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CORPORATE INFORMATION

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| | |
| Board of Directors | Syed Ali Raza Chairman & President Dr. Waqar Masood Khan Iftikhar Ali Malik Muhammad Arshad Chaudhry Syed Shafqat Ali Shah Jamote Zubair Motiwala Sikandar Hayat Jamali |
| Audit Committee | Muhammad Arshad Chaudhry Chairman Syed Shafqat Ali Shah Jamote Zubair Motiwala |
| Auditors | M. Yousuf Adil Saleem & Co. Chartered Accountants Taseer Hadi Khalid & Co. Chartered Accountants |
| Legal Advisors | Mandviwala & Zafar Advocates and Legal Consultants |
| Registered & Head Office | NBP Building I.I.Chundrigar Road Karachi, Pakistan. |
| Registrar's & Share Registration Office | THK Associates (Pvt.) Ltd. Share Department, Ground Floor Sheikh Sultan Trust Building No.2 Beaumont Road, Karachi-Pakistan. |
| | |



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, 2003. Financial performance of the bank for the six months period ended June 30, 2003 is as follows:

| | Rupees in million |
|---|-------------------|
| Profit before Taxation | 3,518 |
| Taxation | |
| - Current year | (1,600) |
| - Prior years | - |
| - Deferred | 13 |
| | <u>(1,587)</u> |
| Profit after taxation | 1,931 |
| Unappropriated profit brought forward | 3,405 |
| Transfer from surplus on revaluation of fixed assets – incremental depreciation | 24 |
| Profit available for appropriation | <u>5,360</u> |
| Transfer to Statutory Reserve (10% of after-tax profit) | (193) |
| Unappropriated profit carried forward | <u>5,167</u> |

In a short span of less than a year, NBP has made inroads in retail banking. A new and colorful corporate brand has been finalized for greater visibility and brand recognition. By the end of 2003, branding will be standardized throughout the bank in all areas. The brand heralds the change at NBP, coinciding with the launching of new products, modern IT and high standards of customer service.

In a very challenging environment, the bank started consumer financing for the first time and continues to increase its portfolio. This growth was made possible by focusing on our strengths, customer base of over 10 million, extensive branch network and delivery capabilities. It is heartening that we have lent to over 125,000 customers in retail products in a short period of six months. The bank introduced two new products "NBP advance salary" and "Ghar Ghar TV" while two existing products have been revamped. All new products are systems driven. The existing products are being subject to systems for similar results.

We have launched "NBP Saiban" recently, a housing finance product for home purchase, construction and improvement. We endeavor to provide impetus to housing for all in the country. This should significantly contribute to micro economic development as housing drives more than 40 segments of the economy. Like "NBP Advance Salary" this product too targets middle and lower middle class, while being accessible to all. Many additional new products are on the anvil. They will generate economic activity by providing up front investment against future cash flows of individuals and non-corporate businesses. NBP retail targets more than one million customers in the next 3 to 4 years. The aim is to generate 50% of the bank's revenue from fee based, asset and liability products.

We believe that non-performing loans can contribute substantially in the bank's profitability with focused efforts. We have re-organized special assets management group with focus on settlement of loans instead of litigation. Due to vigorous recovery efforts, non-performing portfolio decreased by Rs. 2.4 billion in the first half of the year.

The bank is in process of re-activating its subsidiaries to meet the increasing needs for non-banking financial activities. A wholly owned Exchange Company was incorporated in February 2003 consistent with the bank's objective of becoming a universal bank.



Your bank is witnessing major developments in the field of technology. For facilitating the customers in round the clock payment of utility bills, around 100 kiosks are being established in the important cities. In addition, branches covering 80% business are being converted into fully automated on real time basis.

