

**Vision  
you can  
Trust**



**Half Yearly Report  
June 2006**



**NBP**

National Bank of Pakistan



# Awards & Recognitions



Bank of the Year 2004  
for Pakistan

Best Foreign Exchange  
Bank in Pakistan 2005

Best Bank of the Year 2005  
for Pakistan

Bank of the Year 2005  
for Pakistan

## CREDIT RATING

Entity Rating                      AAA / A-1+

Stand Alone Rating              AA+ / A-1+

“JCR-VIS” Credit Rating Company Ltd.



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## CORPORATE INFORMATION

<b>Board of Directors</b>	<p>Syed Ali Raza                      Chairman &amp; President  Dr. Waqar Masood Khan  Iftikhar Ali Malik  Syed Shafqat Ali Shah Jamote  M. Zubair Motiwala  Sikandar Hayat Jamali  Azam Faruque</p>
<b>Audit Committee</b>	<p>Syed Shafqat Ali Shah Jamote      Chairman  Iftikhar Ali Malik  M. Zubair Motiwala</p>
<b>Auditors</b>	<p>Ford Rhodes Sidat Hyder &amp; Co.  Chartered Accountants</p> <p>M. Yousuf Adil Saleem &amp; Co.  Chartered Accountants</p>
<b>Legal Advisors</b>	<p>Mandviwala &amp; Zafar  Advocates and Legal Consultants</p>
<b>Registered &amp; Head Office</b>	<p>NBP Building  I.I.Chundrigar Road,  Karachi, Pakistan</p>
<b>Registrar's &amp;  Share Registration Office</b>	<p>THK Associates (Pvt.) Ltd.  Shares Department, Ground Floor  State Life Building # 3  Dr. Ziauddin Ahmed Road, Karachi, Pakistan</p>



## DIRECTORS' REPORT

It gives me great pleasure to present on behalf of the Board of Directors the half yearly accounts for the six months period ended June 30, 2006. Profit for six months period ended June 30, 2006 after carry over of accumulated profit of 2005 is proposed to be appropriated as follows:

	Rupees in million
Net Profit before taxation for the six months period ended June 30, 2006	12,196
Taxation	
- Current year	(4,294)
- Deferred	114
	(4,180)
After tax profit	8,016
Unappropriated profit brought forward	16,714
Transfer from surplus on revaluation of fixed assets - incremental depreciation - net of deferred tax	21
Profit available for appropriation	24,751
Transfer to Statutory Reserve (10% of after tax profit)	(802)
	(802)
Unappropriated profit carried forward	23,949

Pre-tax profit significantly increased to Rs. 12,196 million from Rs. 7,048 million for the corresponding period last year, an increase of 73%. Net interest margin increased by 46% or Rs. 4,500 million, increase in Net Interest Income is attributed to growth in core banking income on account of higher balance sheet size and improved yields. Non interest/mark up income increased from Rs. 3,708 million to Rs. 4,890 million, an impressive increase of 32% or Rs. 1,182 million mainly due to higher trade volumes and one off income on account of reversal of exchange equalization on Cairo branch which was closed last year. Earning per share has also increased by 82% from Rs. 6.20 to Rs. 11.31 during the same period last year. Pre-tax return on assets is 3.94% as against 2.50% at June 30, 2005. Pre-tax return on equity is 60.99%. Cost to income ratio improved to 0.32 from 0.39 of corresponding period last year. Deposits show an impressive growth of Rs. 60.2 billion or 13% over December 31, 2005. Advances increased by Rs. 25.8 billion or 9.6% despite adjustment of seasonal financing.

The bank is fully geared to launch 'NBP Karobar' a SME sector product targeted towards the unemployed youth of Pakistan. This product will not only further improve the bank's earnings but will also help the national cause of poverty alleviation.



An MoU has been signed with Housing Foundation of Pakistan for construction of low cost housing for government employees. The bank is also in the process of developing a low cost housing scheme in collaboration with Acumen fund and Overseas Private Investment Company OPIC (USA).

NBP has been recognized as 'Best emerging market bank from Pakistan' for year 2006 and 'Best foreign exchange Bank in Pakistan' by lead magazine "Global Finance" in its issue of May 2006. JCR VIS Credit Rating Agency has reaffirmed NBP's standalone long-term rating at AA+ while standalone short-term rating has been maintained at A-1+. Entity rating is maintained at AAA / A-1+.

We extend our appreciation to the Bank's hardworking staff for their undying commitment, dedication and hard work in achieving these excellent results. We would like to express our appreciation to our stake holders, regulators for their continuous guidance and support and our gratitude to our valued customers for their patronage and confidence in NBP.

On behalf of the Board of Directors

**S. Ali Raza**  
Chairman & President

Date: August 19, 2006



## AUDITORS' REVIEW REPORT TO THE MEMBERS

We have reviewed the annexed Balance Sheet of **National Bank of Pakistan** as at June 30, 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 six months period then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of Bank's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that annexed financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

The financial statements of the bank for the year ended December 31, 2005, were audited by KPMG Taseer Hadi and Co., Chartered Accountants, and Ford Rhodes Sidat Hyder and Co., Chartered Accountants, whose report dated March 18, 2006 expressed an unqualified opinion thereon.

The financial statements of the bank for the six months period ended June 30, 2005 were reviewed by KPMG Taseer Hadi and Co., Chartered Accountants, and Ford Rhodes Sidat Hyder and Co., Chartered Accountants who had issued an unqualified review report dated August 27, 2005.

**Ford Rhodes Sidat Hyder & Co.**  
Chartered Accountants  
Karachi

**M. Yousuf Adil Saleem & Co.**  
Chartered Accountants  
Karachi

Date: August 19, 2006



## BALANCE SHEET – (Unaudited)

As at June 30, 2006

	Note	June 30, 2006	December 31, 2005
		(Rupees in '000)	
<b>ASSETS</b>			
Cash and balances with treasury banks		88,061,972	71,196,956
Balances with other banks		32,106,653	31,019,330
Lendings to financial institutions		45,437,664	16,282,942
Investments	5	166,304,991	156,985,686
Advances	6	294,716,915	268,838,779
Other assets		23,025,033	23,941,056
Operating fixed assets		9,672,516	9,454,365
Deferred tax assets		–	–
		659,325,744	577,719,114
<b>LIABILITIES</b>			
Bills payable		12,933,332	1,741,156
Borrowings from financial institutions		8,192,633	8,756,847
Deposits and other accounts	7	523,701,271	463,426,602
Sub-ordinated loans		–	–
Liabilities against assets subject to finance lease		13,761	16,629
Other liabilities		21,734,297	24,974,450
Deferred tax liabilities		6,382,647	4,462,718
		572,957,941	503,378,402
<b>NET ASSETS</b>		<b>86,367,803</b>	<b>74,340,712</b>
<b>REPRESENTED BY</b>			
Share capital	8	7,090,712	5,908,927
Reserves		12,790,889	13,536,041
Unappropriated profit		23,948,802	16,713,506
		43,830,403	36,158,474
Surplus on revaluation of assets	9	42,537,400	38,182,238
		86,367,803	74,340,712
<b>CONTINGENCIES AND COMMITMENTS</b>	10		

The annexed notes 1 to 15 form an integral part of these financial statements.

S. Ali Raza  
Chairman & President

Dr. Waqar Masood Khan  
Director

Iftikhar Ali Malik  
Director

Syed Shafqat Ali Shah Jamote  
Director



# PROFIT AND LOSS ACCOUNT – (Unaudited)

For the six months period ended June 30, 2006

	For the quarter April-June 2006	Six months period ended June 30, 2006	For the quarter April-June 2005	Six months period ended June 30, 2005
Note	(Rupees in '000)			
Mark-up / Return / Interest earned	10,782,215	20,621,385	7,856,564	14,145,076
Mark-up / Return / Interest expensed	3,193,055	6,248,074	2,250,037	4,272,133
<b>Net mark-up / Interest income</b>	<b>7,589,160</b>	<b>14,373,311</b>	<b>5,606,527</b>	<b>9,872,943</b>
Provision against non-performing loans and advances	698,925	898,925	542,604	892,604
Provision for diminution in the value of investments	-	-	4,911	7,483
Provision against off balance sheet obligations	-	-	-	-
Bad debts written off directly	-	2,347	2,970	2,970
	698,925	901,272	550,485	903,057
Net mark-up / interest income after provisions	6,890,235	13,472,039	5,056,042	8,969,886
<b>NON MARK-UP/ INTEREST INCOME</b>				
Fee, commission and brokerage income	1,748,568	2,920,227	1,234,272	2,273,275
Dividend income	45,286	141,526	360,246	364,700
Income / (loss) from trading in government securities	2,544	(2,046)	12,187	(35,620)
Income from dealing in foreign currencies	432,039	639,184	153,470	284,867
Other income	708,608	1,191,364	283,235	820,791
Total non-mark-up / interest income	2,937,045	4,890,255	2,043,410	3,708,013
	9,827,280	18,362,294	7,099,452	12,677,899
<b>NON MARK-UP/ INTEREST EXPENSES</b>				
Administrative expenses	3,197,733	6,165,759	2,796,306	5,288,110
Other provisions / write offs	-	-	333,752	341,813
Other charges	-	-	(21)	85
Total non-mark-up / interest expenses	3,197,733	6,165,759	3,130,037	5,630,008
	6,629,547	12,196,535	3,969,415	7,047,891
Extra ordinary items	-	-	-	-
<b>PROFIT BEFORE TAXATION</b>	<b>6,629,547</b>	<b>12,196,535</b>	<b>3,969,415</b>	<b>7,047,891</b>
Taxation - Current	(2,273,745)	(4,293,745)	(1,800,000)	(3,000,000)
- Prior year(s)	-	-	-	-
- Deferred	49,048	113,617	339,905	345,723
	(2,224,697)	(4,180,128)	(1,460,095)	(2,654,277)
<b>PROFIT AFTER TAXATION</b>	<b>4,404,850</b>	<b>8,016,407</b>	<b>2,509,320</b>	<b>4,393,614</b>
Unappropriated profit brought forward	19,974,172	16,713,506	10,679,987	9,161,747
Transfer from surplus on revaluation of fixed assets	10,265	20,530	10,805	21,610
<b>Profit available for appropriation</b>	<b>24,389,287</b>	<b>24,750,443</b>	<b>13,200,112</b>	<b>13,576,971</b>
<b>APPROPRIATIONS</b>				
Transfer to:				
- Statutory reserve	(440,485)	(801,641)	(501,864)	(878,723)
- Capital reserve	-	-	-	-
- Revenue reserve	-	-	-	-
	(440,485)	(801,641)	(501,864)	(878,723)
<b>Unappropriated profit carried forward</b>	<b>23,948,802</b>	<b>23,948,802</b>	<b>12,698,248</b>	<b>12,698,248</b>
<b>Basic / diluted earnings per share (Rupees)</b>	<b>6.21</b>	<b>11.31</b>	<b>3.54</b>	<b>6.20</b>

The annexed notes 1 to 15 form an integral part of these financial statements.

