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Corporate Information

Board of Directors	Ali Raza D. Habib Abbas D. Habib Anwar Haji Karim Hasnain A. Habib Imtiaz Alam Hanfi Murtaza H. Habib Qumail R. Habib Shameem Ahmed Syed Mazhar Abbas Tariq Iqbal Khan	<i>Chairman</i> <i>Chief Executive & Managing Director</i> <i>Executive Director</i>
Audit Committee	Syed Mazhar Abbas Ali Raza D. Habib Anwar Haji Karim Shameem Ahmed	<i>Chairman</i> <i>Member</i> <i>Member</i> <i>Member</i>
Company Secretary	Mahmood S. Allarakhia	
Statutory Auditors	KPMG Taseer Hadi & Co. Chartered Accountants	
Legal Advisor	Liaquat Merchant Associates Advocates and Corporate Legal Consultants	
Registered Office	126-C, Old Bahawalpur Road, Multan	
Principal Office	2nd Floor, Mackinnons Building, I.I. Chundrigar Road, Karachi	
Share Registrar	M/s. Gangjees Registrar Services (Pvt) Ltd. 516, Clifton Centre, Khayaban-e-Roomi, Block - 5, Clifton, Karachi-75600.	
Website	www.bankalhabib.com	



Directors' Report

The Directors are pleased to present the Sixteenth Annual Report together with the audited financial statements of the Bank for the year ended December 31, 2006.

The operating results and appropriations, as recommended by the Board are placed below:

	(Rupees in '000)
Profit for the year before tax	2,689,381
Taxation	(928,389)
Profit for the year after tax	1,760,992
Unappropriated Profit brought forward	825,169
Transfer from surplus on revaluation of fixed assets – net of tax	7,367
	832,536
Profit available for Appropriations	2,593,528
Appropriations:	
Transfer to Statutory Reserve	(352,198)
Cash dividend – 2005	(328,667)
Issue of Bonus Shares – 2005	(438,222)
	(1,119,087)
Unappropriated Profit carried forward	1,474,441
	Rs. 6.69

For the year ended December 31, 2006, the Directors propose a cash dividend of 15% i.e. Rs. 1.50 per share and also 40 bonus shares for every 100 shares held, i.e., 40%.

Performance Review

Allhamdolillah, the performance of your Bank remained satisfactory during the year. Deposits rose to Rs. 91,420 million against Rs. 75,796 million a year earlier while advances increased to Rs. 70,796 million from Rs. 55,304 million. Foreign Trade Business of the Bank during the year was Rs 191,702 million as compared to Rs 177,732 million a year earlier. Profit before tax for the year increased to Rs. 2,689 million as compared to Rs. 2,022 million a year earlier.

During the year, the Bank opened 52 branches including an offshore banking unit in the Kingdom of Bahrain, bringing the network of branches to 152. We thank Almighty Allah for enabling us to achieve another milestone by opening our first foreign branch. Now, your Bank has presence in 36 cities of Pakistan and one overseas branch in the Kingdom of Bahrain. Most of our branches are located in residential-cum-commercial areas providing the facility of "Banking at your Doorstep".



The Pakistan Credit Rating Agency Limited (PACRA) has maintained the Bank's credit ratings of AA (Double A) for long term and A1+ (A One plus) for short term. These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payments of financial commitments.

In March 2006, one of our founder Director, Mr. Faiz N. Abdulali expired and the Board wishes to place on record their deep sorrow and grief on his sad demise. He was held in high esteem for his strong moral and ethical values and was one of the founder members on the Board, whose contribution towards the establishment and growth of our Bank was commendable. Also, as Chairman of the Audit Committee, he carried out this important task with full commitment and responsibility. May Allah rest his soul in eternal peace and grant courage to the bereaved family to bear this loss with fortitude. The casual vacancy thus created was filled up by co-opting Mr. Shameem Ahmed as Director of the Bank. Mr. Shameem Ahmed has over 40 years of banking experience and has held senior positions in various private and public sector Banks.

During the year 4 board meetings were held and the attendance of the Directors during the year was as follows:

Name of Director	Total Number of Board Meetings	Number of meetings attended
Mr. Ali Raza D. Habib	4	4
Mr. Abbas D. Habib	4	4
Mr. Faiz N. Abdulali*	4	1
Mr. Imtiaz Alam Hanfi	4	4
Mr. Anwar Haji Karim	4	4
Mr. Qumail R. Habib	4	4
Mr. Tariq Iqbal Khan	4	2
Mr. Murtaza H. Habib	4	4
Syed Mazhar Abbas	4	3
Mr. Hasnain A. Habib	4	4
Mr. Shameem Ahmed*	4	3

* Mr. Faiz N. Abdulali expired during the year and Mr. Shameem Ahmed was co-opted as director in his place.

Future Outlook

It is expected that the economy will continue to perform well in 2007 also. The continuation of stable and prudent reforms initiated over the last several years has propelled the economy to an annual GDP growth rate of around 7%. With the continuing privatization program, inflow of foreign direct investments (FDI) and interest of foreign financial institutions in the banking sector of Pakistan indicate a robust growth in the economy in 2007. In the banking sector, it is anticipated that rising deposit cost will result in shrinking spreads during 2007. In this challenging environment, Inshallah, your Bank plans to grow in all areas of its operations including branch expansion.



Audit Committee

As mentioned earlier, our Director and Chairman, Audit Committee, Mr. Faiz N. Abdulali expired and in his place Syed Mazhar Abbas took over as Chairman, Audit Committee. Mr. Shameem Ahmed was also co-opted to become a member of Audit Committee during the year.

The Audit Committee of the Bank comprises of the following members:

Syed Mazhar Abbas	Chairman
Mr. Ali Raza D. Habib	
Mr. Anwar Haji Karim	
Mr. Shameem Ahmed	

Auditors

The present auditors Messrs KPMG Taseer Hadi & Co., Chartered Accountants retire and offer themselves for reappointment. As suggested by the Audit Committee, the Board of Directors has recommended their reappointment as auditors of the Bank for the year ending December 31, 2007, at a fee to be mutually agreed.

Risk Management Framework

The Bank always had a risk management framework commensurate with the size of the Bank and the nature of its business. This framework has been developed over the years and continues to be refined and improved. Its salient features are summarized below:

- Credit risk is managed through the credit policies approved by the Board; a well-defined credit approval mechanism; prescribed documentation requirements; and post-disbursement administration, review, and monitoring of credit facilities; and continuous assessment of credit worthiness of counterparties. Decisions regarding the credit portfolio are taken mainly by the Central Credit Committee. Credit Risk Management Committee of the Board provides overall guidance in managing the Bank's credit risk.
- Market risk is managed through the market risk management policy approved by the Board; approval of counterparty limits and dealer limits; specific senior management approval for each investment; and regular review and monitoring of the investment portfolio by the Bank's Asset Liability Management Committee (ALCO). In addition, the liquidity risk management policy provides guidance in managing the liquidity position of the Bank, which is monitored on daily basis by the Treasury and the Middle Office. Risk Management Committee of the Board provides supervision and guidance in managing the Bank's market and liquidity risks.
- Operational risk is managed through the audit policy and the operational risk management policy approved by the Board, along with the policy on prevention of frauds and forgeries; operational manuals and procedures issued from time to time; a system of internal controls and dual authorization for important transactions and safe-keeping; and regular audit of the branches. Audit Committee of the Board provides overall guidance in managing the Bank's operational risk.

In order to comply with SBP's guidelines on risk management, the Bank has established a separate Risk Management Division, including a Middle Office that independently monitors and analyses the risks inherent



in our Treasury operations. The steps taken by the Division include: sensitivity testing of Government Securities portfolio; computation of portfolio duration and modified duration; analysis of forward foreign exchange gap positions; more detailed reporting of TFCs and equities portfolios; and development of improved procedures for equities trading and settlements; and monitoring of off-market foreign exchange rates and foreign exchange earnings. More recently, the Division has reviewed and updated existing policies covering management of liquidity risk, market risk and operational risk. In addition, written policy and procedures on country risk management have been developed and implemented earlier.

Statement on Corporate and Financial Reporting Framework

1. The financial statements, prepared by the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of account have been maintained by the Bank.
3. Appropriate accounting policies have been consistently applied in preparation of the financial statements, changes if any, have been adequately disclosed and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure therefrom, if any, has been adequately disclosed.
5. The system of internal controls is sound in design and has been effectively implemented and monitored.
6. There has been no material departure from the best practices of the corporate governance, as detailed in the listing regulations.
7. There are no doubts upon the Bank's ability to continue as a going concern.
8. Key operating and financial data for last six years is summarized below:

		(Rupees in million)					
		2006	2005	2004	2003	2002	2001
Total customer deposits		91,420	75,796	62,170	46,178	34,240	24,697
Total advances		70,796	55,304	47,366	35,232	23,775	15,902
Foreign trade business		191,702	177,732	131,373	104,912	72,929	52,073
Profit before tax		2,689	2,022	1,039	1,513	619	551
Profit after tax		1,761	1,464	541	1,012	290	246
Shareholders' Equity		6,186	4,745	3,274	2,726	1,822	1,532
Earnings per share *	(Rs)	6.69	5.57	2.05	3.84	1.10	0.93
Cash Dividend	(%)	15	15	-	10	-	5
Stock Dividend – Interim	(%)	-	20	-	-	-	-
Final	(%)	40	20	35	25	25	20
		40	40	35	25	25	20

* Earnings per share from 2001 to 2005 have been recalculated based on the existing paid-up capital.