Financial Performance

Despite the lower interest rate environment, NBP increased its pre-tax profit to Rs. 3,518 million from Rs. 2,288 million in the corresponding period of last year an increase of 53%. Earnings per share jumped to Rs. 4.71 from Rs. 2.76 during the same period of last year. The bank increased its net interest margin by Rs. 997 million. Non-mark up income showed significant improvement and was up by 36% over last year. The bank continued its policy of strengthening its balance sheet by making provision against non-performing advances and made an additional provision of Rs. 876 million by discounting the forced sale values of mortgaged assets by 10% keeping in view the draft Prudential Regulations issued by SBP. Cash provision to non-performing loans improved to 64.3 % from 58.4% at the year-end. Despite substantial reduction in commodity borrowings by Rs. 15 billion and repayment of some large public sector loans, the bank in an extremely competitive market booked fresh loans of Rs. 13 billion mainly in top tier corporate which partially compensates the reduction as net advances decreased by Rs.8 billion. However, the dramatic drop in the treasury bills' rate as well as the very appreciable reduction in the loan pricing, will have a negative impact on the net interest revenue in the next six months.

The bank achieved a number of recognitions in the quarter. The bank was declared "Number 1 in Asia" and "World's 8th bank" in terms of Return on Capital by "The Banker", London, a feat never achieved by any Pakistani bank. The bank was awarded " Among the Top Banks in Emerging Markets" by Global Finance, USA. These are in addition to the bank's award of "Bank of the year in Pakistan" by "The Banker" London for two consecutive years.

These results could not have been made possible without the commitment and dedication of our staff. We would like to express our appreciation to all our stakeholders for their continued confidence in the bank. We will InshaAllah endeavor to meet the challenges of future and maintain our position as Pakistan's premier banking institution.

On behalf of Board of Directors

S. Ali Raza
Chairman & President

Date: September 13, 2003



AUDITORS' REVIEW REPORT TO THE MEMBERS

We have reviewed the balance sheet of National Bank of Pakistan as at June 30, 2003 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 Auditing applicable to review engagements. 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 provide 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 accompanying financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

The figures of profit and loss account of the bank on quarterly basis along with related corresponding figures were not subject to review.

M. Yousuf Adil Saleem & Co.
Chartered Accountants
Karachi

Taseer Hadi Khalid & Co.
Chartered Accountants
Karachi

Date: September 13, 2003



BALANCE SHEET – (Unaudited)

As at June 30, 2003

| | Note | June 30, 2003 | December 31, 2002 |
|---|------|-------------------|----------------------|
| (Rupees in '000) | | | |
| ASSETS | | | |
| Cash and balances with treasury banks | | 73,534,586 | 55,531,453 |
| Balances with other banks | | 23,972,938 | 35,878,101 |
| Lendings to financial institutions | | 33,019,923 | 21,716,802 |
| Investments | 5 | 153,630,915 | 143,524,971 |
| Advances | 6 | 131,696,867 | 140,547,374 |
| Other assets | | 24,047,814 | 27,489,021 |
| Operating fixed assets | 7 | 8,275,624 | 8,115,131 |
| | | 448,178,667 | 432,802,853 |
| LIABILITIES | | | |
| Bills payable | | 3,825,459 | 3,365,744 |
| Borrowings from financial institutions | | 6,162,266 | 10,032,135 |
| Deposits and other accounts | 8 | 383,235,949 | 362,865,637 |
| Liabilities against assets subject to finance lease | | 53,228 | 74,051 |
| Other liabilities | | 26,136,420 | 29,682,837 |
| Deferred tax liabilities | | 2,645,710 | 2,846,186 |
| | | 422,059,032 | 408,866,590 |
| NET ASSETS | | 26,119,635 | 23,936,263 |
| REPRESENTED BY | | | |
| Share capital | | 4,103,422 | 3,730,384 |
| Reserves | | 7,036,492 | 7,144,326 |
| Unappropriated profit | | 5,166,503 | 3,404,593 |
| | | 16,306,417 | 14,279,303 |
| Surplus on revaluation of assets | 9 | 9,813,218 | 9,656,960 |
| | | 26,119,635 | 23,936,263 |
| CONTINGENCIES AND COMMITMENTS | 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

Muhammad Arshad Chaudhry
Director

Zubair Motiwala
Director



PROFIT AND LOSS ACCOUNT – (Unaudited)