S. Ali Raza  
Chairman & President

Dr. Waqar Masood Khan  
Director

Iftikhar Ali Malik  
Director

Syed Shafqat Ali Shah Jamote  
Director



## CASH FLOW STATEMENT– (Unaudited)

For the six months period ended June 30, 2006

	June 30, 2006	June 30, 2005
	(Rupees in '000)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	12,196,535	7,047,891
Less: Dividend income	141,526	364,700
	<u>12,055,009</u>	<u>6,683,191</u>
<b>Adjustments for non-cash charges:</b>		
Depreciation	219,850	252,658
Provision against non-performing advances	898,925	892,604
Provision for diminution in the value of investments	–	7,483
Bad debts written off directly	2,347	2,970
Other provision / write off	–	341,813
Gain on sale of fixed assets	(2,137)	(3,189)
Financial charges on leased assets	1,042	2,041
	<u>1,120,027</u>	<u>1,496,380</u>
	<u>13,175,036</u>	<u>8,179,571</u>
<b>(Increase) / decrease in operating assets</b>		
Lendings to financial institutions	(29,154,722)	(6,351,131)
Held-for-trading securities	(4,271)	366,387
Advances	(26,779,408)	(30,312,636)
Other assets (excluding advance taxation)	(639,817)	1,595,083
	<u>(56,578,218)</u>	<u>(34,702,297)</u>
<b>Increase / (decrease) in operating liabilities</b>		
Bills payable	11,192,176	2,857,224
Borrowings from financial institutions	(772,547)	(3,548,436)
Deposits and other accounts	60,274,669	25,565,092
Other liabilities (excluding current taxation)	(1,757,289)	727,957
	<u>68,937,009</u>	<u>25,601,837</u>
Income tax paid	(2,737,905)	(5,173,096)
Financial charges paid	(1,042)	(2,041)
	<u>(2,738,947)</u>	<u>(5,175,137)</u>
<b>Net cash flow from / (used in) operating activities</b>	<u>22,794,880</u>	<u>(6,096,026)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investments in available-for-sale securities	(1,261,197)	(1,351,665)
Net investments in held-to-maturity securities	(1,648,772)	215,650
Investment in subsidiaries, associates and joint venture	4,173	–
Dividend received	141,526	364,700
Investments in operating fixed assets	(438,589)	(303,259)
Sale proceeds of property and equipment disposed off	2,725	3,189
<b>Net cash used in investing activities</b>	<u>(3,200,134)</u>	<u>(1,071,385)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Dividend paid	(1,482,864)	(742,161)
Payments of lease obligations	(2,868)	(5,965)
<b>Net cash used in financing activities</b>	<u>(1,485,732)</u>	<u>(748,126)</u>
Effects of exchange rate changes on cash and cash equivalents	(365,008)	(188,396)
<b>Increase / (decrease) in cash and cash equivalents</b>	<u>17,744,006</u>	<u>(8,103,933)</u>
Cash and cash equivalents at January 1,	101,583,535	142,995,560
Cash and cash equivalents at June 30,	<u>119,327,541</u>	<u>134,891,627</u>

The annexed notes 1 to 15 form an integral part of these financial statements.

S. Ali Raza  
Chairman & President

Dr. Waqar Masood Khan  
Director

Ifitikhar Ali Malik  
Director

Syed Shafqat Ali Shah Jamote  
Director



## STATEMENT OF CHANGES IN EQUITY – (Unaudited)

For the six months period ended June 30, 2006

	Share Capital	Reserves			Unappropriated Profit	Total	
		Exchange Equalization	Issue of Bonus Shares	Statutory Reserve			General Reserve
..... (Rupees in '000) .....							
Balance as at January 1, 2005 as previously reported	4,924,106	3,874,481	984,821	5,738,973	521,338	9,213,565	25,257,284
Effect of change in accounting policy (*)	-	(305,699)	-	-	-	(51,818)	(357,517)
Balance as at January 1, 2005 (restated)	4,924,106	3,568,782	984,821	5,738,973	521,338	9,161,747	24,899,767
Exchange adjustments on revaluation of capital of foreign branches	-	(188,396)	-	-	-	-	(188,396)
Transfer from surplus on revaluation of fixed assets- incremental depreciation - net of tax	-	-	-	-	-	21,610	21,610
<b>Net income recognised directly in equity</b>	-	(188,396)	-	-	-	21,610	(166,786)
Profit after taxation for the six months period ended June 30, 2005	-	-	-	-	-	4,393,614	4,393,614
<b>Total recognised income and expense for the period</b>	-	(188,396)	-	-	-	4,415,224	4,226,828
Transfer to statutory reserve	-	-	-	878,723	-	(878,723)	-
Bonus shares issued	984,821	-	(984,821)	-	-	-	-
<b>Balance as at June 30, 2005</b>	<u>5,908,927</u>	<u>3,380,386</u>	<u>-</u>	<u>6,617,696</u>	<u>521,338</u>	<u>12,698,248</u>	<u>29,126,595</u>
Balance as at July 1, 2005	5,908,927	3,380,386	-	6,617,696	521,338	12,698,248	29,126,595
Exchange adjustments on revaluation of capital of foreign branches	-	171,670	-	-	-	-	171,670
Transfer from surplus on revaluation of fixed assets- incremental depreciation - net of tax	-	-	-	-	-	21,611	21,611
<b>Net income recognised directly in equity</b>	-	171,670	-	-	-	21,611	193,281
Profit after taxation for the six months ended December 31, 2005	-	-	-	-	-	8,315,830	8,315,830
<b>Total recognised income and expense for the period</b>	-	171,670	-	-	-	8,337,441	8,509,111
Transfer to statutory reserve	-	-	-	1,663,166	-	(1,663,166)	-
Transfer to reserve for issue of bonus shares	-	-	1,181,785	-	-	(1,181,785)	-
Proposed cash dividend	-	-	-	-	-	(1,477,232)	(1,477,232)
<b>Balance as at December 31, 2005</b>	<u>5,908,927</u>	<u>3,552,056</u>	<u>1,181,785</u>	<u>8,280,862</u>	<u>521,338</u>	<u>16,713,506</u>	<u>36,158,474</u>
Balance as at January 1, 2006	5,908,927	3,552,056	1,181,785	8,280,862	521,338	16,713,506	36,158,474
Adjustment due to closure of Cairo branch	-	(498,496)	-	-	-	-	(498,496)
Exchange adjustments on revaluation of capital of foreign branches	-	133,488	-	-	-	-	133,488
Transfer from surplus on revaluation of fixed assets- incremental depreciation - net of tax	-	-	-	-	-	20,530	20,530
<b>Net income recognised directly in equity</b>	-	133,488	-	-	-	20,530	154,018
Profit after taxation for the six months period ended June 30, 2006	-	-	-	-	-	8,016,407	8,016,407
<b>Total recognised income and expense for the period</b>	-	-	-	-	-	8,016,407	8,016,407
Transfer to statutory reserve	-	-	-	801,641	-	(801,641)	-
Bonus shares issued	1,181,785	-	(1,181,785)	-	-	-	-
<b>Balance as at June 30, 2006</b>	<u>7,090,712</u>	<u>3,187,048</u>	<u>-</u>	<u>9,082,503</u>	<u>521,338</u>	<u>23,948,802</u>	<u>43,830,403</u>

\* During 2005, the bank had changed its accounting policy in respect of accounting for investment in joint venture company. Previously the investment was accounted for under the equity method which has now been stated at cost as required by the revised IAS 31 "Investment in Joint Venture" and IAS 27 "Consolidated and Separate Financial Statements" effective for financial periods beginning on or after January 1, 2005. This change in accounting policy had been accounted for retrospectively in accordance with IAS - 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

The annexed notes 1 to 15 form an integral part of these financial statements.

**S. Ali Raza**  
Chairman & President

**Dr. Waqar Masood Khan**  
Director

**Iftekhar Ali Malik**  
Director

**Syed Shafqat Ali Shah Jamote**  
Director



## NOTES TO THE FINANCIAL STATEMENTS – (Unaudited)

*For the six months period ended June 30, 2006*

### 1. STATUS AND NATURE OF BUSINESS

National Bank of Pakistan (the bank) was established under the National Bank of Pakistan Ordinance, 1949 and is listed on all the stock exchanges in Pakistan. Its registered and head office is situated at I.I. Chundrigar Road, Karachi. The bank is engaged in providing commercial banking and related services in Pakistan and overseas. The bank also handles treasury transactions for the Government of Pakistan (GoP) as an agent to the State Bank of Pakistan (SBP). The bank operates 1,224 (2005: 1,224) branches in Pakistan and 18 (2005: 18) overseas branches (including the Export Processing Zone branch, Karachi). Under a Trust Deed, the bank also provides services as trustee to National Investment Trust (NIT) including safe custody of securities on behalf of NIT.

### 2. STATEMENT OF COMPLIANCE

The financial statements are unaudited and are being presented in a condensed form in accordance with the requirements of International Accounting Standard 34 - "Interim Financial Reporting" and BSD Circular Letter No. 02, dated May 12, 2004, issued by the State Bank of Pakistan.

