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Corporate Information

Board of Directors

Syed Ali Raza Chairman & President
Dr. Waqar Masood Khan
Sikandar Hayat Jamali
Azam Faruque
Ibrar A. Mumtaz
Mian Kausar Hameed

Audit Committee

Azam Faruque
Sikandar Hayat Jamali

Auditors

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants
M. Yousuf Adil Saleem & Co.
Chartered Accountants

Legal Advisors

Mandviwala & Zafar
Advocates & Legal Consultants

Registered & Head Office

NBP Building
I. I. Chundrigar Road, Karachi, Pakistan.

Registrar's & Share Registration Office

THK Associates (Pvt.) Ltd.
Shares Department, Ground Floor,
State Life Building # 3,
Dr. Ziauddin Ahmed Road,
Karachi, Pakistan.

Directors' Report

It gives me great pleasure to present on behalf of the Board of Directors the quarterly accounts for the three months period ended March 31, 2007. The Profit for the three months period ended March 31, 2007 after carry over of accumulated profit of 2006 is proposed to be appropriated as follows: -

	Rs. in million
Net Profit before taxation for the quarter ended March 31, 2007	6,682
Taxation	
-Current year	2,490
-Deferred	(137)
	<u>2,353</u>
After tax profit	4,329
Unappropriated profit brought forward	32,075
Transfer from surplus on revaluation of fixed assets – incremental depreciation-net of deferred tax	10
Profit available for appropriation	<u>36,414</u>
<u>Appropriations</u>	
Transfer to Statutory Reserve (10% of after tax profit)	(433)
	<u>(433)</u>
Unappropriated profit carried forward	<u>35,981</u>

Pre tax profit increased to Rs. 6,682 million from Rs. 5,567 million in the corresponding period of last year, an increase of 20%. Diluted earning per share jumped to Rs. 5.31 from Rs. 4.43 during the same period of last quarter. Return on assets improved to 4.2% up from 3.7% of comparative period last year. Bank's core earnings (excluding capital gains) improved by 17% over 2006 on the back of higher business growth. Net interest margin registered impressive growth of Rs. 1,329 million or 20%. Net advances increased by Rs. 36 billion as compared to corresponding period of last year. Advances, however, decreased by Rs. 9 billion from the year end due to adjustment of seasonal financing. Deposits show impressive growth of Rs. 47 billion from the corresponding period last year.

In the quarter under review the bank has launched "Premium saver Account" (PLS Saving Account) and Premium Amdani Certificate (Monthly Income Scheme Account) offering attractive rates to small depositors. In the last quarter of 2006 NBP launched "NBP Karaobar" under the "President's Rozgar" scheme for increasing outreach in un-banked market segment. This product is broadly aimed to benefit the overall economy by employment creation on fast track and sustainable basis.

Moodys Investor Services upgraded bank's Financial Strength Rating to D from D-. It assigned Global Local Currency Deposit Ratings of Baa2/Prime-3. The Foreign Currency Deposit Ratings remain unchanged at B2/NP.

We extend our appreciation to the bank's staff for their commitment, dedication and hard work in achieving these excellent results. We would like to express our appreciation to our stakeholders, regulators and our valued customers for their support and continued confidence in NBP.

On behalf of the Board of Directors

S. Ali Raza
Chairman & President

Date: April 28, 2007

National Bank of Pakistan Balance Sheet - (Unaudited)

As at March 31, 2007

	Note	March 31, 2007	December 31, 2006
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks		70,286,851	78,625,227
Balances with other banks		51,928,821	40,641,679
Lendings to financial institutions		21,244,626	23,012,732
Investments	5	144,895,672	139,946,995
Advances	6	306,868,113	316,110,406
Operating fixed assets		9,817,898	9,681,974
Deferred tax assets		-	-
Other assets		28,701,669	27,113,698
		633,743,650	635,132,711
LIABILITIES			
Bills payable		4,238,960	10,605,663
Borrowings from financial institutions		11,769,573	11,704,079
Deposits and other accounts	7	504,458,713	501,872,243
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		17,608	13,235
Other liabilities		24,279,393	26,596,300
Deferred tax liabilities		1,985,599	2,387,073
		546,749,846	553,178,593
NET ASSETS		86,993,804	81,954,118
REPRESENTED BY			
Share capital		7,090,712	7,090,712
Reserves		14,309,270	13,879,260
Unappropriated profit		35,980,657	32,074,677
		57,380,639	53,044,649
Surplus on revaluation of assets	8	29,613,165	28,909,469
		86,993,804	81,954,118
Contingencies and commitments	9		

The annexed notes 1 to 14 form an integral part of these financial statements.

**National Bank of Pakistan
Profit And Loss Account - (Unaudited)**

For The Three Months Period Ended March 31, 2007

	March 31, 2007	March 31, 2006 (Restated)
Note	Rupees in '000	
Mark-up/return/interest earned	11,562,897	9,636,732
Mark-up/return/interest expensed	3,448,320	2,851,289
Net mark-up/interest income	<u>8,114,577</u>	<u>6,785,443</u>
Provision against non-performing advances	(367,761)	200,000
Provision for diminution in the value of investments	-	-
Provision against off balance sheet obligations	-	-
Bad debts written off directly	-	2,347
	<u>(367,761)</u>	<u>202,347</u>
Net mark-up/interest income after provisions	<u>8,482,338</u>	<u>6,583,096</u>
NON MARK-UP/INTEREST INCOME		
Fee, commission and brokerage income	1,203,726	1,171,659
Dividend income	69,301	96,240
Gain on sale of securities	87,319	453,934
Unrealized loss on revaluation of investment classified as held for trading	(49,736)	(1,292)
Income from dealing in foreign currencies	236,621	207,145
Other income	22,844	24,232
Total non mark-up/interest income	<u>1,570,075</u>	<u>1,951,918</u>
	<u>10,052,413</u>	<u>8,535,014</u>
NON MARK-UP/INTEREST EXPENSES		
Administrative expenses	3,354,194	2,968,026
Other provisions/write offs	9,178	-
Other charges	7,307	-
Total non mark-up/interest expenses	<u>3,370,679</u>	<u>2,968,026</u>
	<u>6,681,734</u>	<u>5,566,988</u>
Extra ordinary items	-	-
Profit before tax	<u>6,681,734</u>	<u>5,566,988</u>
Taxation - Current	2,490,000	2,020,000
- Prior year(s)	-	-
- Deferred	(137,408)	(64,569)
	<u>2,352,592</u>	<u>1,955,431</u>
Profit after tax	<u>4,329,142</u>	<u>3,611,557</u>
Unappropriated profit brought forward	32,074,677	19,011,367
Transfer from surplus on revaluation of fixed assets	9,752	10,265
	<u>32,084,429</u>	<u>19,021,632</u>
Profit available for appropriation	<u>36,413,571</u>	<u>22,633,189</u>
Basic earnings per share (Rupees)	<u>6.11</u>	<u>5.09</u>
Diluted earnings per share (Rupees)	<u>5.31</u>	<u>4.43</u>

The annexed notes 1 to 14 form an integral part of these financial statements.