For the six months period ended June 30, 2003

| Note | Quarter ended April- June, 03 | April- June, 02 | Six months ended June 30, 2003 | Six months ended June 30, 2002 |
|--|-------------------------------------|--------------------|--------------------------------------|--------------------------------------|
| (Rupees in '000) | | | | |
| Mark-up/ return/ interest earned | 5,632,512 | 6,019,319 | 10,681,695 | 12,967,485 |
| Mark-up/ return/ interest expensed | 1,865,168 | 3,218,226 | 4,529,424 | 7,811,939 |
| Net mark-up/ interest income | 3,767,344 | 2,801,093 | 6,152,271 | 5,155,546 |
| Provision against non-performing loans and advances | 680,000 | 674,003 | 1,080,000 | 980,000 |
| Provision/ (Reversal) against investment | 50,000 | (91,029) | 50,000 | (91,029) |
| Bad debts written off directly | – | 40 | – | 40 |
| | 730,000 | 583,014 | 1,130,000 | 889,011 |
| Net mark-up/ interest income after provisions | 3,037,344 | 2,218,079 | 5,022,271 | 4,266,535 |
| NON MARK-UP/ INTEREST INCOME | | | | |
| Fee, commission and brokerage income | 1,052,534 | 904,866 | 1,622,106 | 1,408,928 |
| Dividend income | 174,581 | 116,005 | 185,680 | 121,414 |
| Income from dealing in foreign currencies | 178,486 | 150,996 | 424,062 | 362,571 |
| Share of income of joint venture | 26,540 | – | 30,000 | – |
| Other income including capital gain | 410,912 | 173,731 | 724,146 | 300,790 |
| Total non mark-up/ interest income | 1,843,053 | 1,345,598 | 2,985,994 | 2,193,703 |
| | 4,880,397 | 3,563,677 | 8,008,265 | 6,460,238 |
| NON MARK-UP/ INTEREST EXPENSES | | | | |
| Administrative expenses | 2,282,639 | 2,025,568 | 4,298,964 | 3,850,832 |
| Share of loss of joint venture | – | 22,500 | – | 20,000 |
| Other charges | 4,837 | – | 5,954 | – |
| Total non mark-up/ interest expenses | 2,287,476 | 2,048,068 | 4,304,918 | 3,870,832 |
| | 2,592,921 | 1,515,609 | 3,703,347 | 2,589,406 |
| Amortization of deferred cost | – | (90,475) | – | (180,950) |
| | 2,592,921 | 1,425,134 | 3,703,347 | 2,408,456 |
| Staff Welfare Fund | 129,647 | 71,257 | 185,168 | 120,423 |
| PROFIT BEFORE TAXATION | 2,463,274 | 1,353,877 | 3,518,179 | 2,288,033 |
| Taxation - Current | (1,100,000) | (511,312) | (1,600,000) | (1,010,000) |
| - Prior years | – | – | – | – |
| - Deferred | 6,446 | – | 12,893 | (147,331) |
| | (1,093,554) | (511,312) | (1,587,107) | (1,157,331) |
| PROFIT AFTER TAXATION | 1,369,720 | 842,565 | 1,931,072 | 1,130,702 |
| Unappropriated profit brought forward | 3,921,782 | 1,011,549 | 3,404,593 | 752,226 |
| Transfer from surplus on revaluation of fixed assets | 11,973 | – | 23,945 | – |
| Profit available for appropriation | 5,303,475 | 1,854,114 | 5,359,610 | 1,882,928 |
| APPROPRIATIONS | | | | |
| Transfer to: | | | | |
| - Statutory reserve | (136,972) | (84,256) | (193,107) | (113,070) |
| - Capital reserve | – | – | – | – |
| - Revenue reserve | – | – | – | – |
| | (136,972) | (84,256) | (193,107) | (113,070) |
| Unappropriated profit carried forward | 5,166,503 | 1,769,858 | 5,166,503 | 1,769,858 |
| Basic/ diluted earnings per share (Rupees) | 3.34 | 2.05 | 4.71 | 2.76 |

