u>(1,613,803)</u>	<u>609,234</u>	<u>151,489</u>	<u>(686,700)</u>
Off-balance sheet financial instruments												
Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc)	-	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc)	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			271,965	(152,765)	1,279,729	5,000,922	407,459	(277,626)	(1,613,803)	609,234	151,489	(686,700)
Cumulative Yield/Interest Risk Sensitivity Gap			271,965	119,200	1,398,929	6,399,851	6,807,310	6,529,684	4,915,881	5,525,115	5,676,604	4,989,904

Notes to the Financial Statements for the year ended December 31, 2006

38.3 Liquidity Risk

Liquidity risk is the risk caused, among others, by the inability of the bank to settle liabilities at due date. The liquidity risk policy is formulated keeping in view State Bank of Pakistan's guidelines on risk management, Basel standards and best market practice. In case of any conflict between any provision of this policy and any regulation for the time being in force, the regulation in force will prevail. Liquidity risk management shall focus on:

- Maintaining solvency of the bank at all times (measuring and limiting liquidity risk)
- Ensure and manage market access to funding (diversify funding, asset liquidation)
- Optimize balance sheet structure (long term funding profile).

38.3.1 Maturities of Assets and Liabilities

Total	Over 1 Upto 1 Month	Over 3 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	------(Rupees in '000')-----										
Assets																				
Cash and balances with treasury banks	2,928,404	2,928,404	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	1,362,497	762,496	600,001	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	2,600,000	700,000	1,900,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Advances	6,594,036	211,994	199,030	-	5,107,130	73,027	131,371	366,509	504,975	-	-	-	-	-	-	-	-	-	-	-
Operating fixed assets	31,052,169	11,878,226	5,452,900	5,606,055	1,480,575	2,388,516	1,745,520	2,190,317	158,571	151,489	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	622,216	223	26	1,600	5,428	38,651	105,231	412,183	38,605	20,269,	-	-	-	-	-	-	-	-	-	-
Other assets	127,158	25,971	6,769	9,966	18,840	30,291	17,264	16,835	801	421	-	-	-	-	-	-	-	-	-	-
	1,142,363	763,529	10,479	19,293	7,903	63,715	208,149	69,295	-	-	-	-	-	-	-	-	-	-	-	-
	46,428,843	17,270,843	8,169,205	5,636,914	6,619,876	2,594,200	2,207,535	3,055,139	702,952	172,179	-	-	-	-	-	-	-	-	-	-
Liabilities																				
Bills payable	215,769	215,769	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	9,164,121	3,450,508	2,805,434	2,771,590	9,142	18,292	18,283	36,568	54,304	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	30,566,540	10,461,332	6,178,261	1,933,736	1,956,642	2,702,800	2,896,000	4,437,769	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,150,538	805,107	142,812	86,665	168,707	399,459	322,908	192,021	32,859	-	-	-	-	-	-	-	-	-	-	-
	42,096,968	14,932,716	9,126,507	4,791,991	2,134,491	3,120,551	3,237,191	4,666,358	87,163	-	-	-	-	-	-	-	-	-	-	-
Net assets	4,331,875	2,338,127	(957,302)	844,923	4,485,385	(526,351)	(1,029,656)	(1,611,219)	615,789	172,179	-	-	-	-	-	-	-	-	-	-
Share capital	3,361,522																			
Reserves	719,810																			
Unappropriated/Unremitted profit	298,376																			
	4,379,708																			
Surplus/(Deficit) on revaluation of assets	(47,833)																			
	<u>4,331,875</u>																			

Current and saving deposits of the bank are assumed to mature in the future on the basis of historical trends.

Notes to the Financial Statements for the year ended December 31, 2006

38.4 Operational Risk Management

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of technology, processes, infrastructure, personnel and other risks having an operational risk impact. The bank seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The key objectives of operational risk measurement and management include:

- Ensuring continued solvency of the bank through capital adequacy and enhanced understanding and management of significant operational risk exposures.
- Ensuring that customer impact is minimized through proactive and focused risk management practices.
- Ensuring senior management attention on significant operational risk exposure areas and mitigating risks is prioritized, focused and adequate.
- Ensuring that staff is sufficiently incentivised to perform their risk management roles & responsibilities diligently.

The bank's Integrated Risk Management Committee (IRMC) has the responsibility to supervise and direct the management of operational risks and key operational risk exposures. IRMC is also responsible for ensuring that adequate and appropriate policies and procedures are in place for the identification, assessment, monitoring, control and reporting of operational risks.

Operational Risk Program and Tools

Line management needs information to enable it to analyze operational risks, implement mitigating measures and determine the effectiveness of these mitigating measures. The bank has implemented, or is in the process of implementing a number of programmes and tools to support line management.

- Compliance and Regulatory Risk Management (Regulatory Self-Assessment Framework)

A structured approach has been adopted which helps line management to identify and assess risk of non-compliance with regulatory requirements as well as internal policies. The bank has implemented comprehensive Compliance Risk Management Framework whereby self-assessment is undertaken by each business/support unit to mitigate the risk of regulatory non-compliance.