These financial statements are unaudited but subject to limited scope review by auditors and are circulated to the shareholders in accordance with section 245 of the Companies Ordinance, 1984.

### 3. BASIS OF MEASUREMENT

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

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in preparation of these financial statements are the same as those adopted in the preparation of the annual audited financial statements of the bank for the year ended December 31, 2005.



## 5. INVESTMENTS

	June 30, 2006			December 31, 2005		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
(Rupees in '000)						
<b>5.1 Investments by type:</b>						
<b>Held-for-trading securities</b>						
Ordinary shares of listed companies	185,867	–	185,867	181,596	–	181,596
<b>Available- for- sale securities</b>						
Ordinary shares of listed companies	3,596,207	–	3,596,207	3,590,217	–	3,590,217
Ordinary shares of unlisted companies	455,439	–	455,439	433,864	–	433,864
Less: Provision for diminution in value of investments	179,853	–	179,853	179,853	–	179,853
	275,586	–	275,586	254,011	–	254,011
Market Treasury Bills	54,816,511	1,599,990	56,416,501	54,279,127	2,845,789	57,124,916
Preference shares	413,000	–	413,000	424,200	–	424,200
Pakistan Investment Bonds	6,525,798	–	6,525,798	7,556,460	–	7,556,460
Federal Investment Bonds	1,253,466	–	1,253,466	1,319,992	–	1,319,992
Term Finance Certificates	6,855,016	–	6,855,016	6,548,910	–	6,548,910
Investments in mutual funds	1,135,691	–	1,135,691	974,469	–	974,469
Certificates of investment	2,200,000	–	2,200,000	–	–	–
Investment outside Pakistan	29,948,101	–	29,948,101	22,110,611	–	22,110,611
National Investment Trust Units	18,047,404	–	18,047,404	19,092,549	–	19,092,549
<b>Total Available- for- sale securities</b>	<b>125,066,780</b>	<b>1,599,990</b>	<b>126,666,770</b>	<b>116,150,546</b>	<b>2,845,789</b>	<b>118,996,335</b>
<b>Held-to-maturity securities</b>						
Government Compensation Bonds	2,331,182	–	2,331,182	2,477,200	–	2,477,200
Provincial Government Securities	36,513	–	36,513	36,513	–	36,513
Pakistan Investment Bonds	11,922,193	–	11,922,193	11,997,747	–	11,997,747
GoP Foreign Currency Bonds	10,594,596	–	10,594,596	9,457,014	–	9,457,014
Foreign Government Securities	5,685,610	–	5,685,610	5,981,940	–	5,981,940
Debentures, Bonds, Participation Term Certificates and Term Finance Certificates (note 5.4)	7,024,773	–	7,024,773	6,000,021	–	6,000,021
Less: Provision for diminution in value of investments	1,322,535	–	1,322,535	1,324,465	–	1,324,465
	5,702,238	–	5,702,238	4,675,556	–	4,675,556
<b>Total held-to-maturity securities</b>	<b>36,272,332</b>	<b>–</b>	<b>36,272,332</b>	<b>34,625,970</b>	<b>–</b>	<b>34,625,970</b>
<b>Investments in associates</b>	<b>1,011,004</b>	<b>–</b>	<b>1,011,004</b>	<b>1,014,869</b>	<b>–</b>	<b>1,014,869</b>
Less: Provision for diminution in value of investments	455,030	–	455,030	457,440	–	457,440
	555,974	–	555,974	557,429	–	557,429
<b>Investments in joint ventures</b>	<b>1,274,835</b>	<b>–</b>	<b>1,274,835</b>	<b>1,274,835</b>	<b>–</b>	<b>1,274,835</b>
<b>Investments in subsidiaries</b>	<b>1,352,458</b>	<b>–</b>	<b>1,352,458</b>	<b>1,352,766</b>	<b>–</b>	<b>1,352,766</b>
Less: Provision for diminution in value of investments	3,245	–	3,245	3,245	–	3,245
	1,349,213	–	1,349,213	1,349,521	–	1,349,521
	<b>164,705,001</b>	<b>1,599,990</b>	<b>166,304,991</b>	<b>154,139,897</b>	<b>2,845,789</b>	<b>156,985,686</b>



	Note	June 30, 2006	December 31, 2005
		(Rupees in '000)	
<b>5.2 Investments by segment:</b>			
<b>Federal Government Securities</b>			
Market Treasury Bills		56,416,501	57,124,916
Pakistan Investment Bonds		18,447,991	19,554,207
Federal Investment Bonds		1,253,466	1,319,992
Others			
- Government Compensation Bonds		2,331,182	2,477,200
- GoP Foreign Currency Bonds		10,594,596	9,457,014
		12,925,778	11,934,214
		89,043,736	89,933,329
<b>Provincial Government Securities</b>		36,513	36,513
<b>Foreign Government Securities</b>		5,685,610	5,981,940
<b>Fully Paid up Ordinary Shares</b>			
- Listed Companies		3,782,074	3,771,813
- Unlisted Companies		455,439	433,864
		4,237,513	4,205,677
Investments in mutual funds		1,135,691	974,469
National Investment Trust Units	5.3	18,047,404	19,092,549
Preference Shares		413,000	424,200
Certificates of Investment		2,200,000	-
<b>Debentures, Bonds, Participation Term Certificates and Term Finance Certificates</b>			
- Listed		984,839	553,204
- Unlisted	5.4	12,894,950	11,995,727
		13,879,789	12,548,931
Investment outside Pakistan	5.5	29,948,101	22,110,611
Investments in Associates		1,011,004	1,014,869
Investments in Joint Ventures		1,274,835	1,274,835
Investments in Subsidiaries	5.6	1,352,458	1,352,766
		168,265,654	158,950,689
Less : Provision for diminution in value of investments		1,960,663	1,965,003
		166,304,991	156,985,686



### 5.3 NIT Units

These include 365,284,216 units in respect of which Government of Pakistan (GoP) issued a letter of comfort (LoC), dated August 8, 2001, stating that on bank's willingness to continue holding the units for five years from the date of LoC, NIT will be facilitated to redeem the units at Rs.13.70 per unit. During 2005 on the directives of MoF, the bank acquired 5,542,620 units from small sized LoC holders at a price of Rs.205.077 million. In accordance with SBP's concurrence, vide their letter no. BSD/SU-15/503/1504/2005, dated March 16, 2005, these units have been valued at market value (repurchase price) aggregating to Rs.17,929 million (2005: Rs.18,684 million). Further, the Privatisation Commission of the GoP offered all the NIT LoC holders, including the bank, the following two options under the scheme of Privatisation of the Trust:

- (a) right to manage the fund represented by the respective LoC holder's portion of the assets / shares and pay for the management rights as per the terms contained in the "Scheme" (scheme for the split-sell and settlement of NIT under GoP's privatisation campaign); or
- (b) the LoC holder's holding of NIT Units would continue to be managed by NIT as part of a separate split fund.

The bank has conveyed its concurrence for option (a).

5.4 Term Finance Certificates, Debentures, Bonds and Participation Term Certificates include Rs.741 million (2005: Rs.741 million) which are considered non-performing.

### 5.5 Bank Al-Jazira

The bank holds 6,562,500 (2005: 875,000) shares in Bank Al-Jazira (BAJ) incorporated in the Kingdom of Saudi Arabia, being 5.83% (2005: 5.83%) holding in its total equity. During the period BAJ issued 50% bonus shares after a share split of 5 shares for 1. During 2005, the bank was granted permission to open a branch in Saudi Arabia by Saudi Arabian Monetary Agency (SAMA). The bank has been given to understand by SAMA that it has to divest the holding in Bank Al-Jazira and accordingly, the Board of Directors has authorised the management to initiate the process of disinvestment at the best possible price in coordination with SAMA. From 2005, in accordance with SBP's concurrence vide their letter no. BSD/SU-13/331/685/2006 dated February 17, 2006, the investment has been marked to market with closing price as quoted on the Saudi Stock Exchange.

June 30,                      December 31,  
2006                                      2005  
(Rupees in '000)

### 5.6 Investments in subsidiaries

	Percentage Holding	June 30, 2006	December 31, 2005
NBP Capital Limited	100.00	500,000	500,000
JSC Subsidiary Bank of NBP in Kazakhstan	100.00	419,488	419,796
NBP Exchange Company Limited	100.00	300,000	300,000
NBP Modaraba Management Company Limited	100.00	105,000	105,000
Taurus Securities Limited	58.32	24,725	24,725
National Agriculture & Storage Company Limited	100.00	2,000	2,000
Cast-N-Link Products Limited	76.51	1,245	1,245
		1,352,458	1,352,766
Less: Provision for diminution in value of investments		3,245	3,245
		1,349,213	1,349,521



June 30,  
2006                      December 31,  
2005

(Rupees in '000)

**6. ADVANCES**

Loans, cash credits, running finances, etc.

In Pakistan	281,862,050	262,467,150
Outside Pakistan	29,283,256	22,071,338
	311,145,306	284,538,488

Bills discounted and purchased (excluding Government treasury bills)

Payable in Pakistan	2,247,934	2,387,740
Payable outside Pakistan	12,401,668	12,471,568
	14,649,602	14,859,308

Continuous Funding System (CFS)

196,417                      25,015

325,991,325                      299,422,811

Less: Provision against non-performing loans

- Specific	28,792,450	28,388,730
- General	2,481,960	2,195,302

31,274,410                      30,584,032

294,716,915                      268,838,779

- 6.1 Advances include Rs.34,736 million (2005: Rs.33,738 million) which have been placed under the non-performing status as detailed below:

Category of Classification	Domestic	Overseas	Total	Provision Required	Provision Held
	..... (Rupees in '000) .....				
Other Assets Especially Mentioned	281,165	-	281,165	-	-
Substandard	1,478,305	-	1,478,305	331,503	331,503
Doubtful	1,775,678	-	1,775,678	861,320	861,320
Loss	30,526,334	674,243	31,200,577	27,599,627	27,599,627
	34,061,482	674,243	34,735,725	28,792,450	28,792,450

- 6.2 During the current period, in order to comply with the requirements of the BSD Circular No. 2, dated January 14, 2006, issued by the State Bank of Pakistan, the bank changed the method of computation of provision against the non-performing advances. The Circular requires the bank to create provision at a rate of 25 percent instead of 10 percent of non-performing loans in the substandard category after adjustment of the Forced Sale Value (FSV) of assets held as collateral against advances while determining the provision requirement. Additionally, BSD Circular No. 7, dated November 01, 2005, issued by the State Bank of Pakistan specifies that the benefit of the FSV of the collateral under the Prudential Regulations, has been restricted to financing facilities of Rs.10 million and above as against the previous requirement to restrict the same to financing facilities of Rs.5 million and above, for the purposes of determining provision against non performing advances. The requirements of the aforementioned Circulars is effective from December 31, 2006.