Syed Ali Raza
Chairman & President

Dr. Waqar Masood Khan
Director

Sikandar Hayat Jamali
Director

Azam Faruque
Director

National Bank of Pakistan Cash Flow Statement - Unaudited

For The Three Months Period Ended March 31, 2007

	Three months period ended March 31, 2007	Three months period ended March 31, 2006
	Rupees in ' 000	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	6,681,734	5,566,988
Less: Dividend income	69,301	96,240
	6,612,433	5,470,748
Adjustments for non-cash charges		
Depreciation	115,564	142,952
Provision against non-performing advances	(367,761)	200,000
Provision for diminution in the value of investments	-	-
Other provision/write off	9,178	-
Gain on sale of fixed assets	(305)	(421)
Financial charges on leased assets	1,120	536
	(242,204)	343,067
	6,370,229	5,813,815
(Increase)/decrease in operating assets		
Lendings to financial institutions	1,768,106	(6,901,026)
Held-for-trading securities	126,699	43,953
Advances	9,610,054	(2,348,020)
Other assets	(2,248,960)	(1,357,531)
	9,255,899	(10,562,624)
Increase/(decrease) in operating liabilities		
Bills payable	(6,366,703)	1,997,397
Borrowing from financial institutions	65,494	147,604
Deposits	2,586,470	(6,189,504)
Other liabilities	(2,316,807)	(3,755,117)
	(6,031,646)	(7,799,620)
Income tax paid	(2,013,307)	(991,142)
Special separation package cost paid	-	-
Financial charges paid	(1,120)	(536)
	(2,014,427)	(991,678)
	7,580,055	(13,540,107)
Net cash (used) in operating activities		
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	(6,109,013)	2,142,019
Net investments in held-to-maturity securities	1,470,572	(1,507,989)
Dividend received	69,301	96,240
Investments in operating fixed assets	(251,488)	(263,803)
Investments in subsidiaries, associates and joint venture	20,144	-
Sale proceeds of property and equipment disposed off	305	421
Net cash flow from investing activities	(4,800,179)	466,888
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid	-	-
Payments of lease obligations	(2,429)	(959)
Net cash (used) in financing activities	(2,429)	(959)
Effects of exchange rate changes on cash and cash equivalents	(2,904)	69,868
Increase/(decrease) in cash and cash equivalents	2,774,543	(13,004,310)
Cash and cash equivalents at the beginning of quarter	118,813,121	101,583,535
Cash and cash equivalents at the end of quarter	121,587,664	88,579,225

The annexed notes 1 to 14 form an integral part of these financial statements.

National Bank of Pakistan Statement Of Changes In Equity - (Unaudited)

For The Three Months Period Ended March 31, 2007

	Share capital	Reserves			General reserve	Unappropriated profit	Total
		Exchange equalisation	Issue of bonus shares	Statutory reserve (Rupees in '000)			
Balance as at January 1, 2006 as previously reported	5,908,927	3,552,056	1,181,785	8,280,862	521,338	16,713,506	36,158,474
Transfer to reserve for issue of bonus shares	-	-	(1,181,785)	-	-	1,181,785	-
Proposed cash dividend	-	-	-	-	-	1,477,232	1,477,232
	-	-	(1,181,785)	-	-	2,659,017	1,477,232
Balance as at January 1, 2006 (restated)	5,908,927	3,552,056	-	8,280,862	521,338	19,372,523	37,635,706
Exchange adjustments on revaluation of capital of foreign branches	-	69,868	-	-	-	-	69,868
Transfer from surplus on revaluation of fixed assets- incremental depreciation - net of tax	-	-	-	-	-	10,265	10,265
Net income recognised directly in equity	-	69,868	-	-	-	10,265	80,133
Profit after taxation for the three months period ended March 31, 2006	-	-	-	-	-	3,811,557	3,811,557
Total recognised income and expense for the period	-	-	-	-	-	3,811,557	3,811,557
Transfer to statutory reserve	-	-	-	361,168	-	(361,168)	-
Balance as at March 31, 2006 (restated)	5,908,927	3,621,924	-	8,642,018	521,338	22,633,189	41,327,396
Balance as at April 1, 2006	5,908,927	3,621,924	-	8,642,018	521,338	22,633,189	41,327,396
Exchange adjustments on revaluation of capital of foreign branches	-	251,397	-	-	-	-	251,397
Adjustment due to closure of Cairo branch	-	(498,496)	-	-	-	-	(498,496)
Transfer from surplus on revaluation of fixed assets- incremental depreciation - net of tax	-	-	-	-	-	30,795	30,795
Net income recognised directly in equity	-	(247,099)	-	-	-	30,795	(216,304)
Profit after taxation for the nine months ended December 31, 2006	-	-	-	-	-	13,410,789	13,410,789
Total recognised income and expense for the period	-	(247,099)	-	-	-	13,441,584	13,194,485
Issue of bonus shares 20%	1,181,785	-	-	-	-	(1,181,785)	-
Transfer to statutory reserve	-	-	-	1,341,079	-	(1,341,079)	-
Cash dividend (Rs. 2.5 per share)	-	-	-	-	-	(1,477,232)	(1,477,232)
Balance as at December 31, 2006	7,090,712	3,374,825	-	9,983,097	521,338	32,074,677	53,044,649
Balance as at January 1, 2007	7,090,712	3,374,825	-	9,983,097	521,338	32,074,677	53,044,649
Exchange adjustments on revaluation of capital of foreign branches	-	(2,904)	-	-	-	-	(2,904)
Transfer from surplus on revaluation of fixed assets- incremental depreciation - net of tax	-	-	-	-	-	9,752	9,752
Net income recognised directly in equity	-	(2,904)	-	-	-	9,752	6,848
Profit after taxation for the three months period ended March 31, 2007	-	-	-	-	-	4,329,142	4,329,142
Total recognised income and expense for the period	-	-	-	-	-	4,338,894	4,329,142
Transfer to statutory reserve	-	-	-	432,914	-	(432,914)	-
Transfer to reserve for issue of bonus shares	-	-	-	-	-	-	-
Balance as at March 31, 2007	7,090,712	3,371,921	-	10,416,011	521,338	35,980,657	57,380,639

The annexed notes 1 to 14 form an integral part of these financial statements.

Syed Ali Raza
Chairman & President

Dr. Waqar Masood Khan
Director

Sikandar Hayat Jamali
Director

Azam Faruque
Director

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National Bank of Pakistan Notes To The Financial Statements - (Unaudited)

For The Quarter Ended March 31, 2007

1. STATUS AND NATURE OF BUSINESS

National Bank of Pakistan (the bank) was incorporated in Pakistan 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 1,232 (2006: 1,232) branches in Pakistan and 18 (2006: 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

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

The SECP has approved the adoption of International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" and International Accounting Standard 40, "Investment Property". The requirements of these standards have not been taken into account for the purpose of these financial statements as the implementation of the said standards has been deferred by SBP, vide BSD circular number 10 dated August 26, 2002, for banks in Pakistan till further instructions. However, investments have been classified and valued in accordance with the requirements of various circulars issued by SBP.

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention as modified by revaluation of land and buildings and valuation of certain investments and derivative financial instruments at fair value.