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

S. Ali Raza
Chairman & President

Dr. Waqar Masood Khan
Director

Muhammad Arshad Chaudhry
Director

Zubair Motiwala
Director



CASH FLOW STATEMENT– (Unaudited)

For the six months period ended June 30, 2003

| | June 30, 2003 | June 30, 2002 |
|--|------------------|------------------|
| | (Rupees in '000) | |
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Profit before taxation | 3,518,179 | 2,288,033 |
| Less: Dividend income | 185,680 | 121,414 |
| | 3,332,499 | 2,166,619 |
| Adjustments for non-cash charges | | |
| Depreciation | 210,423 | 216,673 |
| Amortization | — | 180,950 |
| Provision against non-performing advances | 1,080,000 | 980,000 |
| Provision/ (Reversal) for diminution in the value of investments/ other assets | 50,000 | (91,029) |
| (Gain) on sale of fixed assets | (3,254) | (8,185) |
| Financial charges on leased assets | 4,118 | 3,140 |
| Share of (profit)/ loss of joint venture | (30,000) | 20,000 |
| | 1,311,287 | 1,301,549 |
| | 4,643,786 | 3,468,168 |
| (Increase)/ decrease in operating assets | | |
| Lendings to financial institutions | (11,078,121) | (9,160,233) |
| Held-for-trading securities | (53,213) | (116,293) |
| Advances | 7,770,507 | 22,720,412 |
| Others assets (excluding advance taxation) | 3,598,064 | (384,809) |
| | 237,237 | 13,059,077 |
| Increase/ (decrease) in operating liabilities | | |
| Bills payable | 459,715 | 285,308 |
| Borrowings from financial institutions | (3,869,869) | 2,378,640 |
| Deposits | 20,370,312 | (4,561,124) |
| Other liabilities (excluding current taxation) | (3,084,296) | (2,012,274) |
| | 13,875,862 | (3,909,450) |
| Special Separation / voluntary handshake scheme costs paid | (3,779) | (5,713,294) |
| Financial charges paid | (4,118) | (3,140) |
| Income tax (paid) / received | (1,756,856) | 2,832,418 |
| | (1,764,753) | (2,884,016) |
| Net cash flow from operating activities | 16,992,132 | 9,733,779 |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Net investment in available-for-sale securities | (5,598,446) | (21,165,366) |
| Net investment in held-to-maturity securities | (4,159,119) | (4,832,355) |
| Investment in subsidiaries , associates and joint venture | (322,546) | (26,456) |
| Dividend income | 185,680 | 121,414 |
| Investment in operating fixed assets | (370,916) | (300,774) |
| Sale proceeds of property and equipment disposed-off | 3,254 | 8,185 |
| Net cash (used in) investing activities | (10,262,093) | (26,195,352) |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Payments of lease obligations | (20,823) | (2,114) |
| Dividend paid | (458,342) | — |
| Net cash (used in) financing activities | (479,165) | (2,114) |
| Effects of exchange rate changes on cash and cash equivalents | 72,097 | 28,239 |
| Increase/ (decrease) in cash and cash equivalents | 6,322,971 | (16,435,448) |
| Cash and cash equivalents at Jan 1 | 94,313,554 | 116,729,040 |
| Cash and cash equivalents at June 30 | 100,636,525 | 100,293,592 |

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

S. Ali Raza
Chairman & President

Dr. Waqar Masood Khan
Director

Muhammad Arshad Chaudhry
Director

Zubair Motiwala
Director



STATEMENT OF CHANGES IN EQUITY – (Unaudited)