Value of investments of Provident Fund and Gratuity Fund Schemes for the financial year ended December 31, 2006 were as follows:

	Rs. in '000
Provident Fund	288,377
Gratuity Fund	64,354

9. The pattern of shareholding and additional information regarding pattern of shareholding is given on Pages 74-75
10. No trades in the shares of the Bank were carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children.

General

In the end, we are grateful to our valued customers for their continued trust and support. We would also like to take this opportunity to thank the State Bank of Pakistan for the guidance and to our foreign and local correspondent banks for their valuable services. We also thank all our staff members for their sincere and dedicated services, which enabled the Bank to achieve these results.

On behalf of the Board of Directors

Karachi: February 21, 2007

ALI RAZA D. HABIB
Chairman



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

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the Code in the following manner:

1. The Bank encourages representation of non-executive directors on its Board of Directors. At present the Board includes eight (8) non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Bank, except for the nominee director of National Investment Trust (NIT).
3. All the directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurred in the Board during the year and was filled up by the Directors.
5. The Bank's "Statement of Ethics and Business Practices", has been signed by all the directors and employees.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and Executive Director has been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors of the Bank are well conversant with their duties and responsibilities.
10. The Chief Financial Officer, Company Secretary and Head of Internal Audit were appointed prior to the enforcement of the Code of Corporate Governance. However, next appointment of the aforesaid positions, if any, including remuneration, terms and conditions of employment, after its determination by the Chief Executive Officer, will be referred to the Board of Directors.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.



12. The financial statements of the Bank were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee comprising of four (4) non-executive directors as members including the Chairman of the Committee.
16. Meetings of the Audit Committee were held once in every quarter prior to approval of interim and final results of the Bank as required by the Code. The terms of reference of the committee were revised in accordance with the requirement of the Code and advised to the committee for compliance.
17. The Bank has an effective internal audit division that is manned by experienced and qualified personnel. The audit team is conversant with the policies and procedures of the Bank and is involved in the internal audit function on a full time basis.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all the other material principles contained in the Code have been complied with.

On behalf of the Board of Directors

ALI RAZA D. HABIB
Chairman

Karachi: February 21, 2007



Statement on Internal Controls

The Management of the Bank is responsible for establishing the Internal Control System with the main objectives of ensuring effectiveness and efficiency of operations; reliability of financial reporting; safeguarding of assets; and compliance with applicable laws and regulations. The Internal Control System has evolved over the years, as it is an ongoing process and is included in the Bank's policies, procedures, financial limits etc., as detailed in various manuals, circulars, and instructions issued by the Bank. This system continues to be reviewed, refined and improved from time to time and immediate corrective action is taken to minimize risks which are inherent in banking business and operations.

The Internal Control Systems are reviewed by the Internal Auditors as well as External Auditors and their findings and recommendations are reported to the management and to the Audit Committee of the Board, and corrective action is taken to address control deficiencies and for improving procedures and systems as they are identified. The Board, acting through the Audit Committee, provides supervision and overall guidance in improving the effectiveness of the Internal Control System.

While the Internal Control System is effectively implemented and monitored, there are inherent limitations in the effectiveness of any system, including the possibility of human error or system failure and circumvention or overriding of controls. Accordingly, even an effective Internal Control System can only provide reasonable but not absolute assurance that the system's objectives will be achieved.

During the year under review, we have endeavoured to follow guidelines issued by State Bank of Pakistan on internal controls and to incorporate these guidelines in the Bank's existing internal control system for evaluation and management of significant risks and we will endeavor to further improve our Internal Control System during 2007.

MAHMOOD S. ALLARAKHIA
Chief Financial Officer

I.A.K. TAREEN
Head of Internal Audit

Karachi: February 21, 2007

Board of Directors' Remarks on the Management's evaluation of Internal Controls

Keeping in view the feedback received by the Board of Directors from the Audit Committee; reports submitted as to the business policies and major risk related decisions taken by the management, the Board of Directors endorse Management's evaluation of Internal Controls.

On behalf of the Board of Directors

Karachi: February 21, 2007

ALI RAZA D. HABIB
Chairman



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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Bank AL Habib Limited ("The Bank") to comply with the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges where the Bank is listed.

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

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

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

Karachi: February 21, 2007

KPMG Taseer Hadi & Co.
Chartered Accountants



Auditors' Report to the Members

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

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

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

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change referred to in note 6.10 to the financial statements with which we concur;
 - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- (c) in our opinion, and to the best of our information and according to the explanations given to us, the unconsolidated balance sheet, unconsolidated profit and loss account, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2006, and its true balance of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Karachi: February 21, 2007

KPMG Taseer Hadi & Co.
Chartered Accountants



Balance Sheet as at 31 December 2006

	Note	2006	2005 (Restated)
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	9,346,431	7,582,661
Balances with other banks	8	1,232,902	1,088,891
Lendings to financial institutions	9	6,578,800	3,352,747
Investments	10	21,023,254	19,757,665
Advances	11	70,795,961	55,303,779
Operating fixed assets	12	3,910,067	2,475,834
Deferred tax assets		—	—
Other assets	13	2,110,622	1,939,964
		114,998,037	91,501,541
LIABILITIES			
Bills payable	14	1,390,613	1,464,648
Borrowings from financial institutions	15	10,788,554	6,275,868
Deposits and other accounts	16	91,419,963	75,795,858
Sub-ordinated loans	17	2,087,920	1,349,460
Liabilities against assets subject to finance lease	18	708,210	345,011
Deferred tax liabilities	19	370,727	254,746
Other liabilities	20	1,709,658	769,856
		108,475,645	86,255,447
NET ASSETS		6,522,392	5,246,094
REPRESENTED BY :			
Share capital	21	2,629,334	2,191,112
Reserves		2,082,561	1,729,514
Unappropriated profit		1,474,441	825,169
		6,186,336	4,745,795
Surplus on revaluation of assets - net of deferred tax	22	336,056	500,299
		6,522,392	5,246,094
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes 1 to 46 form an integral part of these financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

ANWAR HAJI KARIM
Director

IMTIAZ ALAM HANFI
Director



Profit and Loss Account for the year ended 31 December 2006

	Note	2006 (Rupees in '000)	2005
Mark-up /return/interest earned	24	7,857,745	4,935,626
Mark-up/return/interest expensed	25	(4,078,200)	(2,143,510)
Net mark-up/return/interest income		3,779,545	2,792,116
Provision against non-performing loans and advances	11.4	(19,652)	(73,817)
Provision for diminution in the value of investment	10.2.1	(1,307)	(1,513)
Bad debts written-off directly		–	–
		(20,959)	(75,330)
Net mark-up/return/interest income after provisions		3,758,586	2,716,786
NON MARK-UP/INTEREST INCOME			
Fees, commission and brokerage income		576,308	508,744
Dividend income		41,717	38,820
Income from dealing in foreign currencies		466,761	300,795
Gain on sale of securities	26	84,055	27,564
Unrealised gain on sale of securities classified as held for trading		–	–
Other income	27	194,403	160,141
Total non-markup/interest income		1,363,244	1,036,064
		5,121,830	3,752,850
NON MARK-UP/INTEREST EXPENSES			
Administrative expenses	28	(2,432,395)	(1,728,389)
Other provisions/assets written-off		–	–
Other charges	29	(54)	(2,453)
Total non-markup/interest expenses		(2,432,449)	(1,730,842)
Extra-ordinary/unusual items		–	–
PROFIT BEFORE TAXATION		2,689,381	2,022,008
Taxation – Current	30	(784,202)	(685,514)
– Prior years		(4,840)	143,857
– Deferred		(139,347)	(16,292)
		(928,389)	(557,949)
PROFIT AFTER TAXATION		1,760,992	1,464,059
			(Rupees)
Basic and diluted earnings per share	31	6.69	5.57

The annexed notes 1 to 46 form an integral part of these financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