The preparation of financial statements in conformity with approved accounting standards and statutory requirements require the use of critical accounting estimates. It also requires management to exercise its judgment in the process of applying accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements.

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, 2006.

5. INVESTMENTS

	March 31, 2007			December 31, 2006		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	Rupees in '000			Rupees in '000		
5.1 Investments by type:						
Held-for-trading securities						
Ordinary shares of listed companies	205,874	-	205,874	332,573	-	332,573
Available-for-sale securities						
Ordinary shares of listed companies	1,816,332	-	1,816,332	1,426,566	-	1,426,566
Ordinary shares of unlisted companies	323,508	-	323,508	331,641	-	331,641
	2,139,840	-	2,139,840	1,758,207	-	1,758,207
Market Treasury Bills	56,667,630	383,886	57,251,516	50,524,649	381,964	50,906,613
Preference shares	368,184	-	368,184	368,184	-	368,184
Pakistan Investment Bonds	2,586,080	-	2,586,080	2,982,973	-	2,982,973
Federal Investment Bonds	940,000	-	940,000	940,000	-	940,000
Term Finance Certificates	7,707,177	-	7,707,177	7,959,446	-	7,959,446
Investments in mutual funds	1,059,520	-	1,059,520	1,027,881	-	1,027,881
Investment outside Pakistan	463,295	-	463,295	463,295	-	463,295
National Investment Trust Units	5,667,018	-	5,667,018	5,667,018	-	5,667,018
Total Available-for-sale securities	77,798,744	383,886	78,182,630	71,691,653	381,964	72,073,617
Held-to-maturity securities						
Government Compensation Bonds	2,331,182	-	2,331,182	2,331,182	-	2,331,182
Provincial Government Securities	36,513	-	36,513	36,513	-	36,513
Pakistan Investment Bonds	11,835,577	-	11,835,577	11,843,279	-	11,843,279
GoP Foreign Currency Bonds	9,337,905	-	9,337,905	10,445,224	-	10,445,224
Foreign Government Securities	7,762,887	-	7,762,887	5,618,324	-	5,618,324
Debentures, Bonds, Participation Term Certificates and Term Finance Certificates	4,413,868	-	4,413,868	4,595,982	-	4,595,982
Certificates of Investment	854,000	-	854,000	3,172,000	-	3,172,000
Total held-to-maturity securities	36,571,932	-	36,571,932	38,042,504	-	38,042,504
Investments in associates	959,720	-	959,720	979,864	-	979,864
Investments in joint ventures	1,312,335	-	1,312,335	1,312,335	-	1,312,335
Investments in subsidiaries	1,352,458	-	1,352,458	1,352,458	-	1,352,458
Investment at cost	118,201,063	383,886	118,584,949	113,711,387	381,964	114,093,351
Less: Provision for diminution in value of investments	(1,232,838)	-	(1,232,838)	(1,253,429)	-	(1,253,429)
Investments (net of provisions)	116,968,225	383,886	117,352,111	112,457,958	381,964	112,839,922
Deficit on revaluation of						
Held-for-trading securities	(49,736)	-	(49,736)	(4,464)	-	(4,464)
Surplus on revaluation of						
Available-for-sale securities	27,593,297	-	27,593,297	27,111,718	(179)	27,111,537
Total Investments at market value	144,511,786	383,886	144,895,672	139,565,210	381,785	139,946,995

5.2 Investments by segment

Federal Government Securities

	March 31, 2007	December 31, 2006
Market Treasury Bills	57,251,516	50,906,613
Pakistan Investment Bonds	14,421,657	14,826,252
Federal Investment Bonds	940,000	940,000
Others		
- Government Compensation Bonds	2,331,182	2,331,182
- GoP Foreign Currency Bonds	9,337,905	10,445,224
	11,669,087	12,776,406
	84,282,260	79,449,271

Provincial Government Securities

Foreign Government Securities	36,513	36,513
	7,762,887	5,618,324

Fully Paid up Ordinary Shares

- Listed Companies	2,022,206	1,759,139
- Unlisted Companies	323,508	331,641
	2,345,714	2,090,780

Investments in mutual funds

National Investment Trust Units	5.3	1,059,520	1,027,881
Preference Shares		5,667,018	5,667,018
Certificates of Investment		368,184	368,184
		854,000	3,172,000

Debentures, Bonds, Participation Term Certificates and Term Finance Certificates

- Listed		953,673	953,729
- Unlisted	5.4	11,167,372	11,601,699
		12,121,045	12,555,428

Investment outside Pakistan

Investments in Associates	5.5	463,295	463,295
Investments in Joint Ventures		959,720	979,864
Investments in Subsidiaries	5.6	1,312,335	1,312,335
		1,352,458	1,352,458
		118,584,949	114,093,351

Less : Provision for diminution in value of investments

Investments (Net of Provisions)		(1,232,838)	(1,253,429)
		117,352,111	112,839,922

Deficit on revaluation of Held - for - trading securities

Surplus on revaluation of Available - for - sale securities		(49,736)	(4,464)
Total investments at market value		27,593,297	27,111,537
		144,895,672	139,946,995

5.3 NIT Units

NIT vide letter no. MDNIT/191/2007 dated February 10, 2007 intimated to the bank that the Federal Government has authorised two representatives to conduct negotiations with the LOC holders giving them the following options namely:

- (a) LOC holders may exercise their options of acquiring the right to manage their funds at the same terms as determined by a competitive bidding process for auction of the non-LOC management rights with no discount.
- (b) In the event the above option is not acceptable, the LOC holders may either choose:
 - i) to enter into agreement with NIT for a staggered redemption spread over a period of several years with an initial payment from proceeds of sale of PICIC and PSO shares; or
 - ii) exercise the redemption option before the expiry of current LOC date with immediate payment at a discount of 10% over and above the normal procedure. NIT would raise the requisite financing from normal banking channels.

The above matter is under consideration by the bank.

5.4 Term Finance Certificates, Debentures, Bonds and Participation Term Certificates include Rs.705 million (2006: Rs.705 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 incorporated in the Kingdom of Saudi Arabia, being 5.83% (2006: 5.83%) holding in total equity. 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 aggregating Rs 13,070 million (2006:Rs 13,957 million).

5.6 Investments in subsidiaries	Percentage holding	March 31,	December 31,
		2007	2006
Rupees in '000			
NBP Capital Limited	100.00	500,000	500,000
JSC Subsidiary Bank of NBP in Kazakhstan	100.00	419,488	419,488
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	1,352,458
Less: Provision for diminution in value of investments		(3,245)	(3,245)
		1,349,213	1,349,213

6. ADVANCES

Loans, cash credits, running finances, etc.