For the six months period ended June 30, 2003

| | Share Capital | Exchange Equalization | Reserve for Issue of Bonus Shares | Statutory Reserve | General Reserve | Unappropriated Profit | Total |
|---|------------------|--------------------------|---|----------------------|--------------------|--------------------------|-------------------|
| | (Rupees in '000) | | | | | | |
| Balance as at January 1, 2002 | 3,730,384 | 3,109,488 | – | 3,845,237 | 521,338 | 752,226 | 11,958,673 |
| Profit after taxation for six months period ended June 30, 2002 | – | – | – | – | – | 1,130,702 | 1,130,702 |
| Transfer to statutory reserve | – | – | – | 113,070 | – | (113,070) | – |
| Exchange adjustments on revaluation of capital of foreign branches | – | 28,239 | – | – | – | – | 28,239 |
| Deferred tax liability on exchange equalization reserve | – | (1,098,204) | – | – | – | – | (1,098,204) |
| Balance as at June 30, 2002 | <u>3,730,384</u> | <u>2,039,523</u> | <u>–</u> | <u>3,958,307</u> | <u>521,338</u> | <u>1,769,858</u> | <u>12,019,410</u> |
| Balance as at January 1, 2003 | 3,730,384 | 2,179,374 | 373,038 | 4,070,576 | 521,338 | 3,404,593 | 14,279,303 |
| Profit after taxation for six months period ended June 30, 2003 | – | – | – | – | – | 1,931,072 | 1,931,072 |
| Transfer to statutory reserve | – | – | – | 193,107 | – | (193,107) | – |
| Bonus shares issued | 373,038 | – | (373,038) | – | – | – | – |
| Exchange adjustment on revaluation of capital of foreign branches- net of deferred tax | – | 72,097 | – | – | – | – | 72,097 |
| Transfer from surplus on revaluation of fixed assets- incremental depreciation- net of tax | – | – | – | – | – | 23,945 | 23,945 |
| Balance as at June 30, 2003 | <u>4,103,422</u> | <u>2,251,471</u> | <u>–</u> | <u>4,263,683</u> | <u>521,338</u> | <u>5,166,503</u> | <u>16,306,417</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

Muhammad Arshad Chaudhry
Director

Zubair Motiwala
Director



NOTES TO THE FINANCIAL STATEMENTS – (Unaudited)

For the six months period ended June 30, 2003

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 commercial banking and related services in Pakistan and overseas. The bank also handles treasury transactions for the Government of Pakistan (GoP) as agent to the State Bank of Pakistan (SBP). 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. 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 accounts of the bank for the year ended December 31, 2002.

These accounts are unaudited and are reviewed by auditors as required by Code of Corporate Governance. These financial statements are circulated to the shareholders as required by section 245 of the Companies Ordinance, 1984.

These accounts are being presented in condensed form and comply with the requirements of International Accounting Standard 34 "Interim Financial Reporting."

3. CONSOLIDATION

The bank accounts for its investments in subsidiaries and associates at cost. The bank considers that the effect of consolidation of subsidiaries' financial statements will not have any material impact on bank's financial position or results and accordingly consolidated financial statements have not been prepared.

4. RELATED PARTY TRANSACTIONS

The bank is in process of developing appropriate policy for transactions with related parties and will be disclosed in annual accounts for the year ending December 31, 2003.