Had the above referred increase in the rate of provision for substandard category and increase in the limit of financing for taking the benefit of the FSV not taken place, the profit before taxation for the current period and advances (net of provision) at the end of the current period would have been higher by Rs.177 million.

- 6.3 The Prudential Regulations issued by the State Bank of Pakistan effective from January 1, 2004 and SBP letter dated July 31, 2004 requires banks to maintain a general reserve equivalent to 1.5% of consumer portfolio, which is secured and 5% of the consumer portfolio which is unsecured to protect the banks from the risk associated with the economic cyclical nature of this business. The State Bank of Pakistan has allowed the bank to make the provision amounting to Rs.1,331 million on the outstanding unsecured consumer portfolio as at December 31, 2004 in 2005 and 2006. The bank has made a provision of Rs.1,103 million as at June 30, 2006.

June 30,                  December 31,  
2006                                  2005  
(Rupees in '000)

7. DEPOSITS AND OTHER ACCOUNTS

**Customers**

Fixed deposits	82,908,518	80,924,830
Savings deposits	184,477,698	165,513,085
Current accounts - remunerative	69,455,601	54,519,134
Current accounts - non-remunerative	123,440,591	102,690,939
	<b>460,282,408</b>	<b>403,647,988</b>

**Financial Institutions**

Remunerative deposits	41,294,149	38,174,088
Non-remunerative deposits	22,124,714	21,604,526
	<b>63,418,863</b>	<b>59,778,614</b>
	<b>523,701,271</b>	<b>463,426,602</b>

8. SHARE CAPITAL

8.1 Authorized Capital

December 31, 2005	June 30, 2006		June 30, 2006	December 31, 2005
Number of Shares			(Rupees in '000)	
<u>750,000,000</u>	<u>750,000,000</u>	Ordinary shares of Rs.10 each	<u>7,500,000</u>	<u>7,500,000</u>

8.2 Issued, subscribed and paid-up

		Ordinary shares of Rs.10 each		
140,388,000	140,388,000	Fully paid in cash	1,403,880	1,403,880
450,504,746	568,683,246	Issued as bonus shares	5,686,832	4,505,047
<u>590,892,746</u>	<u>709,071,246</u>		<u>7,090,712</u>	<u>5,908,927</u>



	June 30, 2006	December 31, 2005
	(Rupees in '000)	
<b>9. SURPLUS ON REVALUATION OF ASSETS</b>		
Surplus on revaluation of fixed assets - net of tax	5,388,629	5,409,159
Surplus on revaluation of securities - net of tax		
Federal Government securities	4,334	70,904
Term Finance Certificates	56,000	1,589
Quoted shares	2,357,993	2,729,170
NIT Units	12,986,748	14,031,893
Bank Al-Jazira	29,485,035	21,647,316
	44,890,110	38,480,872
Deferred tax liability recognized	(7,741,339)	(5,707,793)
	<u>42,537,400</u>	<u>38,182,238</u>
<b>10. CONTINGENCIES AND COMMITMENTS</b>		
<b>10.1 Direct credit substitutes</b>		
Includes general guarantee of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities issued in favour of:		
- Government	512,598	2,269,358
- Financial institutions	1,118,715	504,595
- Others	19,698,745	13,012,983
	21,330,058	15,786,936
<b>10.2 Transaction-related contingent liabilities</b>		
Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credits related to particular transactions issued in favour of:		
- Government	16,773,097	12,488,526
- Financial institutions	571,372	-
- Others	6,211,955	9,971,136
	23,556,424	22,459,662
<b>10.3 Trade-related contingent liabilities</b>		
Letters of credit Issued in favour of:		
- Government	132,531,110	69,418,144
- Financial institutions	231,779	8,121,679
- Others	31,733,959	26,211,138
	164,496,848	103,750,961
<b>10.4 Other contingencies</b>		
<b>10.4.1</b> Claims against the bank not acknowledged as debts [including SBP liabilities on Bangladesh borrowing and interest thereon amounting to Rs.158 million (2005: Rs.158 million) and claims relating to former Mehran Bank Limited amounting to Rs.1,117 million (2005: Rs.1,117 million)].	13,271,740	13,271,740



#### 10.4.2 Taxation

The income tax assessments of the bank for global operations as well as Azad Kashmir have been finalized up to and including the tax year 2004 (accounting year ended December 31, 2003). The income tax returns for the tax year 2005 (accounting year ended December 31, 2004) have been filed for global operations and Azad Kashmir and the same are deemed to be assessment order under the provisions of section 120 of the Income Tax Ordinance, 2001, unless amended otherwise. Appeals filed by the bank and tax department for certain assessment years including tax year 2004 are pending before various appellate forum/court of law. The major issues include taxability of interest credited to suspense account and disallowances of cost incurred in respect of employees' special separation scheme. In the event that the appeals are decided against the bank, a further tax liability of Rs.7,780 million may arise in addition to amount already provided.

No provision has been made in these financial statements for the above as the management, based on the opinion of tax lawyers and consultants, considers that provision is not necessary because the bank is subjected to tax exceeding its normal tax liability and will get relief in the appeals process.

#### 10.4.3 Provident Fund

In 1977, in accordance with the GoP policy, the bank's employees benefits were changed from the Provident Fund to an enhanced Pension Scheme and an option was given to the employees either to opt for the new scheme or retain the existing benefits. Almost all employees opted for the new scheme. The bank considered that in accordance with the policy decision of the Banking Council and Finance Division of GoP, the balance of bank's contribution lying in the members' account in the Provident Fund upto that date should have been transferred to the Pension Fund to partially cover the additional cost of the enhanced benefits.

Subsequently, three employees filed a writ petition in 1980 before a Single Bench of Lahore High Court claiming the balance lying in their Provident Fund Account. This petition was dismissed by the Single Bench in July, 1982. Against this petition of the Single Bench, the aggrieved employees filed Intra Court Appeal before the High Court which was heard by a Division Bench of the Lahore High Court on a number of dates, extending over 16 years. Appeal against the Order of Single Bench was finally dismissed by the Division Bench vide Order dated July 31, 1998. One employee filed an appeal in the Supreme Court against the judgment of the Lahore High Court. In 2003, such appeals were finally decided by the Supreme Court of Pakistan against the bank. The Supreme Court directed the bank that the employees shall be paid contribution made by the bank together with the interest upto the date of payment. The bank in accordance with the legal opinion obtained, has commenced settlement of dues of eligible employees who had joined service of the bank prior to 1977. For the purpose of settlement, interest has been calculated in accordance with Rule 12 of the Provident Fund Rules at average redemption yield through the year of Central Government Rupee Loans of twenty years maturity or thereabout and such interest has been calculated in accordance with Rule 19 i.e. to ex-employees upto the date of retirement or death and to date in case of serving employees.

During 2004, certain employees have filed a contempt of court application before the Supreme Court, pointing out the issue of rate of interest and date of payment. Pending outcome of the said application, the bank has decided not to claim excess fund lying in the Provident Fund account although the management is confident that the payments being made are in accordance with the Supreme Court's decision. The additional liability which may arise in case of different interpretation of the Supreme Court's decision cannot be estimated until such interpretation is made.

	June 30, 2006	December 31, 2005
	(Rupees in '000)	
<b>10.5 Commitments in respect of forward exchange contracts</b>		
Purchase	42,033,320	15,623,954
Sale	20,664,488	36,816,486
<b>10.6 Commitments in respect of trading of government securities</b>		
Sale	-	500,000
<b>10.7 Commitments for the acquisition of operating fixed assets</b>	578,597	56,085



11. Other income includes Rs.574 million (2005: Rs. 526 million) on account of capital gain on sale of securities and Rs.498 million (2005: Nil) on account of reversal of exchange equalisation on Cairo Branch which was closed during the year ended December 31, 2005.

## 12. GEOGRAPHICAL SEGMENT ANALYSIS

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
..... (Rupees in '000) .....				
Pakistan	11,525,187	545,771,226	79,070,287	198,004,004
Asia Pacific (including South Asia)	254,170	17,876,110	4,400,276	2,901,971
Europe	(12,164)	6,457,512	1,571,111	2,212,339
United States of America and Canada	151,669	14,035,370	1,265,920	6,244,231
Middle East	277,673	75,185,526	60,209	20,785
	<b>12,196,535</b>	<b>659,325,744</b>	<b>86,367,803</b>	<b>209,383,330</b>

## 13. RELATED PARTY TRANSACTIONS

Related parties include bank's subsidiaries, associates, joint venture, directors and the companies under common directorship, key management personnel and employees' retirement benefit funds.