	March 31, 2007	December 31, 2006
In Pakistan	292,746,721	304,569,560
Outside Pakistan	28,110,892	26,376,167
	320,857,613	330,945,727

Bills discounted and purchased (excluding Government treasury bills)

Payable in Pakistan	1,908,566	2,502,819
Payable outside Pakistan	15,491,357	14,881,699
	17,399,923	17,384,518

COT/Margin Financing

411,850 40,213

Less: Provision against non-performing loans
Advances - net of provision

	338,669,386	348,370,458
	(31,801,273)	(32,260,052)
	306,868,113	316,110,406

6.1 Advances include Rs.35,792 million (2006: Rs.36,260 million) which have been placed under non-performing status as detailed below:-

Category of Classification	Domestic	Overseas	Total	Provision Required	Provision Held
	Rupees In '000				
Other Assets Especially Mentioned	1,137,833	-	1,137,833	-	-
Substandard	2,625,602	-	2,625,602	582,772	582,772
Doubtful	1,742,560	-	1,742,560	820,544	820,544
Loss	29,725,886	560,286	30,286,172	27,640,859	27,640,859
	35,231,881	560,286	35,792,167	29,044,175	29,044,175

7. DEPOSITS AND OTHER ACCOUNTS

Customers

	March 31, 2007	December 31, 2006
Fixed deposits	101,785,880	100,017,399
Savings deposits	176,537,769	170,256,433
Current accounts - remunerative	52,474,332	54,359,662
Current accounts - non-remunerative	124,357,849	119,468,864
	455,155,830	444,102,358

Financial Institutions

Remunerative deposits	37,280,874	39,196,100
Non-remunerative deposits	12,022,009	18,573,785
	49,302,883	57,769,885
	504,458,713	501,872,243

	March 31, 2007	December 31, 2006
	Rupees In '000	
8. SURPLUS ON REVALUATION OF ASSETS		
Surplus on revaluation of fixed assets - net of tax	5,358,347	5,368,099
Surplus on revaluation of securities - net of tax		
Federal Government securities	27,326	80,436
Term Finance Certificates	56,000	56,000
Quoted shares	1,747,014	1,760,160
NIT Units	13,156,043	11,721,554
Bank Al-Jazira	12,606,914	13,493,387
	<u>27,593,297</u>	<u>27,111,537</u>
Deferred tax liability recognized	<u>(3,338,479)</u>	<u>(3,570,167)</u>
	<u>29,613,165</u>	<u>28,909,469</u>
9. CONTINGENCIES AND COMMITMENTS		
9.1 Direct credit substitutes		
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	345,203	345,847
- Financial institutions	4,876,142	4,885,235
- Others	24,761,788	24,807,965
	<u>29,983,133</u>	<u>30,039,047</u>
9.2 Transaction-related contingent liabilities		
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	19,359,054	18,138,591
- Financial institutions	32,803	30,735
- Others	5,853,282	5,484,271
	<u>25,245,139</u>	<u>23,653,597</u>
9.3 Trade-related contingent liabilities		
Letters of credit Issued in favour of		
- Government	122,389,046	128,295,046
- Financial institutions	498,487	522,542
- Others	30,264,933	31,725,396
	<u>153,152,466</u>	<u>160,542,984</u>
9.4 Other contingencies		
9.4.1 Claims against the bank not acknowledged as debts [including SBP liabilities on Bangladesh borrowing and interest thereon amounting to Rs.164 million (2006: Rs.164 million) and claims relating to former MBL amounting to Rs.1,053 million (2006: Rs.1,053 million)].	11,544,592	11,544,592

9.4.2 Taxation

The income tax assessments of the bank for global operations as well as Azad Kashmir have been finalized upto and including the tax year 2005 (accounting year ended December 31, 2004). The income tax returns for the tax year 2006 (accounting year ended December 31, 2005) 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 2005 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. While amending the assessment order for the Tax Year 2005, the TO has disallowed/added provision against bad & doubtful debts as certified by SBP, allocation of expenses relating to exempt Income and revaluation loss of barter trade agreements, the tax impact of which amounting to Rs 941 million.

In the event that the appeals are decided against the bank, a further tax liability of Rs.8,721 million (2006: Rs 8,721 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.

9.4.3 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. The bank filed a reply and submitted before the Honourable Court that the rate of interest which the petitioner are claiming is not admissible as payment on the said account is covered by Provident Fund Rules.

On one of the dates of hearing the Court had already observed that the contempt proceedings are not meant to cover the amount, if according to petitioners the amount falls short of their expectations. Under contempt proceedings their jurisdiction is only confined to punishing for disobedience of the order. The Court also put a direct question to the council for the petitioners to pinpoint the portion of the Order of Supreme Court which according to him, was disobeyed. The learned Council was unable to do so. The Court therefore expressed the view that proceedings of contempt were not competent. However, the matter is still awaiting the decision of Honorable Supreme Court of Pakistan.

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.

	March 31, 2007	December 31, 2006
	Rupees in '000	
9.5 Commitments in respect of forward exchange contracts		
Purchase	49,209,565	33,055,235
Sale	35,087,440	15,352,480
9.6 Commitments in respect of trading of government securities		
Sale	-	22,500
Purchase	-	10,000,000
9.7 Commitments for the acquisition of operating fixed assets	475,353	590,073
9.8 Other Commitments		
Interest Rate Swap	4,478,750	4,505,000
Cross Currency Swap	3,826,015	-

10. GEOGRAPHICAL SEGMENT ANALYSIS

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000			
Pakistan	6,319,233	599,054,663	79,285,130	192,922,023
Asia Pacific (including South Asia)	144,591	10,127,708	4,824,233	6,298,837
Europe	(6,865)	1,481,514	1,640,091	3,819,215
United States of America and Canada	60,267	1,888,130	1,183,625	5,318,316
Middle East	164,508	21,191,635	60,725	22,347
	6,681,734	633,743,650	86,993,804	208,380,738

11. RELATED PARTY TRANSACTIONS

The bank has related party relationship with its associated undertakings, subsidiary companies, employee benefit plans, and its key management personnel (including their associates).

	March 31, 2007	December 31, 2006
	Rupees in '000	
Balance outstanding at the period/year end		
Advances to:		
Subsidiaries	720,308	719,220
Associates	1,534,501	1,600,070
Key management executives *	65,165	65,225
Debts due by company in which a director of the bank is interested as director	311	222,759

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

	March 31, 2007	December 31, 2006
	Rupees in '000	
Placements with:		
Subsidiaries	-	-
Joint venture	375,240	349,550
Investments with associates/subsidiaries	27,331	27,331
Deposits from:		
Subsidiaries		
Opening balance	14,167	317,593
Received during the period/year - net	29,527	-
Repaid during the period/year - net	-	(303,426)
Closing balance	<u>43,694</u>	<u>14,167</u>
Pension fund		
Opening balance	3,077,536	2,598,358
Received during the period/year - net	-	479,178
Repaid during the period/year - net	(503,709)	-
Closing balance	<u>2,573,827</u>	<u>3,077,536</u>
Provident fund		
Opening balance	7,397,487	6,665,252
Received during the period/year - net	-	732,235
Repaid during the period/year - net	(162,930)	-
Closing balance	<u>7,234,557</u>	<u>7,397,487</u>
Obligation under finance lease		
Subsidiary	9,260	9,260
Income for the period/year		
On advances/placements with:		
Subsidiaries	189	10,323
Associates	-	46,105
Joint venture	1,220	9,619
Debts due by company in which a director of the bank is interested as director	278	9,102
Commission received from subsidiaries	-	-
Commission received from associates	-	-
Expenses for the period/year		
Remuneration to key management executives	16,574	66,157
Charge for defined benefit plan	1,171	14,577
On deposits of:		
Subsidiaries	75	344
Provident fund	173,683	976,870
Commission paid to subsidiaries	136	4,921
Other receivables	22,376	23,284

11.1 Although the Federal Government and the SBP held about 75.60% shares of the bank (2006: 75.60%), the transactions with these entities have not been treated as related party transactions for the purpose of this disclosure.