ANWAR HAJI KARIM
Director

IMTIAZ ALAM HANFI
Director



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

	Share Capital	Capital Reserves		Revenue Reserves			Unappropriated Profit	Total
		Reserve for Issue of Bonus Shares	Statutory Reserve	Special Reserve	General Reserve	Exchange Translation Reserve		
(Rupees in '000)								
Balance as at 01 Jan. 2005 as previously stated	1,352,539	473,389	770,202	126,500	540,000	-	11,715	3,274,345
Effect of change in accounting policy with respect to bonus shares (Note 6.10.2)	-	(473,389)	-	-	-	-	473,389	-
Balance as at 01 Jan. 2005 as restated	1,352,539	-	770,202	126,500	540,000	-	485,104	3,274,345
<i>Changes in equity for the year ended 31 Dec. 2005</i>								
Transfer from surplus on revaluation of fixed assets - net of tax (note 22.2)	-	-	-	-	-	-	7,391	7,391
Profit for the year	-	-	-	-	-	-	1,464,059	1,464,059
Total recognised income and expense for the year	-	-	-	-	-	-	1,471,450	1,471,450
Transfer to statutory reserve	-	-	292,812	-	-	-	(292,812)	-
Issue of bonus shares	838,573	-	-	-	-	-	(838,573)	-
Balance as at 31 Dec. 2005-restated	2,191,112	-	1,063,014	126,500	540,000	-	825,169	4,745,795
<i>Changes in equity for the year ended 31 Dec. 2006</i>								
Final cash dividend paid for the year ended 31 Dec. 2005	-	-	-	-	-	-	(328,667)	(328,667)
Transfer from surplus on revaluation of fixed assets - net of tax (note 22.2)	-	-	-	-	-	-	7,367	7,367
Exchange differences on translation of net investment in foreign branch	-	-	-	-	-	849	-	849
Profit for the year	-	-	-	-	-	-	1,760,992	1,760,992
Total recognised income and expense for the year	-	-	-	-	-	849	1,768,359	1,769,208
Transfer to statutory reserve	-	-	352,198	-	-	-	(352,198)	-
Issue of bonus shares	438,222	-	-	-	-	-	(438,222)	-
Balance as at 31 Dec. 2006	2,629,334	-	1,415,212	126,500	540,000	849	1,474,441	6,186,336

The annexed notes 1 to 46 form an integral part of these financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

ANWAR HAJI KARIM
Director

IMTIAZ ALAM HANFI
Director



Cash Flow Statement for the

	2006	2005
	(Rupees in '000)	
Cash Flow From Operating Activities		
Profit before taxation	2,689,381	2,022,008
Dividend income	(41,717)	(38,820)
	2,647,664	1,983,188
Adjustments for:		
Depreciation	201,124	104,968
Amortisation	67,797	72,548
Provision Against non-performing loans and advances	19,652	73,817
Provision for diminution in the value of investment	1,307	1,513
Gain on disposal of operating fixed assets	(17,727)	(5,203)
Financial charges on leased assets	50,954	18,022
Charge for compensated absences	10,000	10,398
	333,107	276,063
	2,980,771	2,259,251
(Increase) / Decrease in Operating Assets		
Lendings to financial institutions	(3,226,053)	(881,747)
Advances	(15,511,836)	(8,010,643)
Other assets (excluding advance taxation)	(236,708)	(831,200)
	(18,974,597)	(9,723,590)
Increase / (Decrease) in Operating Liabilities		
Bills Payable	(74,035)	120,011
Borrowings from financial institutions	4,512,686	(1,699,317)
Deposits	15,624,105	13,625,230
Other Liabilities	238,052	337,647
	20,300,808	12,383,571
	4,306,982	4,919,232
Income tax paid	(103,311)	(451,834)
Net cash flows from operating activities (Balance carried forward)	4,203,671	4,467,398

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*



year ended 31 December 2006

	Note	2006 (Rupees in '000)	2005
Net cash flows from operating activities (Balance brought forward)		4,203,671	4,467,398
Cash Flow From Investing Activities			
Net investments		(1,447,139)	(5,444,902)
Dividend received		40,429	38,820
Investments in operating fixed assets		(1,130,663)	(811,350)
Payment of non refundable deposits for the acquisition of properties		–	(47,500)
Sale proceeds of property and equipment disposed-off		27,939	7,274
Net cash flows from investing activities		(2,509,434)	(6,257,658)
Cash Flow From Financing Activities			
Sub-ordinated loans		738,460	(540)
Payments of lease obligations		(202,331)	(64,466)
Dividend paid		(322,585)	(288)
Net cash flows from financing activities		213,544	(65,294)
Increase / (decrease) in cash and cash equivalents		1,907,781	(1,855,554)
Cash and cash equivalents at the beginning of the year		8,671,552	10,527,106
Cash and cash equivalents at the end of the year	32	10,579,333	8,671,552

The annexed notes 1 to 46 form an integral part of these financial statements.

ANWAR HAJI KARIM
Director

IMTIAZ ALAM HANFI
Director



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

1. STATUS AND NATURE OF BUSINESS

Bank AL Habib Limited (the Bank) was incorporated in Pakistan on 15 October 1991 as a public limited company under the Companies Ordinance, 1984 having its registered office at 126-C, Old Bahawalpur Road, Multan with principal place of business being in Karachi. Its shares are listed on all the Stock Exchanges in Pakistan. It is a scheduled bank principally engaged in the business of commercial banking with a network of 152 branches (2005: 100 branches), including an Offshore Banking Unit (OBU) in the Kingdom of Bahrain and a branch in Karachi Export Processing Zone and three Islamic Banking branches.

2. BASIS OF PRESENTATION

In accordance with the Islamic Banking System, trade related modes of financing include purchase of goods by the Bank from its customers and simultaneous re-sale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such, but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

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

The Securities and Exchange Commission of Pakistan has approved and notified 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 followed in preparation of these financial statements as the State Bank of Pakistan vide BSD Circular No. 10 dated 26 August 2002 has deferred the implementation of these standards for the banks in Pakistan till further instructions.

During 2005, the Securities and Exchange Commission of Pakistan notified the Islamic Financial Accounting Standard - 1 issued by the Institute of Chartered Accountants of Pakistan relating to accounting for Murabaha transactions undertaken by a bank, effective for financial periods beginning on or after 01 January 2006. The standard has not been adopted by stand-alone Islamic branches of conventional banks pending resolution of certain issues, e.g., invoicing of goods, recording of inventories, concurrent application with other approved accounting standards in place for conventional banks, etc.

4. BASIS OF MEASUREMENT

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

Use of estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires



management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimations uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 44 to these financial statements.

Functional currency and presentation currency

These financial statements are presented in Pak Rupees which is the Bank's functional currency. All financial information presented in Pak Rupees have been rounded to the nearest thousand.

5. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARD THAT ARE NOT YET EFFECTIVE

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after 01 January 2007 are either not relevant to Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain increased disclosures:

- IAS 1 - Presentation of Financial Statements - amendments relating to Capital disclosures.
- IFRS 2 - Share-Based Payments.
- IFRS 3 - Business Combinations
- IFRS 5 - Non-current assets held for sale and discontinued operations
- IFRS 6 - Exploration for and evaluation of mineral resources
- IFRIC 8 - Scope of IFRS 2 Share-Based Payments.
- IFRIC 9 - Reassessment of Embedded Derivatives
- IFRIC 10 - Interim Financial Reporting and Impairment
- IFRIC 11 - Group and Treasury Share Transactions
- IFRIC 12 - Services Concession Arrangements.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as specified in note 6.10.

6.1 Cash and cash equivalents

Cash and cash equivalents, for the purpose of cash flow statement, represent cash and balances with treasury banks, balances with other banks in current, deposit and savings accounts with original maturity of three months or less.

6.2 Repurchase agreements

The Bank enters into purchase / (sale) of investments under agreements to resell / (repurchase) investments at a certain date in the future at a fixed price. Investments purchased subject to commitment to resale them at the future dates are not recognised. The amounts paid are recognised as lendings to financial institutions. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for investments. The proceeds from the sale of the investments are reported in borrowings from financial institutions.



The difference between the purchase / (sale) and resale / (repurchase) consideration is recognised on a time proportion basis over the period of the transaction and is included in mark-up / return / interest earned or expensed.

6.3 Investments

In accordance with BSD Circular No. 10 dated 13 July 2004 as amended vide BSD Circular No.11 dated 04 August 2004 and BSD Circular No. 14 dated 24 September 2004, issued by the State Bank of Pakistan, the Bank classifies its investment portfolio into 'Held for Trading', 'Held to Maturity' and 'Available for Sale' securities as follows:

Held for trading

These are investments acquired principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin.

Held to maturity

These are investments with fixed or determinable payments and fixed maturity and the Bank has the positive intent and ability to hold them till maturity.

Available for sale

These are investments which do not fall under the held for trading and held to maturity categories.

Quoted securities where ready quotes are available on Reuters Page (PKRV) or Stock Exchange, other than investments classified as held to maturity and investments in associates, are valued at fair value. Investments classified as held to maturity are carried at amortised cost.