	June 30, 2006	December 31, 2005
(Rupees in '000)		
<b>Balance outstanding at period / year end</b>		
<b>Advances to:</b>		
Subsidiaries	686,726	572,237
(includes advance provided to NBP Exchange Company Limited amounting to Rs.500 million, which is unsecured and interest free).		
Associates	1,919,275	1,721,189
Key management executives*	47,358	52,117
Debts due by company in which a director of the bank is interested as director	238,391	119,319
<b>Placements with:</b>		
Joint venture	599,505	211,414
Investments with associates/subsidiaries	53,776	27,331
<b>Deposits from:</b>		
Subsidiaries	295,780	317,593
Pension fund	2,223,834	2,598,358
Provident fund	6,946,396	6,665,252
* This includes loans extended to certain key management executives in accordance with the terms of employment.		
<b>Borrowing from</b>		
Subsidiary	-	249,751
<b>Obligation under finance lease</b>		
Subsidiary	11,547	16,284
Other receivables	20,196	32,111
Other payables	1,509	-



	Six months to June 30, 2006	Six months to June 30, 2005
	(Rupees in '000)	
<b>Income for the period</b>		
On advances/placements to:		
Subsidiaries	3,342	9,581
Associates	40,926	27,478
Joint venture	-	-
Debts due by company in which a director of the bank is interested as director	3,883	4,204
Commission received from subsidiaries	442	-
Commission received from associates	49	-
<b>Expenses for the period</b>		
Remuneration to key management executives	30,946	27,499
Charge for defined benefit plan	1,314	1,151
On deposits:		
Subsidiaries	261	34
Provident fund	399,062	354,684
Commission paid to subsidiaries	1,607	3,153

13.1 Although the Federal Government and the SBP held about 75.48% shares of the bank (2005: 75.48%), the transactions with these entities have not been treated as related party transactions for the purpose of this disclosure.

#### 14. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on August 19, 2006 by the Board of Directors of the Bank.

#### 15. GENERAL

15.1 The figures of the profit and loss account for the quarter ended March 31, 2006 and March 31, 2005 have not been subjected to a limited scope review by the auditors.

15.2 Figures have been rounded-off to the nearest thousand Rupees, except stated otherwise.

S. Ali Raza  
Chairman & President

Dr. Waqar Masood Khan  
Director

Iftikhar Ali Malik  
Director

Syed Shafqat Ali Shah Jamote  
Director



**Consolidated  
Financial Statements  
of  
National Bank of Pakistan  
and its  
Subsidiary Companies**



## CONSOLIDATED BALANCE SHEET – (Unaudited)

As at June 30, 2006

		June 30, 2006	December 31, 2005
	Note	(Rupees in '000)	
<b>ASSETS</b>			
Cash and balances with treasury banks		88,136,487	71,350,114
Balances with other banks		32,668,385	31,600,582
Lendings to financial institutions		45,707,664	16,542,546
Investments	5	167,032,042	157,163,807
Advances	6	294,830,239	268,670,251
Other assets		23,362,062	24,816,269
Operating fixed assets		9,738,650	9,507,305
Deferred tax assets		–	–
		661,475,529	579,650,874
<b>LIABILITIES</b>			
Bills payable		12,933,332	1,741,156
Borrowings from financial institutions		9,259,300	9,342,096
Deposits and other accounts	7	523,554,799	463,198,712
Sub-ordinated loans		–	–
Liabilities against assets subject to finance lease		15,906	20,180
Other liabilities		21,989,327	25,844,119
Deferred tax liabilities		6,372,082	4,449,317
		574,124,746	504,595,580
<b>NET ASSETS</b>		<u>87,350,783</u>	<u>75,055,294</u>
<b>REPRESENTED BY</b>			
Share capital	8	7,090,712	5,908,927
Reserves		13,217,728	13,802,530
Unappropriated profit		24,433,769	17,102,133
		44,742,209	36,813,590
Minority interest		95,317	85,877
		44,837,526	36,899,467
Surplus on revaluation of assets	9	42,513,257	38,155,827
		<u>87,350,783</u>	<u>75,055,294</u>
<b>Contingencies and commitments</b>	10		

The annexed notes 1 to 15 form an integral part of these financial statements.

S. Ali Raza  
Chairman & President

Dr. Waqar Masood Khan  
Director

Iftikhar Ali Malik  
Director

Syed Shafqat Ali Shah Jamote  
Director



## CONSOLIDATED PROFIT AND LOSS ACCOUNT – (Unaudited)

For the six months period ended June 30, 2006

	For the quarter April-June 2006	Six months period ended June 30, 2006	For the quarter April-June 2005	Six months period ended June 30, 2005
Note	(Rupees in '000)			
Mark-up / Return / Interest earned	10,837,445	20,727,338	7,893,191	14,218,456
Mark-up / Return / Interest expensed	3,214,681	6,290,863	2,252,255	4,290,082
<b>Net mark-up / Interest income</b>	<b>7,622,764</b>	<b>14,436,475</b>	<b>5,640,936</b>	<b>9,928,374</b>
Provision against non-performing loans and advances	698,925	898,925	542,604	892,604
Provision for diminution in the value of investments	-	-	4,911	7,483
Provision against off balance sheet obligations	-	2,347	2,970	2,970
Bad debts written off directly	-	-	-	-
	698,925	901,272	550,485	903,057
Net mark-up / interest income after provisions	6,923,839	13,535,203	5,090,451	9,025,317
<b>NON MARK-UP/ INTEREST INCOME</b>				
Fee, commission and brokerage income	1,770,001	2,988,998	1,252,529	2,346,685
Dividend income	45,286	141,526	360,246	364,700
Income / (loss) from trading in government securities	2,544	(1,736)	12,187	(35,620)
Income from dealing in foreign currencies	443,167	662,366	148,040	286,834
Share of profit from joint venture	29,759	55,819	27,807	50,253
Share of profit from associate	6,650	15,638	(558)	5,491
Other income	717,017	1,204,320	288,738	829,280
Total non-mark-up / interest income	3,014,424	5,066,931	2,088,989	3,847,623
	9,938,263	18,602,134	7,179,440	12,872,940
<b>NON MARK-UP/ INTEREST EXPENSES</b>				
Administrative expenses	3,262,788	6,275,936	2,861,446	5,391,240
Other provisions / write offs	-	-	333,638	369,138
Other charges	-	-	(21)	85
Total non-mark-up / interest expenses	3,262,788	6,275,936	3,195,063	5,760,463
	6,675,475	12,326,198	3,984,377	7,112,477
Extra ordinary items	-	-	-	-
<b>PROFIT BEFORE TAXATION</b>	<b>6,675,475</b>	<b>12,326,198</b>	<b>3,984,377</b>	<b>7,112,477</b>
Taxation - Current	(2,278,616)	(4,303,661)	(1,802,720)	(3,011,995)
- Prior year(s)	-	-	-	-
- Deferred	49,048	113,617	340,333	346,151
	(2,229,568)	(4,190,044)	(1,462,387)	(2,665,844)
<b>PROFIT AFTER TAXATION</b>	<b>4,445,907</b>	<b>8,136,154</b>	<b>2,521,990</b>	<b>4,446,633</b>
Share of minority interest	(1,529)	(9,439)	1,970	(12,469)
Profit attributable to shareholders of the Bank	4,444,378	8,126,715	2,523,960	4,434,164
Unappropriated profit brought forward	20,433,580	17,102,134	10,969,116	9,429,455
Transfer from surplus on revaluation of fixed assets	10,265	20,530	10,805	21,610
<b>Profit available for appropriation</b>	<b>24,888,223</b>	<b>25,249,379</b>	<b>13,503,881</b>	<b>13,885,229</b>
<b>APPROPRIATIONS</b>				
Transfer to:				
- Statutory reserve	(454,454)	(815,610)	(497,375)	(878,723)
- Capital reserve	-	-	-	-
- Revenue reserve	-	-	-	-
	(454,454)	(815,610)	(497,375)	(878,723)
<b>Unappropriated profit carried forward</b>	<b>24,433,769</b>	<b>24,433,769</b>	<b>13,006,506</b>	<b>13,006,506</b>
<b>Basic / diluted earnings per share (Rupees)</b>	<b>6.27</b>	<b>11.47</b>	<b>3.56</b>	<b>6.27</b>

The annexed notes 1 to 15 form an integral part of these financial statements.

S. Ali Raza  
Chairman & President

Dr. Waqar Masood Khan  
Director

Iftikhar Ali Malik  
Director

Syed Shafqat Ali Shah Jamote  
Director



## CONSOLIDATED CASH FLOW STATEMENT– (Unaudited)

For the six months period ended June 30, 2006

	June 30, 2006	June 30, 2005
	(Rupees in '000)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	12,326,198	7,112,477
Less: Dividend income	141,526	364,700
	<u>12,184,672</u>	<u>6,747,777</u>
<b>Adjustments for non-cash charges</b>		
Depreciation	24,816,269	252,658
Provision against non-performing advances	898,925	892,604
Provision for diminution in the value of investments	–	7,483
Bad debts written off directly	2,347	2,970
Other provision / write off	–	369,138
Gain on sale of fixed assets	(2,137)	(3,189)
Financial charges on leased assets	1,042	2,041
Share of profit from joint venture	(55,819)	(50,253)
Share of profit from associate	(15,638)	(5,491)
	<u>25,644,989</u>	<u>1,467,961</u>
	37,829,661	8,215,738
<b>(Increase)/decrease in operating assets</b>		
Lendings to financial institutions	(29,165,118)	(6,341,955)
Held-for-trading securities	(106,944)	366,387
Advances	(27,061,261)	(30,502,759)
Other assets	(41,995)	1,099,357
	<u>(56,375,318)</u>	<u>(35,378,970)</u>
<b>Increase/(decrease) in operating liabilities</b>		
Bills payable	11,192,176	2,857,224
Borrowing from financial institutions	(291,129)	(3,374,486)
Deposits	60,356,087	25,575,189
Other liabilities	(2,371,928)	776,188
	<u>68,885,206</u>	<u>25,834,115</u>
Income tax (paid)/ received	(2,807,459)	(5,158,274)
Financial charges paid	(1,042)	(2,041)
	<u>(2,808,501)</u>	<u>(5,160,315)</u>
<b>Net cash flow from / (used) in operating activities</b>	<u>47,531,048</u>	<u>(6,489,432)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Net investments in available-for-sale securities	(1,178,593)	(1,414,384)
Net investments in held-to-maturity securities	(2,008,674)	266,169
Dividend received	141,526	364,700
Investments in operating fixed assets	(25,048,202)	(312,668)
Investments in subsidiaries, associates and joint venture	3,864	–
Sale proceeds of property and equipment disposed off	2,725	3,189
<b>Net cash used in investing activities</b>	<u>(28,087,354)</u>	<u>(1,092,994)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Dividend paid	(1,482,864)	(742,161)
Payments of lease obligations	(4,274)	(7,407)
<b>Net cash used in financing activities</b>	<u>(1,487,138)</u>	<u>(749,568)</u>
Effects of exchange rate changes on cash and cash equivalents	(310,713)	39,509
<b>Increase / (decrease) in cash and cash equivalents</b>	<u>17,645,843</u>	<u>(8,292,485)</u>
Cash and cash equivalents at January 1,	102,317,945	144,320,665
Cash and cash equivalents at June 30,	<u>119,963,788</u>	<u>136,028,180</u>

The annexed notes 1 to 15 form an integral part of these financial statements.