12. SUBSEQUENT EVENT

The Board of Directors proposed a cash dividend of Rs.4 per share (2005: Rs. 2.5 per share) amounting to Rs. 2,836 million (2005: Rs. 1,477 million) and bonus shares in the proportion of 15 ordinary shares per 100 ordinary shares held (2005: 20) amounting To Rs.1,064 million (2005: Rs. 1,182 million) in its meeting held on February 24, 2007 for approval of the members at the annual general meeting. Shares holders in Annual General Meeting held on April 2, 2007 has approved the same. These financial statements do not reflect this appropriation.

13. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on April 28, 2007 by the Board of Directors of the Bank.

14. GENERAL

14.1 Corresponding figures have been reclassified and re-arranged, wherever necessary, for the purpose of comparison.

14.2 Figures have been rounded off to the nearest thousand rupees.



**Consolidated Financial Statements
Of
National Bank Of Pakistan
And Its
Subsidiary Companies**

National Bank of Pakistan and its Subsidiary Companies Consolidated Balance Sheet - (Unaudited)

As At March 31, 2007

	<i>Note</i>	March 31, 2007	December 31, 2006
ASSETS			
Cash and balances with treasury banks		70,332,144	78,862,625
Balances with other banks		52,596,841	41,412,546
Lendings to financial institutions		21,345,976	23,164,082
Investments	5	146,093,233	140,740,067
Advances	6	307,313,236	316,455,800
Operating fixed assets		9,875,223	9,739,938
Deferred tax assets		-	-
Other assets		28,969,970	27,573,646
		636,526,623	637,948,704
LIABILITIES			
Bills payable		4,238,960	10,605,662
Borrowings from financial institutions		12,667,907	12,682,412
Deposits and other accounts	7	504,734,163	502,016,711
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		18,425	14,336
Other liabilities		24,680,990	27,186,290
Deferred tax liabilities		1,974,889	2,376,606
		548,315,334	554,882,017
NET ASSETS		88,211,289	83,066,687
REPRESENTED BY			
Share capital		7,090,712	7,090,712
Reserves		14,812,955	14,384,857
Unappropriated profit		36,601,798	32,623,507
		58,505,465	54,099,076
Minority interest		99,375	97,827
		58,604,840	54,196,903
Surplus on revaluation of assets	8	29,606,449	28,869,784
		88,211,289	83,066,687
Contingencies and commitments	9		

The annexed notes 1 to 14 form an integral part of these financial statements.

Syed Ali Raza
Chairman & President

Dr. Waqar Masood Khan
Director

Sikandar Hayat Jamali
Director

Azam Faruque
Director

National Bank of Pakistan and its Subsidiary Companies Consolidated Profit And Loss Account - (Unaudited)

For The Quarter Ended March 31, 2007

	Note	Three months period ended March 31, 2007	Three months period ended March 31, 2006
Rupees in '000			
Mark-up/return/interest earned		11,626,993	9,887,455
Mark-up/return/interest expensed		3,474,136	2,872,452
Net mark-up/interest income		<u>8,152,857</u>	<u>6,815,003</u>
Provision against non-performing advances		(367,761)	200,000
Provision for diminution in the value of investments		-	-
Provision against off balance sheet obligations		-	-
Bad debts written off directly		-	2,347
		<u>(367,761)</u>	<u>202,347</u>
Net mark-up/interest income after provisions		<u>8,520,618</u>	<u>6,612,656</u>
NON MARK-UP/INTEREST INCOME			
Fee, commission and brokerage income		1,227,052	1,218,997
Dividend income		69,301	96,240
Gain on sale of fixed assets		87,319	453,934
Unrealized loss on revaluation of investment classified as held for trading		(49,736)	(1,292)
Income from trading in government securities		-	-
Income from dealing in foreign currencies		237,521	219,199
Share of profit from joint venture		38,055	26,060
Share of profit from associate		8,840	8,988
Other income	10	<u>33,286</u>	<u>29,089</u>
Total non mark-up/interest income		<u>1,651,638</u>	<u>2,051,215</u>
		<u>10,172,256</u>	<u>8,663,871</u>
NON MARK-UP/INTEREST EXPENSES			
Administrative expenses		3,396,982	3,013,148
Other provisions/write offs		9,178	-
Other charges		8,953	-
Total non mark-up/interest expenses		<u>3,415,113</u>	<u>3,013,148</u>
		<u>6,757,143</u>	<u>5,650,723</u>
Extra ordinary items		-	-
Profit before tax		<u>6,757,143</u>	<u>5,650,723</u>
Taxation - Current		2,491,550	2,025,045
- Prior year(s)		-	-
- Deferred		<u>(137,408)</u>	<u>(64,569)</u>
		<u>2,354,142</u>	<u>1,960,476</u>
Profit after tax		<u>4,403,001</u>	<u>3,690,247</u>
Share of minority interest		(1,548)	(7,910)
Profit attributable to shareholders of the Bank		<u>4,401,453</u>	<u>3,682,337</u>
Unappropriated profit brought forward		<u>32,623,507</u>	<u>19,339,776</u>
Transfer from surplus on revaluation of fixed assets		9,752	10,265
		<u>32,633,259</u>	<u>19,350,041</u>
Profit available for appropriation		<u>37,034,712</u>	<u>23,032,378</u>
Basic earnings per share (Rupees)		<u>6.21</u>	<u>5.20</u>
Diluted earnings per share (Rupees)		<u>5.39</u>	<u>4.52</u>

The annexed notes 1 to 14 form an integral part of these financial statements.

National Bank of Pakistan and its Subsidiary Companies Consolidated Cash Flow Statement - (Unaudited)