5. INVESTMENTS

5.1 Investments by type

| | June 30, 2003 | | | December 31, 2002 | | |
|--|---------------|---------------------|-------------|-------------------|---------------------|-------------|
| | Held by bank | Given as collateral | Total | Held by bank | Given as collateral | Total |
| (Rupees in '000) | | | | | | |
| Held-for-trading securities | | | | | | |
| Ordinary shares of listed companies | 167,387 | – | 167,387 | 114,174 | – | 114,174 |
| Available-for-sale securities | | | | | | |
| Ordinary shares of listed companies | 5,098,172 | – | 5,098,172 | 4,933,255 | – | 4,933,255 |
| Ordinary shares of unlisted companies | 678,947 | – | 678,947 | 678,947 | – | 678,947 |
| Treasury bills | 80,283,645 | 980,360 | 81,264,005 | 73,351,866 | 3,760,383 | 77,112,249 |
| Preference shares - unlisted | 50,000 | – | 50,000 | 50,000 | – | 50,000 |
| Pakistan investment bonds | 13,401,534 | – | 13,401,534 | 9,588,447 | – | 9,588,447 |
| Federal investment bonds | 5,830,582 | 2,455,000 | 8,285,582 | 8,383,979 | 2,455,000 | 10,838,979 |
| National Investment Trust units | 4,886,555 | – | 4,886,555 | 4,871,853 | – | 4,871,853 |
| Held-to-maturity securities | | | | | | |
| Government compensation bonds | 2,767,667 | – | 2,767,667 | 2,912,119 | – | 2,912,119 |
| Provincial government securities | 222,672 | – | 222,672 | 312,869 | – | 312,869 |
| Foreign currency bonds | 8,583,078 | – | 8,583,078 | 8,523,788 | – | 8,523,788 |
| Foreign government securities | 1,939,264 | – | 1,939,264 | 1,231,894 | – | 1,231,894 |
| TFCs, Debentures, Bonds and PTCs | 23,955,979 | – | 23,955,979 | 20,318,869 | – | 20,318,869 |
| Promissory notes | – | – | – | 10,000 | – | 10,000 |
| Investments outside Pakistan | 544,451 | – | 544,451 | 544,453 | – | 544,453 |
| Certificates of investment | 70,000 | – | 70,000 | 70,000 | – | 70,000 |
| Associates | 730,044 | – | 730,044 | 730,044 | – | 730,044 |
| Joint venture | 1,323,300 | – | 1,323,300 | 1,267,267 | – | 1,267,267 |
| Subsidiaries | 1,337,665 | – | 1,337,665 | 1,041,152 | – | 1,041,152 |
| | 151,870,942 | 3,435,360 | 155,306,302 | 138,934,976 | 6,215,383 | 145,150,359 |
| Less: Provision for diminution in value of investments | 1,675,387 | – | 1,675,387 | 1,625,388 | – | 1,625,388 |
| | 150,195,555 | 3,435,360 | 153,630,915 | 137,309,588 | 6,215,383 | 143,524,971 |



| | June 30, 2003 | December 31, 2002 |
|---|------------------|----------------------|
| | (Rupees in '000) | |
| 5.2 Investments by segment | | |
| Federal government securities | | |
| - Treasury bills | 81,264,005 | 77,112,249 |
| - Pakistan investment bonds | 13,401,534 | 9,588,447 |
| - Federal investment bonds | 8,285,582 | 10,838,979 |
| - Government compensation bonds | 2,767,667 | 2,912,119 |
| - Foreign currency bonds | 8,583,078 | 8,523,788 |
| | 114,301,866 | 108,975,582 |
| Provincial government securities | 222,672 | 312,869 |
| Foreign government securities | 1,939,264 | 1,231,894 |
| Fully paid up ordinary shares | | |
| - Listed companies | 5,265,559 | 5,047,429 |
| - Unlisted companies | 678,947 | 678,947 |
| Investment in associates | 730,044 | 730,044 |
| Investment in joint venture | 1,323,300 | 1,267,267 |
| Investment in subsidiaries | 1,337,665 | 1,041,152 |
| Term finance certificates, debentures, bonds and participation term certificates | | |
| - Listed | 332,631 | 342,677 |
| - Unlisted | 23,623,348 | 19,976,192 |
| Other investments | | |
| - National Investment Trust units | 4,886,555 | 4,871,853 |
| - Preference shares | 50,000 | 50,000 |
| - Promissory notes | - | 10,000 |
| - Certificates of Investment | 70,000 | 70,000 |
| - Investments outside Pakistan | 544,451 | 544,453 |
| | 155,306,302 | 145,150,359 |
| Less: Provision for diminution in value of investments | 1,675,387 | 1,625,388 |
| | 153,630,915 | 143,524,971 |
| 6. ADVANCES | | |
| Loans, cash credits, running finances, etc. | | |
| - In Pakistan | 122,180,284 | 134,650,742 |
| - Outside Pakistan | 25,549,723 | 23,097,928 |
| | 147,730,007 | 157,748,670 |
| Bills discounted and purchased (excluding treasury bills) | | |
| - Payable in Pakistan | 3,933,820 | 1,997,874 |
| - Payable outside Pakistan | 6,641,490 | 6,335,639 |
| | 10,575,310 | 8,333,513 |
| | 158,305,317 | 166,082,183 |
| Less: Provision against non-performing advances | 26,608,450 | 25,534,809 |
| | 131,696,867 | 140,547,374 |