S. Ali Raza  
Chairman & President

Dr. Waqar Masood Khan  
Director

Ifitikhar Ali Malik  
Director

Syed Shafqat Ali Shah Jamote  
Director



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – (Unaudited)

For the six months period ended June 30, 2006

	Attributable to the shareholders of the Group								Total
	Share Capital	Reserves					Sub Total	Minority Interest	
		Exchange Equalization	Issue of Bonus Shares	Statutory Reserve	General Reserve	Unappropriated Profit			
..... (Rupees in '000) .....									
Balance as at January 1, 2005	4,924,106	3,893,558	984,821	5,803,221	521,338	9,429,455	25,556,499	68,500	25,624,999
Exchange adjustments on revaluation of capital of foreign branches	-	39,509	-	-	-	-	39,509	-	39,509
Transfer from surplus on revaluation of fixed assets- incremental depreciation - net of tax	-	-	-	-	-	21,610	21,610	-	21,610
<b>Net income recognised directly in equity</b>	-	39,509	-	-	-	21,610	61,119	-	61,119
Profit after taxation for the six months period ended June 30, 2005	-	-	-	-	-	4,434,164	4,434,164	12,469	4,446,633
<b>Total recognised income and expense for the period</b>	-	39,509	-	-	-	4,455,774	4,495,283	12,469	4,507,752
Transfer to statutory reserve	-	-	-	878,723	-	(878,723)	-	-	-
Issue of bonus shares	984,821	-	(984,821)	-	-	-	-	-	-
<b>Balance as at June 30, 2005</b>	<u>5,908,927</u>	<u>3,933,067</u>	<u>-</u>	<u>6,681,944</u>	<u>521,338</u>	<u>13,006,506</u>	<u>30,051,782</u>	<u>80,969</u>	<u>30,132,751</u>
Balance as at July 1, 2005	5,908,927	3,933,067	-	6,681,944	521,338	13,006,506	30,051,782	80,969	30,132,751
Exchange adjustments on revaluation of capital of foreign branches	-	(178,770)	-	-	-	-	(178,770)	-	(178,770)
Transfer from surplus on revaluation of fixed assets- incremental depreciation - net of tax	-	-	-	-	-	21,611	21,611	-	21,611
<b>Net income recognised directly in equity</b>	-	(178,770)	-	-	-	21,611	(157,159)	-	(157,159)
Profit after taxation for the six months ended December 31, 2005	-	-	-	-	-	8,396,200	8,396,200	4,908	8,401,108
<b>Total recognised income and expense for the period</b>	-	(178,770)	-	-	-	8,417,811	8,239,041	4,908	8,243,948
Transfer to statutory reserve	-	-	-	1,663,166	-	(1,663,166)	-	-	-
Transfer to reserve for issue of bonus shares	-	-	1,181,785	-	-	(1,181,785)	-	-	-
Proposed cash dividend	-	-	-	-	-	(1,477,232)	(1,477,232)	-	(1,477,232)
<b>Balance as at December 31, 2005</b>	<u>5,908,927</u>	<u>3,754,297</u>	<u>1,181,785</u>	<u>8,345,110</u>	<u>521,338</u>	<u>17,102,134</u>	<u>36,813,590</u>	<u>85,877</u>	<u>36,899,467</u>
Balance as at January 1, 2006	5,908,927	3,754,297	1,181,785	8,345,110	521,338	17,102,134	36,813,590	85,877	36,899,468
Exchange adjustments on revaluation of capital of foreign branches	-	279,869	-	-	-	-	279,869	-	279,869
Adjustment due to closure of Cairo branch	-	(498,496)	-	-	-	-	(498,496)	-	(498,496)
Transfer from surplus on revaluation of fixed assets- incremental depreciation - net of tax	-	-	-	-	-	20,530	20,530	-	20,530
<b>Net income recognised directly in equity</b>	-	(218,627)	-	-	-	20,530	(198,097)	-	(198,097)
Profit after taxation for the six months period ended June 30, 2006	-	-	-	-	-	8,126,715	8,126,715	9,440	8,136,154
<b>Total recognised income and expense for the period</b>	-	-	-	-	-	8,126,715	8,126,715	9,440	8,136,154
Transfer to statutory reserve	-	-	-	815,610	-	(815,610)	-	-	-
Bonus shares issued	1,181,785	-	(1,181,785)	-	-	-	-	-	-
<b>Balance as at June 30, 2006</b>	<u>7,090,712</u>	<u>3,535,670</u>	<u>-</u>	<u>9,160,720</u>	<u>521,338</u>	<u>24,433,769</u>	<u>44,742,209</u>	<u>95,317</u>	<u>44,837,526</u>

The annexed notes 1 to 15 form an integral part of these financial statements.

**S. Ali Raza**  
Chairman & President

**Dr. Waqar Masood Khan**  
Director

**Iftekhar Ali Malik**  
Director

**Syed Shafqat Ali Shah Jamote**  
Director



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (Unaudited)

*For the six months period ended June 30, 2006*

### 1. THE GROUP AND ITS OPERATIONS

#### 1.1 The Group Consists of:

National Bank of Pakistan, Holding Company and its subsidiary companies.

Bank has following subsidiaries:

- NBP Capital Limited
- JSC Subsidiary Bank of NBP in Kazakhstan
- NBP Exchange Company Limited
- NBP Modaraba Management Company Limited
- Taurus Securities Limited
- National Agriculture & Storage Company Limited
- Cast-N-Link Products Limited

The Group is engaged in commercial banking and related services, trading and discounting of negotiable instruments, stock brokerage and investment advisory and floatation and management of Modarabas.

National Bank of Pakistan (the bank) was established under the National Bank of Pakistan Ordinance, 1949 and is listed on all the stock exchanges in Pakistan. Its registered and head office is situated at I.I. Chundrigar Road, Karachi. The bank is engaged in providing commercial banking and related services in Pakistan and overseas. The bank also handles treasury transactions for the Government of Pakistan (GoP) as an agent to the State Bank of Pakistan (SBP). The bank operates 1,224 (2005: 1,224) branches in Pakistan and 18 (2005: 18) overseas branches (including the Export Processing Zone branch, Karachi). Under a Trust Deed, the bank also provides services as trustee to National Investment Trust (NIT) including safe custody of securities on behalf of NIT.

#### 1.2 National Agriculture & Storage Company Limited and Cast-N-Link Products Limited have not been consolidated.

#### **Basis of Consolidation**

The consolidated financial statements include the financial statements of NBP - Holding Company and its subsidiary companies - "The Group".

The assets and liabilities of subsidiary companies have been consolidated on a line by line basis and the carrying value of investments held by the Bank is eliminated against the subsidiaries' shareholders' equity in the consolidated financial statements.

Minority interest are that part of the net results of operations and of net assets of subsidiary companies attributable to interests which are not owned by the bank.

Material intra-group balances and transactions have been eliminated.

### 2. STATEMENT OF COMPLIANCE

The financial statements are unaudited and are being presented in a condensed form in accordance with the requirements of the International Accounting Standard 34- "Interim Financial Reporting" and BSD Circular Letter No. 02 dated May 12, 2004 issued by the State Bank of Pakistan.

These financial statements are being circulated to the shareholders as required by section 245 of the Companies Ordinance, 1984.

### 3. BASIS OF MEASUREMENT

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

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in preparation of these consolidated financial statements are the same as those adopted in the preparation of the annual audited accounts of the holding company for the year ended December 31, 2005.