For The Quarter Ended March 31, 2007

	Three months period ended March 31, 2007	Three months period ended March 31, 2006
Rupees in ' 000		
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	6,757,143	5,650,723
Less: Dividend income	69,301	96,240
	6,687,842	5,554,483
Adjustments for non-cash charges		
Depreciation	118,699	143,808
Provision against non-performing advances	(367,761)	200,000
Provision for diminution in the value of investments	-	-
Other provision/write off	9178	-
Gain on sale of fixed assets	(305)	(635)
Financial charges on leased assets	1,120	607
Share of profit from joint venture	(38,055)	(26,060)
Share of profit from associate	(8,840)	(8,988)
	(285,964)	308,732
	6,401,878	5,863,215
(Increase)/decrease in operating assets		
Lendings to financial institutions	1,818,106	(7,092,099)
Held-for-trading securities	144,902	(37,454)
Advances	9,510,325	(2,315,162)
Other assets	(2,003,694)	(1,281,841)
	9,469,639	(10,726,556)
Increase/(decrease) in operating liabilities		
Bills payable	(6,366,701)	1,997,397
Borrowing from financial institutions	(14,506)	585,554
Deposits	2,717,452	(5,946,280)
Other liabilities	(2,505,300)	(3,871,896)
	(6,169,055)	(7,235,225)
Income tax (paid)/ received	(2,030,570)	(1,109,168)
Special separation package cost paid	-	-
Financial charges paid	(1,120)	(607)
	(2,031,690)	(1,109,775)
Net cash (used) in operating activities	7,670,772	(13,208,341)
CASH FLOW FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	(6,187,251)	2,267,189
Net investments in held-to-maturity securities	1,213,142	(1,865,813)
Dividend received	69,301	96,240
Investments in operating fixed assets	(253,984)	(277,631)
Investments in subsidiaries, associates and joint venture	(24,839)	-
Sale proceeds of property and equipment disposed off	(305)	635
Net cash flow from investing activities	(5,183,936)	220,620
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid	-	-
Payments of lease obligations	(2,429)	(1,998)
	(2,429)	(1,998)
Effects of exchange rate changes on cash and cash equivalents	(4,816)	88,191
Increase/(decrease) in cash and cash equivalents	2,479,591	(12,901,528)
Cash and cash equivalents at the beginning of quarter	119,821,386	102,317,930
Cash and cash equivalents at the end of quarter	122,300,977	89,416,402

The annexed notes 1 to 14 form an integral part of these financial statements

Syed Ali Raza
Chairman & President

Dr. Waqar Masood Khan
Director

Sikandar Hayat Jamall
Director

Azam Faruque
Director

National Bank of Pakistan and its Subsidiary Companies Consolidated Statement Of Changes In Equity - (Unaudited)

For The Quarter Ended March 31, 2007

	Attributable to the shareholders of the Bank						Minority Interest	Total	
	Share capital	Exchange equalisation	Reserves Issue of bonus shares	Statutory reserve	General reserve (Rupees in '000)	Unappropriated profit			Sub total
Balance as at January 1, 2006	5,808,927	3,754,297	-	8,352,214	521,338	19,700,932	38,237,708	85,877	38,323,585
Exchange adjustments on revaluation of capital of foreign branches	-	88,191	-	-	-	-	88,191	-	88,191
Transfer from surplus on revaluation of fixed assets- incremental depreciation - net of tax	-	-	-	-	-	10,265	10,265	-	10,265
Net income recognised directly in equity	-	88,191	-	-	-	10,265	96,456	-	96,456
Profit after taxation for the three months period ended March 31, 2006	-	-	-	-	-	3,682,387	3,682,387	7,910	3,690,247
Total recognised income and expense for the period	-	88,191	-	-	-	3,692,602	3,780,793	7,910	3,788,703
Transfer to statutory reserve	-	-	-	381,156	-	(381,156)	-	-	-
Balance as at March 31, 2006	5,808,927	3,842,488	-	8,713,370	521,338	23,032,378	42,018,501	93,787	42,112,288
Balance as at April 1, 2006	5,808,927	3,842,488	-	8,713,370	521,338	23,032,378	42,018,501	93,787	42,112,288
Exchange adjustments on revaluation of capital of foreign branches	-	485,078	-	-	-	-	485,078	-	485,078
Adjustment due to closure of Calro branch	-	(498,496)	-	-	-	-	(498,496)	-	(498,496)
Transfer from surplus on revaluation of fixed assets- incremental depreciation - net of tax	-	-	-	-	-	30,795	30,795	-	30,795
Net income recognised directly in equity	-	(33,418)	-	-	-	30,795	(2,623)	-	(2,623)
Profit after taxation for the nine months ended December 31, 2006	-	-	-	-	-	13,560,430	13,560,430	4,040	13,564,470
Total recognised income and expense for the period	-	(33,418)	-	-	-	13,667,807	13,667,807	4,040	13,661,847
Issue of bonus shares	1,181,788	-	-	-	-	(1,181,788)	-	-	-
Transfer to statutory reserve	-	-	-	-	-	(1,477,232)	(1,477,232)	-	(1,477,232)
Transfer to reserve for issue of bonus shares	-	-	-	-	-	-	-	-	-
Proposed cash dividend	-	-	-	1,341,078	-	(1,341,078)	-	-	-
Balance as at December 31, 2006	7,090,712	3,809,070	-	10,054,448	521,338	32,623,507	54,098,078	97,827	54,196,905
Balance as at January 1, 2007	7,090,712	3,809,070	-	10,054,448	521,338	32,623,507	54,098,078	97,827	54,196,905
Exchange adjustments on revaluation of capital of foreign branches	-	-	-	-	-	-	-	-	-
Transfer from surplus on revaluation of fixed assets- incremental depreciation - net of tax	-	(4,818)	-	-	-	6,752	4,936	-	4,936
Net income recognised directly in equity	-	(4,818)	-	-	-	6,752	4,936	-	4,936
Profit after taxation for the three months period ended March 31, 2007	-	-	-	-	-	4,401,453	4,401,453	1,548	4,403,001
Total recognised income and expense for the period	-	-	-	-	-	4,401,453	4,401,453	1,548	4,403,001
Transfer to statutory reserve	-	-	-	432,914	-	(432,914)	-	-	-
Balance as at March 31, 2007	7,090,712	3,804,254	-	10,487,363	521,338	38,601,798	58,505,465	99,375	58,604,840

The annexed notes 1 to 14 form an integral part of these financial statements.

National Bank of Pakistan and its Subsidiary Companies Notes To The Consolidated Financial Statements - (Unaudited)

For The Quarter Ended March 31, 2007

1. THE GROUP AND ITS OPERATIONS

National Bank of Pakistan (the bank) was incorporated in Pakistan 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 1,232 (2006: 1,232) branches in Pakistan and 18 (2006: 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

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

The SECP has approved the adoption of International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" and International Accounting Standard 40, "Investment Property". The requirements of these standards have not been taken into account for the purpose of these financial statements as the implementation of the said standards has been deferred by SBP, vide BSD circular number 10 dated August 26, 2002, for banks in Pakistan till further instructions. However, investments have been classified and valued in accordance with the requirements of various circulars issued by SBP.

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention as modified by revaluation of land and buildings and valuation of certain investments and derivative financial instruments at fair value.

The preparation of financial statements in conformity with approved accounting standards and statutory requirements require the use of critical accounting estimates. It also requires management to exercise its judgment in the process of applying accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements.

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, 2006.