6.1 Advances include Rs. 41,378 million (2002: Rs. 43,706 million) which have been placed under non-performing status.



- 6.2 In addition to the provision against advances determined on the basis of Prudential Regulations, the Bank has also made an additional provision of Rs. 876 million by discounting the forced sale values of mortgaged assets by 10% keeping in view the draft Prudential Regulations issued by SBP.

| | June 30, 2003 | December 31, 2002 |
|--|--------------------|----------------------|
| | (Rupees in '000) | |
| 7. OPERATING FIXED ASSETS | | |
| Capital work-in-progress | 129,910 | 122,770 |
| Property and equipment | 8,145,714 | 7,992,361 |
| | <u>8,275,624</u> | <u>8,115,131</u> |
| 8. DEPOSITS AND OTHER ACCOUNTS | | |
| Customers | | |
| Fixed deposits | 71,630,483 | 69,284,431 |
| Saving deposits | 132,799,555 | 117,599,198 |
| Current accounts - remunerative | 57,554,261 | 48,388,556 |
| Current accounts - non-remunerative | 69,774,607 | 60,496,102 |
| | <u>331,758,906</u> | <u>295,768,287</u> |
| Financial institutions | | |
| Remunerative deposits | 40,012,373 | 57,039,648 |
| Non-remunerative deposits | 11,464,670 | 10,057,702 |
| | <u>51,477,043</u> | <u>67,097,350</u> |
| | <u>383,235,949</u> | <u>362,865,637</u> |
| 9. SURPLUS ON REVALUATION OF ASSETS | | |
| Surplus on revaluation of fixed assets | 4,975,680 | 4,999,624 |
| Surplus/ (deficit) on revaluation of securities | | |
| i) Federal Government securities (net of deferred tax liability) | 2,136,042 | 2,470,310 |
| ii) Quoted shares | 2,701,496 | 2,187,026 |
| | <u>4,837,538</u> | <u>4,657,336</u> |
| | <u>9,813,218</u> | <u>9,656,960</u> |
| 10. CONTINGENCIES AND COMMITMENTS | | |
| 10.1 Direct credit substitutes | | |
| Guarantees in favour of banks, financial institutions and others | 17,659,310 | 13,688,610 |
| 10.2 Transaction-related contingent liabilities | | |
| Performance bonds, bid bonds, warranties etc. | 14,337,711 | 13,768,019 |
| 10.3 Trade-related contingent liabilities | | |
| Letters of credit including acceptances | 46,922,089 | 58,761,651 |
| 10.4 Commitments in respect of forward exchange contracts | | |
| Purchase | 14,882,184 | 32,137,277 |
| Sale | 7,962,581 | 12,921,707 |
| 10.5 Other commitments | | |
| Commitment to subscribe in the units of South Asia Regional Fund (SARF). | 79,359 | 79,359 |



10.6. Other Contingencies

10.6.1 Taxation

The income tax assessments of the bank have been finalized upto assessment year 2002-2003. The matter of taxing interest credited to suspense account and disallowances of provisions against advances are pending with the appellate authorities and in the Court of Law. Net tax effect of the above matter comes to Rs. 4,177 million.

The assessing officer disallowed the cost of employees' special separation package, the tax effect of which comes to Rs. 4,973 million. Bank's appeal is pending at ITAT level.

No provision has been made in these accounts for the above as the management, based on the opinion of tax lawyers and consultants, consider 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.