## 5. INVESTMENTS

	June 30, 2006			December 31, 2005		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
(Rupees in '000)						
<b>5.1 Investments by type:</b>						
<b>Held-for-trading securities</b>						
Ordinary shares of listed companies	288,540	–	288,540	181,596	–	181,596
<b>Available- for- sale securities</b>						
Ordinary shares of listed companies	3,684,874	–	3,684,874	3,676,045	–	3,676,045
Ordinary shares of unlisted companies	455,439	–	455,439	433,864	–	433,864
Less: Provision for diminution in value of investments	179,853	–	179,853	179,853	–	179,853
Market Treasury Bills	54,816,511	1,599,990	56,416,501	54,279,127	2,845,789	57,124,916
Preference shares	443,000	–	443,000	474,200	–	474,200
Less: Provision for diminution in value of investments	–	–	–	–	–	–
	443,000	–	443,000	474,200	–	474,200
Pakistan Investment Bonds	6,705,893	–	6,705,893	7,715,549	–	7,715,549
Federal Investment Bonds	1,253,466	–	1,253,466	1,319,992	–	1,319,992
Debentures, Bonds, Participation Term Certificates and Term Finance Certificates	7,304,311	–	7,304,311	7,035,434	–	7,035,434
Investments in mutual funds	1,267,862	–	1,267,862	1,080,332	–	1,080,332
Promissory notes	–	–	–	101,885	–	101,885
Certificate of Investment	2,200,000	–	2,200,000	–	–	–
Foreign government securities	102,213	–	102,213	75,088	–	75,088
Investment outside Pakistan	29,948,101	–	29,948,101	22,110,611	–	22,110,611
National Investment Trust Units	18,047,404	–	18,047,404	19,092,549	–	19,092,549
<b>Total Available- for- sale securities</b>	<b>126,049,221</b>	<b>1,599,990</b>	<b>127,649,211</b>	<b>117,214,823</b>	<b>2,845,789</b>	<b>120,060,612</b>
<b>Held-to-maturity securities</b>						
Government Compensation Bonds	2,331,182	–	2,331,182	2,477,200	–	2,477,200
Provincial Government Securities	36,513	–	36,513	36,513	–	36,513
Pakistan Investment Bonds	11,922,193	–	11,922,193	12,099,907	–	12,099,907
Federal Investment Bonds	100,128	–	100,128	–	–	–
Market Treasury Bills	366,274	–	366,274	–	–	–
GoP Foreign Currency Bonds	10,594,596	–	10,594,596	9,457,014	–	9,457,014
Foreign Government Securities	5,685,610	–	5,685,610	5,981,940	–	5,981,940
Debentures, Bonds, Participation Term Certificates and Term Finance Certificates (note 5.4)	7,024,773	–	7,024,773	6,000,021	–	6,000,021
Less: Provision for diminution in value of investments	1,322,535	–	1,322,535	1,324,465	–	1,324,465
	5,702,238	–	5,702,238	4,675,556	–	4,675,556
<b>Total held-to-maturity securities</b>	<b>36,738,734</b>	<b>–</b>	<b>36,738,734</b>	<b>34,728,130</b>	<b>–</b>	<b>34,728,130</b>
<b>Investments in associates</b>	<b>1,083,721</b>	<b>–</b>	<b>1,083,721</b>	<b>1,071,948</b>	<b>–</b>	<b>1,071,948</b>
Less: Provision for diminution in value of investments	455,030	–	455,030	457,440	–	457,440
	628,691	–	628,691	614,508	–	614,508
<b>Investments in joint ventures</b>	<b>1,726,866</b>	<b>–</b>	<b>1,726,866</b>	<b>1,578,961</b>	<b>–</b>	<b>1,578,961</b>
<b>Investments in subsidiaries</b>	<b>3,245</b>	<b>–</b>	<b>3,245</b>	<b>3,245</b>	<b>–</b>	<b>3,245</b>
Less: Provision for diminution in value of investments	3,245	–	3,245	3,245	–	3,245
	–	–	–	–	–	–
	<b>165,432,052</b>	<b>1,599,990</b>	<b>167,032,042</b>	<b>154,318,018</b>	<b>2,845,789</b>	<b>157,163,807</b>



	Note	June 30, 2006	December 31, 2005
(Rupees in '000)			
<b>5.2 Investments by segment:</b>			
<b>Federal Government Securities</b>			
Market Treasury Bills		56,782,775	57,124,916
Pakistan Investment Bonds		18,628,086	19,815,456
Federal Investment Bonds		1,353,594	1,319,992
Others			
- Government Compensation Bonds		2,331,182	2,477,200
- GoP Foreign Currency Bonds		10,594,596	9,457,014
		12,925,778	11,934,214
		89,690,233	90,194,578
<b>Provincial Government Securities</b>		36,513	36,513
<b>Foreign Government Securities</b>		5,787,823	6,057,028
<b>Fully Paid up Ordinary Shares</b>			
- Listed Companies		3,973,414	3,857,641
- Unlisted Companies		455,439	433,864
		4,428,853	4,291,505
Investments in mutual funds		1,267,862	1,080,332
National Investment Trust Units	5.3	18,047,404	19,092,549
Preference Shares		443,000	474,200
Promissory notes		-	101,885
Certificates of Investment		2,200,000	-
<b>Debentures, Bonds, Participation Term Certificates and Term Finance Certificates</b>			
- Listed		984,839	553,204
- Unlisted	5.4	13,344,245	12,482,251
		14,329,084	13,035,455
Investment outside Pakistan	5.5	29,948,101	22,110,611
Investments in Associates	5.6	1,083,721	1,071,948
Investments in Joint Ventures	5.6	1,726,866	1,578,961
Investments in Subsidiaries	5.7	3,245	3,245
		168,992,705	159,128,810
Less : Provision for diminution in value of investments		1,960,663	1,965,003
		<u>167,032,042</u>	<u>157,163,807</u>



### 5.3 NIT Units

Includes 365,284,216 NIT units in respect of which Government of Pakistan (GoP) issued a letter of comfort (LoC) dated August 8, 2001 stating that on bank's willingness to continue holding the units for five years from the date of LoC, NIT will be facilitated to redeem the units at Rs.13.70 per unit. During 2005 on the directives of MoF, the bank acquired 5,542,620 units from small sized LoC holders at a price of Rs.205.077 million. In accordance with SBP's concurrence vide their letter no. BSD/SU-15/503/1504/2005 dated March 16, 2005 these units have been valued at market value (repurchase price) aggregating Rs.17,929 million (2005: Rs.18,684 million). Also during 2005, the Privatisation Commission of the GoP offered all the NIT LoC holders including the bank the following two options under the scheme of Privatisation of the Trust:

- (a) Right to manage the fund represented by the respective LoC holder's portion of the assets / shares and pay for the management rights as per the terms contained in the "Scheme" (scheme for the split-sell and settlement of NIT under GoP's privatisation campaign); or
- (b) the LoC holder's holding of NIT Units would continue to be managed by NIT as part of a separate split fund.

The bank has conveyed its concurrence to option (a).

5.4 Term Finance Certificates, Debentures, Bonds and Participation Term Certificates include Rs.741million (2005: Rs.741million) which are considered non-performing.

### 5.5 Bank Al-Jazira

The bank holds 6,562,500 (2005: 875,000) shares in Bank Al-Jazira incorporated in the Kingdom of Saudi Arabia, being 5.83% (2005: 5.83%) holding in total equity. During the period BAJ issued 50% bonus shares after a share split of 5 shares for 1. During 2005, the bank was granted permission to open a branch in Saudi Arabia by Saudi Arabian Monetary Agency (SAMA). The bank has been given to understand by SAMA that it has to divest the holding in Bank Al-Jazira and accordingly, the Board of Directors has authorised the management to initiate the process of disinvestment at the best possible price in coordination with SAMA. Upto last year the investment was recorded at lower of (Rupee) cost or market value as per the Saudi Stock Exchange and in accordance with SBP's concurrence vide their letter no. BSD/SU-13/331/685/2006 dated February 17, 2006, from current year the investment has been marked to market with closing price as quoted on the Saudi Stock Exchange.

5.6 Investment of the group in First Credit and Discounting Corporation (the associated company) and United National Bank Limited (the joint venture company) has been accounted for under equity method of accounting as at June 30, 2006 in accordance with the treatment specified in International Accounting Standard 28 "Accounting for Investments in Associates" and revised International Accounting Standard 31 "Investments in Joint Venture".

June 30,                      December 31,  
2006                                      2005  
(Rupees in '000)

### 5.7 Investments in subsidiaries

	Percentage Holding		
National Agriculture & Storage Company Limited	100.00	2,000	2,000
Cast-N-Link Products Limited	76.51	1,245	1,245
		3,245	3,245
Less: Provision for diminution in value of investments		3,245	3,245
		-	-



5.7.1 Details of assets, liabilities and equity position on the basis of latest audited financial statements of the subsidiaries not consolidated are given below:

	Year Ended	Total Assets	Total Liabilities	Net Equity
..... (Rupees in '000) .....				
National Agriculture & Storage Company Limited	June 30, 2004	2,932	2,349	583
Cast-N-Link Products Limited	*			

\* This investment was acquired as a result of amalgamation of NDFC with the bank. The latest financial statements of this company are not available and investment is fully provided for.

	June 30, 2006	December 31, 2005
(Rupees in '000)		
<b>6. ADVANCES</b>		
Loans, cash credits, running finances, etc.		
In Pakistan	281,824,906	262,173,751
Outside Pakistan	29,333,372	22,093,891
	311,158,278	284,267,642
Bills discounted and purchased (excluding Government treasury bills)		
Payable in Pakistan	2,247,934	2,387,740
Payable outside Pakistan	12,401,668	12,471,568
	14,649,602	14,859,308
COT/Margin Financing	296,769	127,332
	326,104,649	299,254,282
Less: Provision against non-performing loans		
- Specific	28,792,450	28,388,730
- General	2,481,960	2,195,302
	31,274,410	30,584,032
	294,830,239	268,670,250

6.1 Advances include Rs.34,736 million (2005: Rs.33,738 million) which have been placed under the non-performing status as detailed below:

Category of Classification	Domestic	Overseas	Total	Provision Required	Provision Held
..... (Rupees in '000) .....					
Other Assets Especially Mentioned	281,165	-	281,165	-	-
Substandard	1,478,305	-	1,478,305	337,772	337,772
Doubtful	1,775,678	-	1,775,678	855,089	855,089
Loss	30,526,334	674,243	31,200,577	27,599,589	27,599,589
	34,061,482	674,243	34,735,725	28,792,450	28,792,450



6.2 During the current period, in order to comply with the requirements of the BSD Circular No. 2, dated January 14, 2006, issued by the State Bank of Pakistan, the holding company changed the method of computation of provision against the non-performing advances. The Circular requires the bank to create provision at a rate of 25 percent instead of 10 percent of non-performing loans in the substandard category after adjustment of the Forced Sale Value (FSV) of assets held as collateral against advances while determining the provision requirement. Additionally, BSD Circular No. 7, dated November 01, 2005, issued by the State Bank of Pakistan specifies that the benefit of the FSV of the collateral under the Prudential Regulations, has been restricted to financing facilities of Rs.10 million and above as against the previous requirement to restrict the same to financing facilities of Rs.5 million and above, for the purposes of determining provision against non performing advances. The requirements of the aforementioned Circulars is effective from December 31, 2006.

Had the above referred increase in the rate of provision for substandard category and increase in the limit of financing for taking the benefit of the FSV not taken place, the profit before taxation for the current period and advances (net of provision) at the end of the current period would have been higher by Rs.177 million.