5. INVESTMENTS

	March 31, 2007			December 31, 2006		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	Rupees in '000			Rupees in '000		
5.1 Investments by type:						
Held-for-trading securities						
Ordinary shares of listed companies	260,299	-	260,299	405,201	-	405,201
Available-for-sale securities						
Ordinary shares of listed companies	1,904,956	-	1,904,956	1,426,566	-	1,426,566
Ordinary shares of unlisted companies	323,508	-	323,508	331,641	-	331,641
	2,228,464	-	2,228,464	1,758,207	-	1,758,207
Market Treasury Bills	56,867,630	383,886	57,251,516	50,552,644	353,969	50,906,613
Preference shares	398,184	-	398,184	398,184	-	398,184
Pakistan Investment Bonds	2,792,001	-	2,792,001	3,154,718	-	3,154,718
Federal Investment Bonds	940,000	-	940,000	940,000	-	940,000
Debentures, Bonds, Participation Term						
Certificates and Term Finance Certificates	8,009,985	-	8,009,985	8,373,727	-	8,373,727
Investments in mutual funds	1,160,356	-	1,160,356	1,145,369	-	1,145,369
Promissory notes	-	-	-	-	-	-
WAPDA Bonds						
Foreign government securities	83,563	-	83,563	-	-	-
Investment outside Pakistan	463,295	-	463,295	463,295	-	463,295
National Investment Trust Units	5,667,018	-	5,667,018	5,667,018	-	5,667,018
Total Available-for-sale securities	78,610,496	383,886	78,994,382	72,453,162	353,969	72,807,131
Held-to-maturity securities						
Government Compensation Bonds	2,331,182	-	2,331,182	2,331,182	-	2,331,182
Provincial Government Securities	36,513	-	36,513	36,513	-	36,513
Pakistan Investment Bonds	11,932,490	-	11,932,490	11,974,039	-	11,974,039
Market Treasury Bills	389,250	-	389,250	381,473	-	381,473
GoP Foreign Currency Bonds	9,596,137	-	9,596,137	10,445,224	-	10,445,224
Foreign Government Securities	7,762,887	-	7,762,887	5,693,075	-	5,693,075
Debentures, Bonds, Participation Term						
Certificates and Term Finance Certificates	4,513,868	-	4,513,868	4,595,963	-	4,595,963
Certificates of investment	854,000	-	854,000	3,172,000	-	3,172,000
Total held-to-maturity securities	37,416,327	-	37,416,327	38,629,469	-	38,629,469
Investments in associates	1,121,486	-	1,121,486	1,132,790	-	1,132,790
Investments in joint ventures	1,986,771	-	1,986,771	1,950,628	-	1,950,628
Investments in subsidiaries	3,245	-	3,245	3,245	-	3,245
Investments at Cost	119,398,624	383,886	119,782,510	114,574,495	353,969	114,928,464
Less: Provision in diminution in value of investments	(1,232,838)	-	(1,232,838)	(1,255,785)	-	(1,255,785)
Investments (net of provisions)	118,165,786	383,886	118,549,672	113,318,710	353,969	113,672,679
Deficit on revaluation of						
Held-for-trading securities	(49,736)	-	(49,736)	(4,463)	-	(4,463)
Surplus/(deficit) on revaluation of						
Available-for-sale securities	27,593,297	-	27,593,297	27,072,030	(179)	27,071,851
Total investments at market value	145,709,347	383,886	146,093,233	140,386,277	353,790	140,740,067

	Note	March 31, 2007	December 31, 2006
Rupees in '000			
5.2 Investments by segment			
Federal Government Securities			
Market Treasury Bills		57,640,766	51,288,086
Pakistan Investment Bonds		14,724,491	15,128,757
Federal Investment Bonds		940,000	940,000
		-	-
Others			
- Government Compensation Bonds		2,331,182	2,331,182
- GoP Foreign Currency Bonds		9,596,137	10,445,224
		11,927,319	12,776,406
		85,232,576	80,133,249
Provincial Government Securities		36,513	36,513
Foreign Government Securities		7,846,450	5,693,075
Fully Paid up Ordinary Shares			
- Listed Companies		2,165,255	1,831,767
- Unlisted Companies		323,508	331,641
		2,488,763	2,163,408
Investments in mutual funds		1,160,356	1,145,369
National Investment Trust Units	5.3	5,667,018	5,667,018
Preference Shares		398,184	398,184
Certificates of Investment		854,000	3,172,000
Debentures, Bonds, Participation Term Certificates and Term Finance Certificates			
- Listed		1,354,890	1,062,972
- Unlisted	5.4	11,168,963	11,906,718
		12,523,853	12,969,690
Investment outside Pakistan	5.5	463,295	463,295
Investments in Associates	5.6	1,121,486	1,132,790
Investments in Joint Ventures	5.6	1,986,771	1,950,628
Investments in Subsidiaries	5.7	3,245	3,245
Investment at cost		119,782,510	114,928,464
Less : Provision for diminution in value of Investments		(1,232,838)	(1,255,785)
Investments (Net of Provisions)		118,549,672	113,672,679
Deficit on revaluation of Held-for-trading securities		(49,736)	(4,463)
Surplus on revaluation of Available-for-sale securities		27,593,297	27,071,851
		146,093,233	140,740,067

5.3 NIT Units

NIT vide letter no. MDNIT/188/2006 dated February 10, 2007 intimated to the bank that the Federal Government has authorised two representatives to conduct negotiations with the LOC holders giving them the following options namely:

- (a) LOC holders may exercise their options of acquiring the right to manage their funds at the same terms as determined by a competitive bidding process for auction of the non-LOC management rights with no discount.
- (b) In the event the above option is not acceptable, the LOC holders may either choose:
 - i) to enter into agreement with NIT for a staggered redemption spread over a period of several years with an initial payment from proceeds of sale of PICIC and PSO shares; or
 - ii) exercise the redemption option before the expiry of current LOC date with immediate payment at a discount of 10% over and above the normal procedure. NIT would raise the requisite financing from normal banking channels.

The above matter is under consideration by the bank.

5.4 Term Finance Certificates, Debentures, Bonds and Participation Term Certificates include Rs.705 million (2006: Rs.705 million) which are considered non-performing.

5.5 Bank Al-Jazir

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. 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 aggregating Rs 13,070 million (2006:Rs

5.6 Investments in subsidiaries	Percentage holding	March 31, 2007	December 31, 2006
		Rupees in '000	
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)
		-	-

6. ADVANCES	March 31, 2007	December 31, 2006
	Rupees in '000	
Loans, cash credits, running finances, etc.		
In Pakistan	292,528,307	304,164,016
Outside Pakistan	28,170,439	26,421,169
	320,698,746	330,585,185
Net investment in finance lease		
In Pakistan	603,990	558,883
Outside Pakistan	-	-
	603,990	558,883
Bills discounted and purchased (excluding Government treasury bills)		
Payable in Pakistan	1,908,566	2,502,819
Payable outside Pakistan	15,491,357	14,881,699
	17,399,923	17,384,518
COT/Margin Financing	411,850	187,266
Advances - gross	339,114,509	348,715,852
Less: Provision for non-performing advances	(31,801,273)	(32,260,052)
Advances - net of provision	307,313,236	316,455,800

6.1 Advances include Rs.35,792 million (2006: 36,260 million) which have been placed under non-performing status as detailed below:

Category of Classification	Domestic	Overseas	Total	Provision Required	Provision Held
 Rupees in '000				
Other Assets Especially Mentioned	1,137,833	-	1,137,833	-	-
Substandard	2,625,602	-	2,625,602	582,772	582,772
Doubtful	1,742,560	-	1,742,560	820,544	820,544
Loss	29,725,886	560,286	30,286,172	27,640,859	27,640,859
	35,231,881	560,286	35,792,167	29,044,175	29,044,175