Provision for diminution in the value of equity securities is made after considering permanent impairment, if any in their values and is taken to profit and loss account.

Investment in subsidiary, associates and unquoted securities are carried at cost less impairment loss, if any.

The difference between the face value and purchase price is amortised over the remaining life of the investment using effective yield method, in order to determine amortised cost.

The surplus / deficit arising as a result of revaluation at fair value on trading portfolio is taken to income and that relating to the available for sale portfolio is kept in a separate account and shown below equity.

Gains or losses on disposals of investments are dealt with through the profit and loss account in the year in which they arise.

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised using the trade date method of accounting.

6.4 Advances

Loans and advances

Loans and advances are stated net of provisions for non performing advances. Specific and General provisions for non performing advances are determined keeping in view the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Advances are written-off when they are considered irrecoverable.



Finance lease receivables / Ijarah financing receivable

Leases where the Bank transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable is recognized at an amount equal to the present value of the lease payments including any guaranteed residual value. Finance lease receivables are included in loans and advances to customers.

6.5 Operating fixed assets

Tangible - owned

Lease hold lands are stated at revalued amounts. Buildings on lease hold land are stated at revalued amount less accumulated depreciation. All other operating fixed assets are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged to income applying the straight line method by taking into consideration the estimated useful lives of the related assets.

Residual value, useful lives and depreciation methods are reviewed and adjusted, if required, at each balance sheet date.

Gains or losses on disposal of fixed assets are included in income currently.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Costs incurred on renovations are capitalized as improvements to lease hold buildings.

Surplus on revaluation of fixed assets (net of deferred taxation) to the extent of the incremental depreciation charged on the revalued assets is transferred to retained earnings.

Tangible - leased

Leases where the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance lease are accounted for by recording the assets and related liability. These are stated at lower of fair value and the present value of minimum lease payments at the inception of lease less accumulated depreciation. Financial charges are allocated over the period of lease term so as to provide a constant periodic rate of financial charge on the outstanding liability. Depreciation is charged on the basis similar to the owned assets.

Intangible assets - owned

Intangible assets are stated at cost less accumulated amortisation. Amortisation is based on straight line method by taking into consideration the estimated useful life.

Capital work in progress

Capital work in progress is stated at cost.

6.6 Taxation

Income tax expense comprises of current and deferred tax. Income tax expenses are recognised in Profit and Loss account except to the extent that it relates to the items recognised directly in equity, in which case it is recognised in equity.

Current

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustments to the tax payable in respect of the previous years.



Deferred

Deferred tax is provided using the balance sheet liability method providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

6.7 Staff retirement benefits

Defined benefit plan - Employees' Gratuity Fund

The Bank operates an approved gratuity fund for all its confirmed employees, which is administered by the Board of Trustees. The Bank's costs and contributions are determined based on an actuarial valuation carried out at each year end using Projected Unit Credit Method. Net cumulative unrecognized actuarial gains / losses relating to previous reporting period in excess of the higher of 10% of present value of defined benefit obligation or 10% of the fair value of plan assets are recognized as income or expense over the estimated working lives of the employees.

Defined contribution plan - Employees' Provident Fund

The Bank operates an approved Provident Fund Scheme for all its regular permanent employees, administered by the Board of Trustees. Equal monthly contributions are made both by the Bank and its employees to the fund at the rate of 10% of the basic salary in accordance with the terms of the scheme.

6.8 Revenue recognition

Mark-up income and expenses are recognized on a time proportion basis taking into account effective yield on the instrument, except in case of advances classified under the Prudential Regulations issued by the State Bank of Pakistan on which mark-up is recognized on receipt basis.

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.

Fee, commission and brokerage income are recognized as services are performed.

Dividend income is recognized at the time of book closure of the company declaring dividend when the Bank's right to receive has been established.

6.9 Foreign currencies

Foreign currency transactions are translated into rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. The fair value of forward cover taken from the State Bank of Pakistan for foreign currency deposits is added / deducted from value of foreign currency deposits. Outstanding forward foreign exchange contracts and foreign bills purchased excluding swap contracts are valued at the market rates applicable to the respective maturities. However, premium on swap contracts is amortised over the period of swap and the movement in ready rates since the initiation of swap is also accounted for.



Exchange gains and losses are included in income currently except those arising on the translation of foreign branches which are taken to equity.

The assets and liabilities of foreign operations are translated to Pakistani rupees at exchange rates prevailing at the balance sheet date. The results of foreign operations are translated at average rate of exchange for the year.

6.10 Dividends

6.10.1 Dividends including stock dividends are accounted for in the period in which these are approved.

6.10.2 During the year the Institute of Chartered Accountants of Pakistan issued a circular number 06-2006 dated 19 June 2006 which requires that all declarations of dividends to holders of equity instruments including declaration of bonus issues and other appropriations except appropriations which are required by law after the balance sheet date, should not be recognized as liabilities or change in reserves at the balance sheet date. Previously, declarations of bonus issues to holders of equity instruments and transfers to reserves relating to profit for the year although declared subsequent to year end, were accounted for in the year to which those related. This change has been applied retrospectively and comparatives have been restated. The change in accounting policy had no effect on the overall equity of the Bank.

6.11 Provision for guarantee claims and other off balance sheet obligations

Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists for the Bank to settle the obligation. Expected recoveries are recognized by debiting customer's account. Charge to profit and loss account is stated net-of expected recoveries.

6.12 Other provisions

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

6.13 Derivative financial instruments

Derivative financial instruments are initially measured at fair value and subsequently remeasured at fair value. The significant gain or loss on remeasurement to fair value is recognized in profit and loss account.

6.14 Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

6.15 Employees' compensated absences

Employees' entitlement to annual leave is recognized when they accrue to employees. A provision is made for estimated liability for annual leave as a result of services rendered by the employee against un-availed leaves upto the date of balance sheet.



6.16 **Off-setting**

Financial assets and financial liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognized amount and the Bank intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

6.17 **Impairment**

The carrying amount of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

6.18 **Segment reporting**

A segment is a distinguishable component of the Bank that is engaged in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk.

Business segments

Retail banking

Consists of retail lending, deposits and banking services to private individuals and small businesses. The retail banking activities includes provision of banking and other financial services, such as Current and Savings Accounts, Credit Cards, Consumer Banking Products etc to individual customers, small merchants and SMEs.

Corporate commercial banking

The Commercial Banking represents provision of banking services including Treasury and International Trade related activities to large corporate customers, multinational companies, government and semi government departments and institutions and SMEs treated as corporate under SBP Prudential Regulations.

Geographical segments

The Bank operates in two geographics regions, being:

- Pakistan
- Middle East



	2006	2005
	(Rupees in '000)	
7. CASH AND BALANCES WITH TREASURY BANKS		
In hand		
Local currency	1,692,412	1,957,357
Foreign currencies	205,116	302,395
With State Bank of Pakistan in:		
Local currency current account	5,029,485	3,698,694
Local currency current account-Islamic Banking	115,000	7,804
Foreign currency deposit account		
Cash reserve account	487,084	339,359
Special Cash Reserve account	1,461,252	1,018,078
Local US Dollar collection account	29,775	24,533
With National Bank of Pakistan in:		
Local currency current account	326,307	234,441
	9,346,431	7,582,661

7.1 This represents statutory cash reserve maintained under Section 22 of the Banking Companies Ordinance, 1962.

7.2 This represents statutory cash reserve maintained by Islamic Banking Branch in accordance with BPD Circular No. 01 dated 01 January 2003 issued by Islamic Banking department of the State Bank of Pakistan.

7.3 This represents special cash reserve maintained against foreign currency deposits mobilised under FE 25 Circular issued by the State Bank of Pakistan and is remunerated at the rate declared by the State Bank of Pakistan on monthly basis.

7.4 This represents US Dollar settlement account opened with the State Bank of Pakistan in accordance with FE Circular No. 2 dated 19 February 2004 and is remunerated at the rate declared by State Bank of Pakistan on monthly basis.

	2006	2005
	(Rupees in '000)	
8. BALANCES WITH OTHER BANKS		
In Pakistan		
In current accounts	100,703	138,366
In deposit accounts	2,500	2,500
In savings accounts	110,000	-
Outside Pakistan		
In current accounts	595,378	573,357
In deposit accounts	424,321	374,668
	1,232,902	1,088,891



- 8.1 This carries mark-up at the rate of 4.00% per annum (2005: 4.00%) maturing in October 2007.
- 8.2 These represent saving deposits by Islamic Banking Division with expected profit ranging from 4.32% to 7.00% per annum.
- 8.3 These carry mark-up ranging from 4.67% to 5.17% per annum (2005: 3.16% to 4.44%).