10.6.2 In 1977, in accordance with the GoP policy, the bank's employees benefits were changed from the Provident Fund towards 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, which necessitated huge additional cost for the bank in terms of enhanced contribution to the Pension Fund and also to provide for these benefits with retrospective effect. As per this arrangement, and the policy decision of the bank under the supervision of the Banking Council and the Finance Division, 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. However, this was not done.

Subsequently, three employees filed a writ petition in 1980 before a Single Bench of Lahore High Court. 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. The bank, adopting a prudent and cautious policy still did not transfer this amount, as one employee filed an appeal in the Supreme Court against the judgment of the Lahore High Court. Supreme Court announced its judgment accepting the appeal. The bank has also filed a review petition in the Supreme Court of Pakistan. Based on legal advice obtained on the judgement of Supreme Court, the bank is of the view that interest on the amounts deposited in the accounts of employees would accrue upto the date of abolition of the scheme which will also be the date of payment/ refund of the amount lying to the credit of the employees on that date. After abolition of the scheme there did not exist any contract or the provision under the scheme to pay interest on the said accounts.

11. Other income includes Rs. 681 million (2002: Rs. 266 million) on account of capital gain on sale of securities.



12. SEGMENT BY CLASS OF BUSINESS

| | Advances | | Deposits | |
|----------------------|--------------------|---------------|--------------------|---------------|
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Textile | 18,121,488 | 13.76 | 724,216 | 0.19 |
| Financial | 2,633,937 | 2.00 | 42,994,846 | 11.22 |
| Commodity operations | 14,391,088 | 10.93 | 16,908,245 | 4.41 |
| Others | 96,550,354 | 73.31 | 322,608,642 | 84.18 |
| | <u>131,696,867</u> | <u>100.00</u> | <u>383,235,949</u> | <u>100.00</u> |

Segment by sector

| | Advances | | Deposits | |
|---------------------|--------------------|---------------|--------------------|---------------|
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Public / Government | 52,407,358 | 39.79 | 143,815,185 | 37.53 |
| Private | 79,289,509 | 60.21 | 239,420,764 | 62.47 |
| | <u>131,696,867</u> | <u>100.00</u> | <u>383,235,949</u> | <u>100.00</u> |

13. GEOGRAPHICAL SEGMENT ANALYSIS

| | Profit/(loss) before taxation | Total assets employed | Net assets employed |
|-------------------------------------|-------------------------------------|--------------------------|------------------------|
| | (Rupees '000) | (Rupees '000) | (Rupees '000) |
| Pakistan | 2,914,470 | 355,004,160 | 20,512,088 |
| Asia Pacific (including South Asia) | 99,582 | 15,568,367 | 2,452,630 |
| Europe | (16,236) | 3,913,776 | 1,062,605 |
| United States of America and Canada | 148,540 | 9,926,232 | 1,159,822 |
| Middle East | 366,364 | 63,217,019 | 57,814 |
| Others | <u>5,459</u> | <u>549,113</u> | <u>874,676</u> |
| | <u>3,518,179</u> | <u>448,178,667</u> | <u>26,119,635</u> |
| | | June 30, 2003 | December 31, 2002 |
| | | (Rupees in '000) | |

14. RELATED PARTY TRANSACTIONS

| | | |
|--|-----------|-----------|
| Balances with related parties at the period/ year end | 2,244,748 | 2,645,437 |
| Loan recovered during the period/ year | 272,094 | 70,124 |
| Placement with related party at the period/ year end | 100,000 | — |
| Interest/ Mark-up earned on advances during the period/ year | 20,703 | 48,305 |
| Deposits at the period/ year end | 7,157,395 | 7,975,078 |
| Interest paid during the period/ year | 384,442 | 724,990 |
| Dividend received during the period/ year | — | 30,000 |
| Contribution to the Pension Fund during the period/ year | 162,270 | 265,596 |



15. GENERAL

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

15.2 These financial statements were authorised for issue in Board of Directors' meeting held on September 13, 2003.

S. Ali Raza
Chairman & President

Dr. Waqar Masood Khan
Director

Muhammad Arshad Chaudhry
Director

Zubair Motiwala
Director