7. DEPOSITS AND OTHER ACCOUNTS	March 31, 2007	December 31, 2006
Customers	Rupees in '000	
Fixed deposits	101,939,757	100,054,476
Savings deposits	176,537,982	170,234,938
Current accounts - remunerative	52,584,766	54,352,618
Current accounts - non-remunerative	124,368,775	119,604,794
	455,431,280	444,246,826
Financial Institutions		
Remunerative deposits	37,280,874	39,196,100
Non-remunerative deposits	12,022,009	18,573,785
	49,302,883	57,769,885
	504,734,163	502,016,711
8. SURPLUS ON REVALUATION OF ASSETS		
8.1 Surplus on revaluation of fixed assets - net of tax	5,358,347	5,368,099
8.2 Surplus on revaluation of securities - net of tax		
Federal Government securities	27,326	47,663
Term Finance Certificates	56,000	60,310
Quoted shares	1,740,298	1,748,937
NIT Units	13,156,043	11,721,554
Bank Al-Jazira	12,606,914	13,493,387
	27,586,581	27,071,851
Deferred tax liability recognized	(3,338,479)	(3,570,166)
	29,606,449	28,869,784
9. CONTINGENCIES AND COMMITMENTS		
9.1 Direct credit substitutes		
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	345,203	345,847
- Financial Institutions	4,876,142	4,885,235
- Others	24,761,788	24,807,965
	29,983,133	30,039,047

March 31, December 31,
2007 2006
Rupees In '000

9.2 Transaction-related contingent liabilities

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	19,359,054	18,138,591
- Financial institutions	32,803	30,735
- Others	5,853,282	5,484,271
	25,245,139	23,653,597

9.3 Trade-related contingent liabilities

Letters of credit
Issued in favour of

- Government	122,389,046	128,295,046
- Financial institutions	498,487	522,542
- Others	30,264,933	31,725,396
	153,152,466	160,542,984

9.4 Other contingencies

9.4.1 Claims against the bank not acknowledged as debts [including SBP liabilities on Bangladesh borrowing and interest thereon amounting to Rs.164 million (2006: Rs.164 million) and claims relating to former MBL amounting to Rs.1,053 million (2006: Rs.1,053 million)]

11,544,592 11,544,592

9.4.2 Taxation

The income tax assessments of the bank for global operations as well as Azad Kashmir have been finalized upto and including the tax year 2005 (accounting year ended December 31, 2004). The income tax returns for the tax year 2006 (accounting year ended December 31, 2005) 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 2005 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. While amending the assessment order for the Tax Year 2005, the TO has disallowed/added provision against bad & doubtful debts as certified by SBP, allocation of expenses relating to exempt income and revaluation loss of barter trade agreements, the tax impact of which amounting to Rs 941 million.

In the event that the appeals are decided against the bank, a further tax liability of Rs.8,721 million (2006: Rs 8,721 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.

9.4.3 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. The bank filed a reply and submitted before the Honourable Court that the rate of interest which the petitioner are claiming is not admissible as payment on the said account is covered by Provident Fund Rules.

On one of the dates of hearing the Court had already observed that the contempt proceedings are not meant to cover the amount, if according to petitioners the amount falls short of their expectations. Under contempt proceedings their jurisdiction is only confined to punishing for disobedience of the order. The Court also put a direct question to the council for the petitioners to pinpoint the portion of the Order of Supreme Court which according to him, was disobeyed. The learned Council was unable to do so. The Court therefore expressed the view that proceedings of contempt were not competent. However, the matter is still awaiting the decision of Honorable Supreme Court of Pakistan.

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.

	March 31, 2007	December 31, 2006
	Rupees in '000	
9.5 Commitments in respect of forward exchange contracts		
Purchase	49,209,565	33,055,235
Sale	35,087,440	15,352,480
9.6 Commitments in respect of trading of government securities		
Sale	-	22,500
Purchase	-	10,000,000
9.7 Commitments for the acquisition of operating fixed assets	475,353	590,073
9.8 Other Commitments		
Interest Rate Swap	4,478,750	4,505,000
Cross Currency Swap	3,862,015	-

10 GEOGRAPHICAL SEGMENT ANALYSIS

	Profit before taxation	Total assets employed	Net Assets employed	Contingencies and commitments
 Rupees In '000			
Pakistan	6,393,358	601,083,596	80,003,172	192,922,023
Asia Pacific (including South Asia)	145,875	10,881,747	5,323,676	6,298,837
Europe	(6,865)	1,481,514	1,640,091	3,819,215
United States of America and Canada	60,267	1,888,130	1,183,625	5,318,316
Middle East	164,508	21,191,635	60,725	22,347
	6,757,143	636,526,622	88,211,289	208,380,738

11 RELATED PARTY TRANSACTIONS

The bank has related party relationship with its associated undertakings, subsidiary companies, employee benefit plans, and its key management personnel (including their associates).

	March 31, 2007	December 31, 2006
	Rupees in '000	
Balance outstanding at the period/year end		
Advances to:		
Associates	1,534,501	1,600,070
Key management executives *	65,165	65,225
Debts due by company in which a director of the bank is interested as director	311	222,759
Placements with:		
Joint venture	375,240	349,550
Investments with associates	27,331	27,331
* This includes loans extended to certain key management executives in accordance with the terms of employment.		
Deposits from:		
Pension fund		
Opening balance	3,077,536	2,598,358
Received during the period/year - net		479,178
Repaid during the period/year - net	(503,709)	-
Closing Balance	<u>2,573,827</u>	<u>3,077,536</u>
Provident fund		
Opening balance	7,397,487	6,665,252
Received during the period/year - net		732,235
Repaid during the period/year - net	(162,930)	-
Closing Balance	<u>7,234,557</u>	<u>7,397,487</u>

	March 31, 2007	December 31, 2006
	Rupees in '000	
Income for the period/year		
On advances/placements with:		
Associates	-	46,105
Joint venture	-	9,619
Debts due by company in which a director of the bank is interested as director	278	9,102
Commission received from associates	-	-
Interest on money market transactions from associates	-	16,520
Expenses for the period/year		
Remuneration to key management executives	16,574	66,157
Charge for defined benefit plan	1,171	14,577
Fiance cost paid to associates	-	1,867
On deposits of:		
Provident fund	173,683	976,870
Gratuity fund	-	981
Other receivables	-	23,284
Other payables	-	144

11.1 Although the Federal Government and the SBP held about 75.60% shares of the bank (2006: 75.60%), the transactions with these entities have not been treated as related party transactions for the purpose of this disclosure.

12 SUBSEQUENT EVENT

The Board of Directors proposed a cash dividend of Rs.4 per share (2005: Rs. 2.5 per share) amounting to Rs. 2,836 million (2005: Rs. 1,477 million) and bonus shares in the proportion of 15 ordinary shares per 100 ordinary shares held (2005: 20) amounting to Rs.1,064 million (2005: Rs. 1,182 million) in its meeting held on February 24, 2007 for approval of the members at The annual general meeting. Share holders in Annual General Meeting held on April 2, 2007 has approved the same. These financial statements do not reflect this appropriation.

13 DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on April 28, 2007 by the Board of Directors of the Bank.

14 GENERAL

14.1 Corresponding figures have been reclassified and re-arranged, wherever necessary, for the purpose of Comparison.

14.2 Figures have been rounded off to the nearest thousand rupees.