2006 2005
(Rupees in '000)

9. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	9.1	3,250,000	–
Certificates of Investment	9.2	1,900,000	1,800,000
Repurchase agreement lendings (Reverse Repo)	9.3	1,428,800	1,552,747
		<u>6,578,800</u>	<u>3,352,747</u>

- 9.1 These represent lendings made in the local inter-bank market at rates ranging from 8.10% to 10.50% per annum and have a maturity period of upto one month.
- 9.2 These are certificates of investment of financial institutions carrying profit rates ranging from 10.70% to 11.55% per annum (2005: 9.73% to 11.00%) and have a maturity period of upto three months.
- 9.3 These are short term lendings to different financial institutions secured against Government securities carrying mark-up ranging from 8.70% to 8.75% per annum (2005: 8.30% to 8.40%) and have a maturity period of upto two months.

2006 2005
(Rupees in '000)

9.4 Particulars of lending

In local currency	6,578,800	3,352,747
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9.5 Securities held as collateral against lendings to financial Institutions

	2006			2005		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	(Rupees in '000)					
Market Treasury Bills	1,428,800	–	1,428,800	1,552,747	–	1,552,747
	<u>1,428,800</u>	<u>–</u>	<u>1,428,800</u>	<u>1,552,747</u>	<u>–</u>	<u>1,552,747</u>

- 9.6 The market value of securities held as collateral against lendings to financial institutions amounted to Rs. 1,432 million (2005: Rs. 1,551 million).



10. INVESTMENTS

10.1 Investments by type	2006			2005		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
	(Rupees in '000)					
<i>Available for sale securities</i>						
Market Treasury Bills	12,656,048	2,428,711	15,084,759	5,244,290	-	5,244,290
Pakistan Investment Bonds	1,320,296	-	1,320,296	1,575,194	-	1,575,194
Ordinary shares of listed companies and closed end mutual funds	516,141	-	516,141	334,364	-	334,364
Ordinary shares of unlisted companies	35,700	-	35,700	35,700	-	35,700
Term Finance Certificates						
- Listed	204,990	-	204,990	25,000	-	25,000
Open ended mutual funds	249,752	-	249,752	319,020	-	319,020
S.W.I.F.T.	4,175	-	4,175	1,657	-	1,657
	14,987,102	2,428,711	17,415,813	7,535,225	-	7,535,225
<i>Held to maturity securities</i>						
Market Treasury Bills	-	-	-	7,526,139	510,189	8,036,328
Pakistan Investment Bonds	2,066,584	-	2,066,584	2,463,871	-	2,463,871
Unlisted Sukuk Bonds	25,000	-	25,000	-	-	-
Term Finance Certificates						
- Listed	345,509	-	345,509	375,064	-	375,064
- Unlisted	261,869	-	261,869	270,618	-	270,618
Unlisted WAPDA Bonds	600,044	-	600,044	600,074	-	600,074
	3,299,006	-	3,299,006	11,235,766	510,189	11,745,955
<i>Associated companies</i>						
<i>Listed</i>						
- Habib Sugar Mills Ltd.	21,142	-	21,142	21,142	-	21,142
<i>Unlisted</i>						
- Habib Asset Management Ltd.	13,500	-	13,500	-	-	-
<i>Subsidiary</i>						
- AL Habib Capital Markets (Pvt) Ltd.	200,000	-	200,000	200,000	-	200,000
Investments at cost	18,520,750	2,428,711	20,949,461	18,992,133	510,189	19,502,322
Provision for diminution in the value of investment	(2,820)	-	(2,820)	(1,513)	-	(1,513)
Investments - Net of Provisions	18,517,930	2,428,711	20,946,641	18,990,620	510,189	19,500,809
Surplus on revaluation of available for sale securities	76,613	-	76,613	256,856	-	256,856
Total Investments	18,594,543	2,428,711	21,023,254	19,247,476	510,189	19,757,665
10.1.1 Strategic Investment made during the year						
Associate						
- Habib Asset Management Ltd.	4,500	-	4,500	-	-	-
	4,500	-	4,500	-	-	-



	Note	2006 (Rupees in '000)	2005
10.2 Investments by segment			
<i>Federal Government Securities - at amortised cost</i>			
– Market Treasury Bills	10.5	15,084,759	13,280,618
– Pakistan Investment Bonds	10.6	3,386,880	4,039,065
– WAPDA Bonds	10.9	600,044	600,074
– Sukuk Bonds	10.13	25,000	–
		19,096,683	17,919,757
<i>Fully paid-up ordinary shares and closed end mutual funds - at cost</i>			
– Listed companies and closed end mutual funds	10.3	516,141	334,364
– Unlisted companies	10.7	35,700	35,700
		551,841	370,064
<i>Term Finance Certificates (TFCs) - at amortized cost</i>			
– Listed TFCs	10.8	550,499	400,064
– Unlisted TFCs	10.8	261,869	270,618
		812,368	670,682
<i>Others - at cost</i>			
– Associated companies	10.10	34,642	21,142
– Subsidiary	10.11	200,000	200,000
– Open ended mutual funds	10.12	249,752	319,020
– S.W.I.F.T.	10.14	4,175	1,657
		488,569	541,819
Investment at cost		20,949,461	19,502,322
Less: Provision for diminution in the value of investment	10.2.1	(2,820)	(1,513)
Investment - net of provisions		20,946,641	19,500,809
Surplus on revaluation of available for sale securities		76,613	256,856
Total investments		21,023,254	19,757,665
10.2.1 Particulars of provision			
Opening balance		1,513	–
Charge for the year		1,307	1,513
Closing balance		2,820	1,513
10.2.2 Particulars of provision in respect of type and segment			
Available for sale - fully paid ordinary shares - unlisted company			
– Pakistan Export Finance Guarantee Agency Ltd.		2,820	1,513

10.2.3 Financial information of associated companies

	Year Ended	2006				2005			
		Total Assets	Total Liabilities	Revenues	Profit/(Loss)	Total Assets	Total Liabilities	Revenues	Profit/
Habib Sugar Mills Ltd.	30 Sept. 06	2,395,706	832,639	4,019,324	215,589	2,019,209	812,898	2,812,407	162,340
Habib Asset Management Ltd.	30 June 06	29,139	47	401	(908)	–	–	–	–



10.3 Quality of available for sale securities

	2006			2005		
	Rating	Cost	Market value (Rupees in '000)	Rating	Cost	Market value (Rupees in '000)
Federal government securities						
- Market Treasury Bills	Unrated	15,084,759	15,074,084	Unrated	5,244,290	5,245,132
- Pakistan Investment Bonds	Unrated	1,320,296	1,411,527	Unrated	1,575,194	1,718,570
		16,405,055	16,485,611		6,819,484	6,963,702

Shares and close end mutual funds - listed

No. of ordinary shares	Name of Companies							
2006	2005							
-	1,000,000	ABAMCO Composite Fund	-	-	-	Unrated	10,000	9,550
25,921	22,540	Atlas Battery Limited	Unrated	2,328	1,814	Unrated	2,328	1,688
31,250	20,000	Attock Refinery Limited	AA-	5,156	2,603	AA-	4,214	4,160
201,595	110,000	Cherat Cement Company Limited	Unrated	15,938	8,265	Unrated	9,910	9,708
110,000	-	D.G. Khan Cement Company Limited	Unrated	10,231	6,925	-	-	-
45,000	210,000	Engro Chemicals Pakistan Limited	AA-	8,504	7,605	AA-	29,831	34,535
550,000	200,000	Fauji Fertilizer Bin Qasim Limited	Unrated	18,521	15,675	Unrated	5,751	7,630
398,200	198,136	Fauji Fertilizer Company Limited	Unrated	44,696	42,030	Unrated	18,356	27,145
401,493	301,875	International Industries Limited	Unrated	5,720	43,763	Unrated	5,720	47,666
300,000	200,000	Kot Adu Power Company Limited	Unrated	12,560	12,210	Unrated	8,368	9,700
50,000	75,000	Lucky Cement Limited	Unrated	5,693	2,995	Unrated	5,544	6,292
400,000	-	Maple Leaf Cement Factory Limited	Unrated	18,173	6,960	-	-	-
25,000	-	National Refinery Limited	AAA	7,499	6,475	-	-	-
100,000	83,160	Nishat Chunian Limited	Unrated	9,177	3,815	Unrated	7,620	7,102
315,000	-	Oil and Gas Development Company	Unrated	42,824	36,131	-	-	-
133,600	35,100	Packages Limited	AA	26,139	28,056	AA	5,579	7,090
-	110,000	Pak Suzuki Motor Company Limited	-	-	-	Unrated	15,844	22,880
125,000	-	Pakistan Oil Fields	Unrated	45,113	43,719	-	-	-
100,000	-	Pakistan Petroleum Limited	Unrated	18,608	23,200	-	-	-
70,000	-	Pakistan State Oil Company Limited	AAA	22,578	20,580	-	-	-
4,875,000	7,839,500	Pakistan Strategic Allocation Fund	5 Star	48,750	41,438	Unrated	78,395	91,722
750,000	400,000	Pakistan Telecommunication Co. Ltd.	Unrated	46,256	33,225	Unrated	31,037	26,160
250,000	-	PICIC Growth Fund	4 Star	10,028	7,038	-	-	-
100,000	100,000	PICIC Investment Fund	4 Star	1,950	1,450	Unrated	1,950	1,820
26,250	21,000	Shell Pakistan Limited	Unrated	7,348	10,449	Unrated	7,348	16,632
262,000	262,000	Sitara Energy Limited	Unrated	9,164	4,100	Unrated	9,164	4,716
408,292	371,175	Standard Chartered Modaraba	AA+	10,970	6,206	AA+	10,970	8,017
-	50,000	Suzuki Motorcycle Pakistan Limited	-	-	-	Unrated	1,461	835
1,597,500	1,597,500	The Hub Power Company Limited	Unrated	62,217	43,133	Unrated	62,217	38,340
-	35,000	Tri-Pack Films Limited	-	-	-	A+	2,757	2,063
				516,141	459,860		334,364	385,451

The par value of these shares / units is Rs. 10 each.