The bank is also in the process of adopting an approach to indicate possible changes in the operational risk profile through Key Risk Indicators (KRI). KRIs allow for a trend analysis over time and trigger actions if required.

- Loss Event Database

A database that allows for systematic registration of operational risk. It is mandatory for Business Units to report losses above Rs. 50,000/- threshold into the database. This helps senior management in their analysis of operational risk. This is one of the criteria for qualifying for Standardized Approach under Basel II and will form the basis for calculating economic capital and regulatory capital in future

- Key Operational Risk Control

The bank has also adopted a framework (Heat Map) - a tool that takes stock of significant operational risks faced by each unit of the bank and plots them on an impact/probability chart. These individual charts are then combined into one comprehensive chart, envisaging key risks faced by the whole bank. The chart accompanies action plans with target dates and responsible persons, for risks identified. This chart is discussed at IRMC meetings to monitor progress made to manage/mitigate risks identified.

39. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on February 23, 2007 by the Board of Directors of the Bank.

Notes to the Financial Statements for the year ended December 31, 2006

40. GENERAL

40.1 State Bank of Pakistan vide letter No. BPD / SU - 15/538/5206/2004 dated August 15, 2004 had allowed NIB Bank Limited to disclose "security deposits against lease" in financial statements under the head of "deposits and other accounts" till December 31, 2005. Security deposits against lease are now being disclosed under the head of "other liabilities". Comparative figure of "security deposits against lease" amounting to Rs. 1,431 million has been reclassified from "deposits and other accounts" to "other liabilities". In addition to "security deposits against lease" other comparative figures have also been reclassified where necessary.

40.2 Figures have been rounded off to the nearest thousand rupee.



Khawaja Iqbal Hassan
PRESIDENT AND CHIEF EXECUTIVE



Francis A. Rozario
DIRECTOR / CHAIRMAN



Thomas P. Sodano
DIRECTOR



Tan Soo Nan
DIRECTOR

Notes to the Financial Statements for the year ended December 31, 2006

Annexure 1

Statement showing written-off loans or any other financial relief of five hundred thousand rupees or above provided during the year ended December 31, 2006

-----Rupees in '000'-----

S. No.	Name & Address of borrower	Name of Individual/partners/directors		Father's / Husband's Name	Outstanding liabilities before adjustments				Principal Written off	Interest/ Markup written off	Other Financial Relief	Total
		Name	NIC No.		Principal	Accrued Mark up	Others	Total				
1	Datari International 9-Millwala Market No.2, New Neham Road, Karachi.	Muhammad Ameen	42101-4806991-3	Abdul Ghaffar	12,069,000	-	-	12,069,000	2,069,000	-	-	2,069,000
					<u>12,069,000</u>	<u>-</u>	<u>-</u>	<u>12,069,000</u>	<u>2,069,000</u>	<u>-</u>	<u>-</u>	<u>2,069,000</u>

Pattern of Shareholding as at December 31, 2006

Number of Shareholders	Shareholdings		Shares held	Percentage
	From	To		
751	1	100	29375	.0087
1169	101	500	392296	.1167
797	501	1000	730377	.2172
1283	1001	5000	3494976	1.0397
283	5001	10000	2231052	.6637
96	10001	15000	1251841	.3724
49	15001	20000	907935	.2700
35	20001	25000	838659	.2494
30	25001	30000	865291	.2574
18	30001	35000	588758	.1751
21	35001	40000	809357	.2407
13	40001	45000	561720	.1671
28	45001	50000	1391387	.4139
4	50001	55000	213446	.0634
10	55001	60000	586560	.1744
5	60001	65000	317316	.0943
3	65001	70000	199337	.0592
5	70001	75000	368535	.1096
4	75001	80000	314500	.0935
2	80001	85000	165500	.0492
1	85001	90000	90000	.0267
2	90001	95000	184534	.0548
13	95001	100000	1295320	.3853
2	100001	105000	206657	.0614
3	105001	110000	327829	.0975
3	115001	120000	354734	.1055
3	120001	125000	370559	.1102
3	130001	135000	401500	.1194
1	135001	140000	138864	.0413
1	140001	145000	144119	.0428
1	145001	150000	150000	.0446
1	150001	155000	152500	.0453
1	165001	170000	168154	.0500
1	170001	175000	174373	.0518
1	190001	195000	191000	.0568
2	195001	200000	396500	.1179
4	200001	205000	811244	.2413
1	220001	225000	222318	.0661
1	225001	230000	228500	.0679
1	230001	235000	231807	.0689
3	245001	250000	750000	.2231
1	250001	255000	254000	.0755
1	260001	265000	264178	.0785
2	295001	300000	600000	.1784
2	300001	305000	602194	.1791
1	305001	310000	310000	.0922
1	310001	315000	314500	.0935
1	320001	325000	321500	.0956