6.3 The Prudential Regulations issued by the State Bank of Pakistan effective from January 1, 2004 and SBP letter dated July 31, 2004 requires banks to maintain a general reserve equivalent to 1.5% of consumer portfolio, which is secured and 5% of the consumer portfolio which is unsecured to protect the banks from the risk associated with the economic cyclical nature of this business. The State Bank of Pakistan has allowed the holding company to make the provision amounting to Rs.1,331 million on the outstanding unsecured consumer portfolio as at December 31, 2004 in 2005 and 2006. The holding company has made a provision of Rs.1,103 million till to date.

June 30,  
2006                      December 31,  
2005

(Rupees in '000)

## 7. DEPOSITS AND OTHER ACCOUNTS

### Customers

Fixed deposits	82,890,681	80,913,734
Savings deposits	184,477,910	165,514,570
Current accounts - remunerative	69,455,601	54,499,791
Current accounts - non-remunerative	123,311,744	102,492,003
	<u>460,135,936</u>	<u>403,420,098</u>

### Financial Institutions

Remunerative deposits	41,294,149	38,174,088
Non-remunerative deposits	22,124,714	21,604,526
	<u>63,418,863</u>	<u>59,778,614</u>
	<u>523,554,799</u>	<u>463,198,712</u>

## 8. SHARE CAPITAL

### 8.1 Authorized Capital

December 31, 2005	June 30, 2006		June 30, 2006	December 31, 2005
Number of Shares			(Rupees in '000)	

<u>750,000,000</u>	<u>750,000,000</u>	Ordinary shares of Rs.10 each	<u>7,500,000</u>	<u>7,500,000</u>
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### 8.2 Issued, subscribed and paid-up

		Ordinary shares of Rs.10 each		
140,388,000	140,388,000	Fully paid in cash	1,403,880	1,403,880
450,504,746	568,683,246	Issued as bonus shares	5,686,832	4,505,047
<u>590,892,746</u>	<u>709,071,246</u>		<u>7,090,712</u>	<u>5,908,927</u>



	June 30, 2006	December 31, 2005
	(Rupees in '000)	
<b>9. SURPLUS ON REVALUATION OF ASSETS</b>		
<b>9.1 Surplus on revaluation of fixed assets - net of tax</b>	5,388,629	5,409,159
<b>9.2 Surplus on revaluation of securities - net of tax</b>		
Federal Government securities	(25,574)	46,342
Term Finance Certificates	58,539	1,589
Quoted shares	2,361,219	2,727,321
NIT Units	12,986,748	14,031,893
Bank Al-Jazira	29,485,035	21,647,316
	44,865,967	38,454,461
Deferred tax liability recognized	(7,741,339)	(5,707,793)
	<u>42,513,257</u>	<u>38,155,827</u>
<b>10. CONTINGENCIES AND COMMITMENTS</b>		
<b>10.1 Direct credit substitutes</b>		
Includes general guarantee of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities issued in favour of:		
- Government	512,598	2,269,358
- Financial institutions	1,118,715	504,595
- Others	19,698,745	13,012,983
	21,330,058	15,786,936
<b>10.2 Transaction-related contingent liabilities</b>		
Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credits related to particular transactions issued in favour of:		
- Government	16,773,097	12,488,526
- Financial institutions	571,372	-
- Others	6,211,955	9,971,136
	23,556,424	22,459,662
<b>10.3 Trade-related contingent liabilities</b>		
Letters of credit Issued in favour of:		
- Government	132,531,110	69,418,144
- Financial institutions	231,779	8,121,679
- Others	31,733,959	26,211,138
	164,496,848	103,750,961
<b>10.4 Other contingencies</b>		
<b>10.4.1</b> Claims against the holding company not acknowledged as debts [including SBP liabilities on Bangladesh borrowing and interest thereon amounting to Rs.158 million (2005: Rs.158 million) and claims relating to former MBL amounting to Rs.1,117 million (2005: Rs.1,117 million)].	13,271,740	13,271,740



### 10.4.2 Taxation

The income tax assessments of the holding company for global operations as well as Azad Kashmir have been finalized upto and including the tax year 2004 (accounting year ended December 31, 2003). The income tax returns for the tax year 2005 (accounting year ended December 31, 2004) have been filed for global operations and Azad Kashmir and the same are deemed to be assessment order under the provisions of section 120 of the Income Tax Ordinance, 2001, unless amended otherwise. Appeals filed by the holding company and tax department for certain assessment years including tax year 2004 are pending before various appellate forum/court of law. The major issues involved include taxability of interest credited to suspense account and disallowances of cost incurred in respect of employees' special separation scheme. In the event that the appeals are decided against the holding company, a further tax liability of Rs.7,780 million may arise in addition to amount already provided.

No provision has been made in these accounts for the above as the management, based on the opinion of tax lawyers and consultants, considers that provision is not necessary because the bank is subjected to tax exceeding its normal tax liability and will get relief in the appeals process.

### 10.4.3 Provident Fund

In 1977, in accordance with the GoP policy, the holding company's employees benefits were changed from the Provident Fund to an enhanced Pension Scheme and an option was given to the employees either to opt for the new scheme or retain the existing benefits. Almost all employees opted for the new scheme. The holding company considered that in accordance with the policy decision of the Banking Council and Finance Division of GoP, the balance of holding company's contribution lying in the members' account in the Provident Fund upto that date should have been transferred to the Pension Fund to partially cover the additional cost of the enhanced benefits.

Subsequently, three employees filed a writ petition in 1980 before a Single Bench of Lahore High Court claiming the balance lying in their Provident Fund Account. This petition was dismissed by the Single Bench in July, 1982. Against this petition of the Single Bench, the aggrieved employees filed Intra Court Appeal before the High Court which was heard by a Division Bench of the Lahore High Court on a number of dates, extending over 16 years. Appeal against the Order of Single Bench was finally dismissed by the Division Bench vide Order dated July 31, 1998. One employee filed an appeal in the Supreme Court against the judgment of the Lahore High Court. In 2003, such appeals were finally decided by the Supreme Court of Pakistan against the holding company. The Supreme Court directed the holding company that the employees shall be paid contribution made by the holding company together with the interest upto the date of payment. The holding company in accordance with the legal opinion obtained, has commenced settlement of dues of eligible employees who had joined service of the holding company prior to 1977.

For the purpose of settlement, interest has been calculated in accordance with Rule 12 of the Provident Fund Rules at average redemption yield through the year of Central Government Rupee Loans of twenty years maturity or thereabout and such interest has been calculated in accordance with Rule 19 i.e. to ex-employees upto the date of retirement or death and to date in case of serving employees.

During 2004, certain employees have filed a contempt of court application before the Supreme Court, pointing out the issue of rate of interest and date of payment. Pending outcome of the said application, the holding company has decided not to claim excess fund lying in the Provident Fund account although the management is confident that the payments being made are in accordance with the Supreme Court's decision. The additional liability which may arise in case of different interpretation of the Supreme Court's decision cannot be estimated until such interpretation is made.



	June 30, 2006	December 31, 2005
	(Rupees in '000)	
<b>10.5 Commitments in respect of forward exchange contracts</b>		
Purchase	42,033,320	36,816,486
Sale	20,664,488	15,623,954
<b>10.6 Commitments in respect of trading of government securities</b>		
Sale	-	500,000
<b>10.7 Commitments for the acquisition of operating fixed assets</b>	578,597	56,085
<b>11.</b> Other income includes Rs.574 million (2005: Rs. 526 million) on account of capital gain on sale of securities and Rs.498 million (2005: Nil) on account of reversal of exchange equalisation on Cairo Branch which was closed during the year ended December 31, 2005.		

## 12. GEOGRAPHICAL SEGMENT ANALYSIS

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	..... (Rupees in '000) .....			
Pakistan	11,649,194	547,217,291	79,546,198	198,004,004
Asia Pacific (including South Asia)	259,826	18,579,830	4,907,345	2,901,971
Europe	(12,164)	6,457,512	1,571,111	2,212,339
United States of America and Canada	151,669	14,035,370	1,265,920	6,244,231
Middle East	277,673	75,185,526	60,209	20,785
	<b>12,326,198</b>	<b>661,475,529</b>	<b>87,350,783</b>	<b>209,383,330</b>

## 13. RELATED PARTY TRANSACTIONS

Related parties of group include associates, joint venture, directors and the companies under common directorship, key management personnel and employees' retirement benefit funds.

	June 30, 2006	December 31, 2005
	(Rupees in '000)	
<b>Balance outstanding at year end</b>		
<b>Advances to:</b>		
Associates	1,919,275	1,721,189
Key management executives*	47,358	52,117
Debts due by company in which a director of the holding company is interested as director	238,391	119,319
<b>Placements with:</b>		
Joint venture	599,505	211,414
Investments with associates	51,227	27,331



	June 30, 2006	December 31, 2005
	(Rupees in '000)	
<b>Deposits from:</b>		
Pension fund	2,223,834	2,598,358
Provident fund	6,946,396	6,665,252

\* This includes loans extended to certain key management executives in accordance with the terms of employment.

	Six months to June 30, 2006	Six months to June 30, 2005
	(Rupees in '000)	
<b>Income for the period</b>		
On advances/placements with:		
Associates	40,926	27,478
Joint venture	-	-
Debts due by company in which a director of the holding company is interested as director	3,883	4,204
Commission received from associates	49	-
<b>Expenses for the period</b>		
Remuneration to key management executives	30,946	27,499
Charge for defined benefit plan	1,314	1,151
<b>On deposits of:</b>		
Provident fund	399,062	354,684
Other receivables	1,607	3,153

13.1 Although the Federal Government and the SBP held about 75.48% shares of the bank (2005: 75.48%), the transactions with these entities have not been treated as related party transactions for the purpose of this disclosure.

#### 14. DATE OF AUTHORIZATION FOR ISSUE

The consolidated financial statements were authorized for issue on August 19, 2006 by the Board of Directors of the Bank.

#### 15. GENERAL

15.1 Figures have been rounded-off to the nearest thousand Rupees, except stated otherwise.

S. Ali Raza  
Chairman & President

Dr. Waqar Masood Khan  
Director

Iftikhar Ali Malik  
Director

Syed Shafqat Ali Shah Jamote  
Director



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