Open ended mutual funds

No. of units	Name of Companies							
-	200,000	Al Falah GHP Value Fund	-	-	-	Unrated	10,000	10,238
50,000	-	Atlas Islamic Fund	Unrated	25,000	25,000	-	-	-
27,729	22,499	Atlas Stock Market Fund	Unrated	10,000	15,331	Unrated	10,000	14,148
1,022,180	1,916,754	Dawood Money Market Fund	5 Star	77,252	107,702	Unrated	161,520	200,684
520,731	421,660	Faysal Balanced Growth Fund	MFR 3 Star	37,500	52,474	Unrated	37,500	53,277
-	1,000,000	Faysal Income and Growth Fund	-	-	-	A+	100,000	102,410
5,095,000	-	NAFA Cash Fund	A	50,000	53,600	-	-	-
1,001,808	-	Pakistan Int. Element Islamic Fund	Unrated	50,000	47,955	-	-	-
				249,752	302,062		319,020	380,757



Shares - unlisted

No. of ordinary shares		Name of Companies	Rating	2006		Rating	2005	
				Cost	Market value		Cost	Market value
2006	2005			(Rupees in '000)			(Rupees in '000)	
30	30	Khushhali Bank Limited	A-	30,000	30,000	Unrated	30,000	30,000
569,958	569,958	Pakistan Export Finance Guarantee Agency Limited	Unrated	5,700	5,700	Unrated	5,700	5,700
				35,700	35,700		35,700	35,700

Term finance certificates - listed

No. of certificates		Name of Companies	Rating	2006		Rating	2005	
2006	2005			Cost	Market value		Cost	Market value
6,000	-	Allied Bank Limited	A	30,000	30,099	Unrated	-	-
5,000	5,000	Askari Commercial Bank Limited-II	AA	24,990	24,363	Unrated	25,000	24,814
5,000	-	Jahangir Siddiqui & Company Ltd. - IV	AA+	25,000	25,498	-	-	-
20,000	-	Orix Leasing Pakistan Limited	AA+	100,000	100,000	-	-	-
5,000	-	United Bank Limited - III	AA-	25,000	25,058	-	-	-
				204,990	205,018		25,000	24,814
S.W.I.F.T.			Unrated	4,175	4,175	Unrated	1,657	1,657

10.3.1 Long term or medium term ratings are used.

10.4 The market value of held to maturity securities at 31 December 2006 amounted to Rs. 3,101 million (2005: 11,722 million).

10.5 Market Treasury Bills carry yield ranging from 8.64% to 9.00% per annum (2005: 8.23% to 8.76%) having maturity upto one year.

10.6 Pakistan Investment Bonds are for a period of 5 and 10 years with yields ranging from 7.00% to 14.00% per annum (2005: 6.00% to 14.00%). Pakistan Investment Bonds having a face value of Rs. 5 million are pledged with Controller of Military Accounts, Karachi as a security deposit for extending banking facilities on account of regimental funds vis-a-vis private fund accounts.

10.7 Particulars of investments in shares - unlisted - Available for sale

Cost of investments of the Bank in fully paid-up ordinary shares of unlisted companies are as follows:

No. of ordinary shares		Name of Companies	2006	2005
2006	2005		(Rupees in '000)	(Rupees in '000)
30	30	Khushhali Bank Limited Formed as per the directive of the Government of Pakistan to provide micro finance in rural area for alleviating poverty. The par value per share is Rs. 1,000,000 Break-up value Rs. 1,019,575 per share. Chief Executive Officer: Mr. Ghalib Nishter	30,000	30,000
569,958	569,958	Pakistan Export Finance Guarantee Agency Limited A Joint venture between Asian Development Bank and thirteen commercial banks in Pakistan. The par value per share is Rs. 10 Break-up value Rs. 5.05 per share. Chief Executive Officer: Mr. S. M. Zaeem.	5,700	5,700
			35,700	35,700



10.8 Particulars of Investment in Term Finance Certificates

Cost of investments of the Bank in Term Finance Certificates are as follows:

No. of Certificates		Redeemable Value per certificate	Maturity Date	Name of Companies	2006	2005
2006	2005				(Rupees in '000)	
<i>Listed-Held to Maturity</i>						
20,000	20,000	4,997.00	Feb-13	Askari Commercial Bank Limited-I	99,940	99,980
15,000	15,000	4,996.16	Nov-12	Bank Al Falah Limited	74,942	74,971
-	2,000	5,000.00	Sep-06	First Dawood Investment Bank Ltd.	-	10,000
5,000	5,000	3,745.50	Apr-08	Jahangir Siddiqui & Company Ltd.	18,728	24,975
-	10,000	-	Jul-06	Orix Leasing Pakistan Limited	-	50,000
9,000	9,000	4,997.00	Feb-13	Prime Commercial Bank Limited	44,973	44,991
5,000	5,000	4,997.00	May-13	Soneri Bank Limited	24,985	24,995
7,928	7,928	832.65	Jun-07	Sui Southern Gas Company Ltd.	6,601	19,804
5,000	-	4,999.00	Feb-13	Union Bank Limited - III	24,995	-
4,000	4,000	4,999.70	Mar-13	United Bank Limited - II	19,999	20,000
5,000	-	5,000.00	Sep-14	United Bank Limited - III	25,000	-
1,070	1,070	4,996.16	Aug-12	United Bank Limited - I	5,346	5,348
					345,509	375,064
<i>Listed-Available for sale</i>						
6,000	-	5,000.00	Dec-14	Allied Bank Limited	30,000	-
5,000	5,000	4,998.00	Oct-13	Askari Commercial Bank Ltd.-II	24,990	25,000
5,000	-	5,000.00	May-12	Jahangir Siddiqui & Company Ltd.-IV	25,000	-
20,000	-	5,000.00	5 Years*	Orix Leasing Pakistan Ltd.-Pre IPO	100,000	-
5,000	-	5,000.00	Sep-14	United Bank Limited - III	25,000	-
					204,990	25,000
					550,499	400,064
<i>Unlisted-Held to Maturity</i>						
10	10	10,000,000.00	Jul-12	Pak Arab Fertilizers Co. (Pvt) Ltd.	100,000	100,000
35,000	35,000	4,624.82	Feb-11	Pakistan International Airlines Corporation	161,869	170,618
					261,869	270,618

These Term Finance Certificates are redeemable in half-yearly installments and carry rate of return ranging from 8.45% to 13.06% per annum (2005: 7.50% to 13.50%). The certificates of Bank Alfalah Limited, United Bank Limited, Soneri Bank Limited, Prime Commercial Bank Limited, Union Bank Limited, Allied Bank Limited and Askari Commercial Bank Limited are subordinated.

* The maturity date of these Term Finance Certificates will be announced after public offer.



10.9 Particulars of Investment in WAPDA Bonds - Unlisted - Held to Maturity

Cost of investment of the Bank in WAPDA bonds is as follows:

<u>No. of Certificates</u>		<u>Redeemable Value per certificate</u>	<u>Maturity Date</u>	<u>Name of Company</u>	<u>2006</u>	<u>2005</u>
2006	2005				(Rupees in '000)	
120,000	120,000	5,000.00	Apr-08	Water and Power Development Authority	600,044	600,074

These bonds are redeemable at the end of the tenor and carry rate of return equal to the State Bank of Pakistan discount rate less 0.25% per annum (2005: SBP's discount rate less 0.25%).