Pattern of Shareholding as at December 31, 2006

Number of Shareholders	Shareholdings		Shares held	Percentage
	From	To		
1	355001	360000	359505	.1069
1	370001	375000	372579	.1108
1	390001	395000	392000	.1166
1	395001	400000	400000	.1189
1	420001	425000	422391	.1256
1	455001	460000	459544	.1367
1	480001	485000	484000	.1439
2	495001	500000	1000000	.2974
2	500001	505000	1003904	.2986
1	535001	540000	537000	.1597
1	590001	595000	594411	.1768
2	745001	750000	1497250	.4454
1	755001	760000	755311	.2246
1	825001	830000	829500	.2467
1	925001	930000	929183	.2764
1	935001	940000	937851	.2789
1	1080001	1085000	1082449	.3220
1	1150001	1155000	1150500	.3422
1	1660001	1665000	1664421	.4951
1	4780001	4785000	4783935	1.4231
1	5140001	5145000	5144624	1.5304
1	5730001	5735000	5733935	1.7057
1	5995001	6000000	6000000	1.7849
1	9205001	9210000	9209218	2.7395
1	24575001	24580000	24578800	7.3118
1	239910001	239915000	239914764	71.3708
4693			336152177	100.0000

Categories of Shareholders as at December 31, 2006

Particulars	Number of Shareholders	Shares held	Percentage
Directors, Chief Executive Officer, and their spouse and minor children	1	5,733,935	1.71
Associated Companies , undertakings and related parties	2	264,493,564	78.68
NIT & ICP	5	5,333,063	1.59
Banks, Development Financial Institutions, Non Banking Financial Institutions	14	659,119	0.20
Insurance Companies	9	3,084,116	0.92
Modarabas and Mutual Funds	6	215,828	0.06
Public Sector Companies & Corporations	12	4,480,426	1.33
Shareholders holding 10% or more (excluding Bugis Investments (Mauritius) Pte Limited)	–	–	–
General Public (Local)	4,439	35,829,881	10.66
General Public (Foreign)	19	132,602	0.04
Others	186	16,189,643	4.82
TOTAL	4,693	336,152,177	100.00

Details of Pattern of Shareholding as at December 31, 2006

Category No.	Categories of Shareholders	Number of Shareholders	Number of shares held	Percentage of shares held
1	Associated Companies, undertakings and related parties Bugis Investments (Mauritius) Pte. Limited IFIC Bank Limited	2	264,493,564 239,914,764 24,578,800	78.68
2	NIT & ICP National Bank of Pakistan, Trustee Department Investment Corporation of Pakistan	5	5,333,063 5,326,225 6,838	1.59
3	Directors, CEO and their spouses and minor children Mr. Francis Andrew Rozario Mr. Tan Soo Nan Mr. Phua Kok Kim Mr. Thomas Patrick Sodano Mr. Mahmudul Huq Bhuiyan Mr. Willie Wai Kong Chan Mr. Aamir Zahidi Khawaja Iqbal Hassan	1	5,733,935 - - - - - - 5,733,935	1.71
4	Executives	-	-	-
5	Public Sector Companies and Corporations	12	4,480,426	1.33
6	Banks, Development Financial Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds	29	3,959,063	1.18
7	Shareholders holding ten percent or more voting interest in the listed company (excluding Bugis Investments (Mauritius) Pte Ltd.)	-	-	-
8	General Public (Local) General Public (Foreign)	4,439 19	35,829,881 132,602	10.66 0.04
9	Others	186	16,189,643	4.82
	Total	4,693	336,152,177	100.00

NIB BANK LIMITED

Proxy Form

I/We _____

S/o D/o W/o _____ of _____

(full address) being a member of NIB Bank Limited and holder of shares as per Registered Folio No. _____ and/or CDC Participant I.D. No. _____ and Account No. _____ do hereby appoint _____ of _____

_____ (full address) or failing

him/her _____ of _____

_____ (full address)

as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of NIB Bank Limited scheduled to be held on Friday, March 30, 2007 at 9:00 a.m. at Hotel Regent Plaza, Shahrah-e-Faisal, Karachi and at any adjournment thereof.

As witness my/our hand/seal this _____ day of _____ 2007

Signed by the said _____

in presence of _____

_____ (full address)

Please affix here
Revenue Stamp
of Rs.5/-

Signature of Witness

Member's Signature

IMPORTANT

1. A member entitled to attend and vote at an Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him/her. No person shall act as a proxy, who is not a member of the Bank except that a Company may appoint a person who is not a member.
2. An instrument of proxy duly stamped, signed and witnessed and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, in order to be valid, must be deposited at the registered office of the Bank at least 48 hours before the time of the meeting.
3. Signature should agree with the specimen signature registered with the Bank.
4. If a member appoints more than one proxy and more than one instrument of proxy are deposited by a member with the Bank, all such instruments of proxy shall be rendered invalid.
5. In case of Proxy for any individual beneficial owner of CDC, entitled to attend and vote at this meeting it is necessary to deposit the attested copies of beneficial owner's national identity card, Account and Participant's ID numbers. The proxy shall produce his original identity card at the time of the meeting. Representative of corporate member should bring the usual documents for such purpose.