10.10 Particulars of Investment in associated companies

Cost of investments of the Bank in associated companies are as follows:

Listed

<u>No. of shares</u>		<u>Name of Companies</u>	<u>2006</u>	<u>2005</u>
2006	2005		(Rupees in '000)	
2,671,998	2,003,999	Habib Sugar Mills Ltd. Market value Rs. 115.698 million (2005: Rs. 92.785 million) The par value per share is Rs. 5. Chief Executive: Mr. Raeesul Hasan	21,142	21,142

Unlisted

1,350,000	–	Habib Asset Management Limited 30.00% of share capital of company is owned by the Bank The par value per share is Rs. 10 Break up value per share Rs. 9.70 Chief Executive: Mr. Imran Azim	13,500	–
			34,642	21,142

10.11 Particulars of investment in subsidiary company - Unlisted

Cost of investment of the Bank in subsidiary company is as follows:

<u>No. of shares</u>		<u>Name of Company</u>	<u>2006</u>	<u>2005</u>
2006	2005		(Rupees in '000)	
20,000,000	20,000,000	AL Habib Capital Markets (Private) Limited. 66.67% of share capital of company is owned by the Bank The par value per share is Rs. 10 Break up value per share Rs. 9.94 Chief Executive: Mr. Aftab Q. Munshi	200,000	200,000



10.12 Particulars of Investment in open ended mutual funds - Available for sale

Cost of investments of the Bank in open ended mutual funds are as follows:

No. of units		Book Value per unit	Name of Funds	2006	2005
2006	2005			(Rupees in '000)	
-	200,000	50.00	Alfalah GHP Value Fund	-	10,000
50,000	-	500.00	Atlas Islamic Fund	25,000	-
27,729	22,499	360.63	Atlas Stock Market Fund	10,000	10,000
1,022,180	1,916,754	75.58	Dawood Money Market Fund	77,252	161,520
520,731	421,660	72.01	Faysal Balanced Growth Fund	37,500	37,500
-	1,000,000	100.00	Faysal Income and Growth Fund	-	100,000
5,095,000	-	9.81	NAFA Cash Fund	50,000	-
1,001,808	-	49.91	Pakistan International Element Islamic Fund	50,000	-
				249,752	319,020

10.13 Particulars of Investment in Sukuk Bonds - Unlisted - Held to Maturity

Cost of investment of the Bank in Sukuk Bonds is as follows:

No. of Certificates		Redeemable Value per certificate	Maturity Date	Name of Company	2006	2005
2006	2005				(Rupees in '000)	
5,000	-	5,000	Oct-12	WAPDA Sukuk	25,000	-

These bonds are redeemable semi annually and carry rate of return equal to the KIBOR plus 35 bps.

10.14 Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T) allocated shares based on the financial contribution from network based services by the Bank. Based on the Bank's financial contribution, the Bank has 24 shares (2005: 12 shares) of S.W.I.F.T. at year end.

		2006	2005
		(Rupees in '000)	
11. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		62,732,703	50,556,118
Outside Pakistan		1,023,482	-
		63,756,185	50,556,118
Net investment in finance lease / Ijara financing			
In Pakistan	11.2	402,819	-
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,992,115	1,940,593
Payable outside Pakistan		4,885,086	3,029,289
		6,877,201	4,969,882
Advances - gross		71,036,205	55,526,000
Provision for non-performing advances	11.3	(240,244)	(222,221)
Advances - net of provisions		70,795,961	55,303,779



	2006 (Rupees in '000)	2005
11.1 Particulars of advances:		
11.1.1 In local currency	59,346,890	48,103,382
In foreign currencies	11,449,071	7,200,397
	70,795,961	55,303,779
11.1.2 Short Term (for upto one year)	57,471,967	44,973,932
Long Term (for over one year)	13,323,994	10,329,847
	70,795,961	55,303,779

11.2 Net investment in finance lease/Ijara financing

	2006				2005			
	Not later than one year	Later than one year and less than five years	Over Five years	Total	Not later than one year	Later than one year less than five years	Over Five years	Total
	(Rupees in '000)							
Lease rentals receivable	87,456	393,497	-	480,953	-	-	-	-
Add: Residual value	-	37,822	-	37,822	-	-	-	-
Minimum lease payments	87,456	431,319	-	518,775	-	-	-	-
Financial charges for future periods	(40,180)	(75,776)	-	(115,956)	-	-	-	-
Present value of minimum lease payments	47,276	355,543	-	402,819	-	-	-	-

11.3 Advances include Rs. 388.263 million (2005: Rs. 383.393 million) which have been placed under non-performing status as detailed below:

	2006								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Category of classification									
Substandard	5,955	-	5,955	1,489	-	1,489	1,489	-	1,489
Doubtful	18,916	-	18,916	9,458	-	9,458	9,458	-	9,458
Loss	363,392	-	363,392	202,228	-	202,228	202,228	-	202,228
	388,263	-	388,263	213,175	-	213,175	213,175	-	213,175
General Provision	-	-	-	-	-	-	27,069	-	27,069
	388,263	-	388,263	213,175	-	213,175	240,244	-	240,244
	2005								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Substandard	975	-	975	98	-	98	98	-	98
Doubtful	66,288	-	66,288	23,325	-	23,325	23,325	-	23,325
Loss	316,130	-	316,130	171,729	-	171,729	171,729	-	171,729
	383,393	-	383,393	195,152	-	195,152	195,152	-	195,152
General Provision	-	-	-	-	-	-	27,069	-	27,069
	383,393	-	383,393	195,152	-	195,152	222,221	-	222,221



11.3.1 The Prudential Regulations issued by the State Bank of Pakistan effective from 01 January 2004 require banks to maintain a general reserve equal to 1.5% of the consumer portfolio which is fully secured and 5% of the consumer portfolio which is unsecured to protect the Bank from the risk associated with the economic cyclical nature of this business. The Bank has created the general provision for secured and unsecured consumer portfolio amounting to Rs. 27.069 million (2005: Rs. 27.069 million).

11.4 **Particulars of provision against non-performing advances:**

	2006			2005		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	195,152	27,069	222,221	100,028	70,000	170,028
Charge for the year	37,664	-	37,664	146,498	-	146,498
Reversals	(18,012)	-	(18,012)	(29,750)	(42,931)	(72,681)
	19,652	-	19,652	116,748	(42,931)	73,817
Amount Written Off 11.5	(1,629)	-	(1,629)	(21,624)	-	(21,624)
Closing balance	213,175	27,069	240,244	195,152	27,069	222,221

11.4.1 **Particulars of provision against non-performing advances:**

	2006			2005		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	213,175	27,069	240,244	195,152	27,069	222,221

11.5 **Particulars of write offs:**

	2006		2005	
	(Rupees in '000)			
11.5.1 Against provision	1,629			21,624
Directly charged to profit and loss account	-			-
	1,629			21,624
11.5.2 Write-offs of Rs. 500,000 and above	1,524	11.6		21,624
Write-offs of below Rs. 500,000	105			-
	1,629			21,624

11.6 **Detail of loans written-off of Rs. 500,000 and above:**

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended 31 December 2006 is given in Annexure 1.



11.7	Particulars of Loans and Advances to Directors, Associated Companies, etc.	2006	2005
		(Rupees in '000)	
	(i) Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons.		
	Balance at beginning of the year	11,989	6,313
	Loans granted during the year	1,175	9,397
	Repayments	(2,258)	(3,721)
	Balance at end of the year	10,906	11,989
	(ii) Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members.		
	Balance at beginning of the year	260,000	260,000
	Loans granted during the year	262,730	17,227
	Repayments	(275,115)	(17,227)
	Balance at end of the year	247,615	260,000
	(iii) Debts due by subsidiary company, controlled firms and other related parties		
	Balance at beginning of the year	-	-
	Loans granted during the year	70,489	-
	Repayments	(70,489)	-
	Balance at end of the year	-	-
12.	OPERATING FIXED ASSETS		
	Capital work-in-progress	12.1	385,775
	Property and equipment	12.2	196,805
	Intangible assets	12.3	3,515,487
			2,276,049
			8,805
			2,980
			3,910,067
			2,475,834
12.1	Capital work-in-progress		
	Civil works	170,734	111,849
	Advance payment towards property and equipments	208,023	80,847
	Consultants fee and other charges	7,018	4,109
		385,775	196,805



12.2 Property and equipment

	2006							
	Cost/Revalued Amount			Depreciation			Book value	
	As at 1 Jan. 2006	Additions/ (Deletions)/ Adjustments*	As at 31 Dec. 2006	As at 1 Jan. 2006	Charge / (Deletions)	As at 31 Dec. 2006	As at 31 Dec. 2006	Rate of depreciation %
	(Rupees in '000)							
<i>Owned</i>								
Leasehold land	618,866	286,621 22,507 *	927,994	-	-	-	927,994	-
Buildings on leasehold land	1,257,818	498,350 (22,507)*	1,733,661	63,782	58,175	121,957	1,611,704	2.00-6.67
Improvements to leasehold buildings	40,377	61,673	102,050	2,227	3,088	5,315	96,735	5
Furniture and fixtures	131,774	61,552 (1,284)	192,042	45,439	14,695 (828)	59,306	132,736	10
Electrical, office and computer equipment	60,511	11,907 (3,760)	68,658	53,184	3,165 (3,456)	52,893	15,765	20
Vehicles	3,566	3,980 (1,246)	6,300	2,328	558 (995)	1,891	4,409	20
	2,112,912	924,083 (6,290)	3,030,705	166,960	79,681 (5,279)	241,362	2,789,343	
<i>Leased</i>								
Electrical, office and computer equipment	283,282	394,278 (3,482)	674,078	48,477	81,519 (1,171)	128,825	545,253	20
Vehicles	116,174	132,295 (8,515)	239,954	20,882	39,924 (1,743)	59,063	180,891	20
	399,456	526,573 (11,997)	914,032	69,359	121,443 (2,914)	187,888	726,144	
	2,512,368	1,450,656 (18,287)	3,944,737	236,319	201,124 (8,193)	429,250	3,515,487	



	Cost/Revalued Amount			2005 Depreciation			Book value	
	As at 1 Jan. 2005	Additions/ (Deletions)/ Adjustments*	As at 31 Dec. 2005	As at 1 Jan. 2005	Charge / (Deletions)	As at 31 Dec. 2005	As at 31 Dec. 2005	Rate of depreciation %
	(Rupees in '000)							
<i>Owned</i>								
Leasehold land	248,250	172,596 198,020 *	618,866	-	-	-	618,866	-
Buildings on leasehold land	1,035,336	420,502 (198,020) *	1,257,818	29,723	34,059	63,782	1,194,036	2.00 - 6.67
Improvements to leasehold buildings	24,341	16,036	40,377	609	1,618	2,227	38,150	5
Furniture and fixtures	101,416	31,393 (1,035)	131,774	35,590	10,766 (917)	45,439	86,335	10
Electrical, office and computer equipments	61,425	4,173 (5,087)	60,511	55,084	2,984 (4,884)	53,184	7,327	20
Vehicles	3,233	854 (521)	3,566	2,324	518 (514)	2,328	1,238	20
	<u>1,474,001</u>	<u>645,554 (6,643)</u>	<u>2,112,912</u>	<u>123,330</u>	<u>49,945 (6,315)</u>	<u>166,960</u>	<u>1,945,952</u>	
<i>Leased</i>								
Electrical, office and computer equipment	100,968	182,539 (225)	283,282	10,097	38,447 (67)	48,477	234,805	20
Vehicles	47,616	70,521 (1,963)	116,174	4,762	16,576 (456)	20,882	95,292	20
	<u>148,584</u>	<u>253,060 (2,188)</u>	<u>399,456</u>	<u>14,859</u>	<u>55,023 (523)</u>	<u>69,359</u>	<u>330,097</u>	
	<u>1,622,585</u>	<u>898,614 (8,831)</u>	<u>2,512,368</u>	<u>138,189</u>	<u>104,968 (6,838)</u>	<u>236,319</u>	<u>2,276,049</u>	

12.3 Intangible assets

	Cost			2006 Amortization			Book value	
	As at 1 Jan.	Additions	As at 31 Dec.	As at 1 Jan.	Charge	As at 31 Dec.	As at 31 Dec.	Rate of amortization %
	(Rupees in '000)							
Computer software	51,459	17,610	69,069	48,479	11,785	60,264	8,805	50
	<u>51,459</u>	<u>17,610</u>	<u>69,069</u>	<u>48,479</u>	<u>11,785</u>	<u>60,264</u>	<u>8,805</u>	
	Cost			2005 Amortization			Book value	
	As at 1 Jan.	Additions	As at 31 Dec.	As at 1 Jan.	Charge	As at 31 Dec.	As at 31 Dec.	Rate of amortization %
	(Rupees in '000)							
Computer software	45,499	5,960	51,459	40,504	7,975	48,479	2,980	50
	<u>45,499</u>	<u>5,960</u>	<u>51,459</u>	<u>40,504</u>	<u>7,975</u>	<u>48,479</u>	<u>2,980</u>	

Various computer software costing Rs. 6 million procured by the Bank have been fully amortized and continue to remain in the Bank's use.



12.4 Disposals / deletions of fixed assets during the year with original cost or book value in excess of Rupees one million or two hundred fifty thousand respectively (whichever is less):

Particulars	Cost	Book Value	Sale Price	Mode of disposal	Particulars of purchaser
					(Rupees in '000)
Furniture and Fixtures	953	348	120	Auction	Karachi Auction Mart, 7/C, Mai Kolachi Road, Karachi.

12.5 During the year no assets were disposed-off to the Chief Executive or a director or an executive or a shareholder holding not less than ten percent of the voting shares of the Bank or any related party.

12.6 In 2004 leasehold land and buildings were revalued by M/s Iqbal A. Nanjee & Co. on the basis of market value which resulted in net surplus of Rs. 441.312 million over the book value of the assets as on 01 January 2004.

Had there been no revaluation, the net book value of specific classes of property, plant and equipment would have amounted to:

	Net Book Value	
	2006	2005
	(Rupees in '000)	
Leasehold land	866,479	557,351
Buildings on leasehold land	1,265,946	836,944
	2,132,425	1,394,295
	2006	2005
	(Rupees in '000)	

13. OTHER ASSETS

Income / mark-up accrued in local currency		1,425,230	1,088,692
Income / mark-up accrued in foreign currency		90,910	11,882
Advances, deposits, advance rent and other prepayments		235,425	178,703
Deferred costs	13.1	29,228	76,390
Unrealized gain on forward foreign exchange contracts		31,330	—
Stationery and stamps on hand		48,614	32,394
Receivable from SBP / Government of Pakistan		7,564	405,995
Non refundable deposits	13.2	128,837	137,687
Others	13.3	113,484	8,221
		2,110,622	1,939,964

13.1 This represents renovation costs incurred on bank premises before 31 December 2003, being accounted for as deferred cost and amortized over a period of five years. From 2004 renovation costs representing major renewals and improvements are capitalized as improvements to buildings and depreciated over the remaining useful lives of buildings.

13.2 This represents non refundable deposits paid in relation to acquisition of some Bank's properties. These are being written off over the periods ranging from 10 to 20 years (being estimated useful lives of related properties).

13.3 This includes proceeds receivable amounting to Rs. 111.176 million in respect of redemption of units of an open ended mutual fund.



		2006	2005
		(Rupees in '000)	
14. BILLS PAYABLE			
In Pakistan		<u>1,390,613</u>	<u>1,464,648</u>
15. BORROWINGS FROM FINANCIAL INSTITUTIONS			
In Pakistan		10,742,659	6,199,058
Outside Pakistan		45,895	76,810
		<u>10,788,554</u>	<u>6,275,868</u>
15.1 Particulars of borrowings with respect to currencies			
In local currency		10,742,659	6,199,058
In foreign currency		45,895	76,810
		<u>10,788,554</u>	<u>6,275,868</u>
15.2 Details of borrowings secured / unsecured			
Secured			
Borrowings from State Bank of Pakistan			
Under export refinance scheme	15.3	7,037,717	5,533,900
Under Long Term Financing for			
Export Oriented Projects	15.4	1,276,231	154,969
Repurchase agreement borrowings	15.5	2,428,711	510,189
		10,742,659	6,199,058
Unsecured			
Overdrawn Nostros		45,895	76,810
		<u>10,788,554</u>	<u>6,275,868</u>
15.3	These borrowings carry mark-up rates ranging from 6.50% to 7.50% per annum (2005: 3.50% to 7.50%) and are secured against promissory notes, undertakings in favour of the Bank and export documents, payable quarterly at the time of partial payment or upon maturity of loan, whichever is earlier.		
15.4	This represents Borrowings from State Bank of Pakistan under Long Term Finance for Export Oriented Products at rates ranging from 4.00% to 5.00% per annum (2005: 5.00%) having maturity period of upto seven years and six months.		
15.5	This represents repurchase agreement borrowings from other banks at rates ranging from 8.75% to 9.00% per annum (2005: 6.00% to 7.50%) having a maturity period of upto one month.		



	2006	2005
	(Rupees in '000)	
16. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	33,823,942	17,670,702
Savings deposits	16,781,615	16,670,626
Current accounts - Remunerative	11,311,994	15,951,090
Current accounts - Non-remunerative	27,856,246	24,112,578
	89,773,797	74,404,996
Financial Institutions		
Remunerative deposits	1,530,182	1,171,981
Non-remunerative deposits	115,984	218,881
	1,646,166	1,390,862
	91,419,963	75,795,858
16.1 Particulars of deposits		
In local currency	80,820,393	68,801,419
In foreign currencies	10,599,570	6,994,439
	91,419,963	75,795,858
17. SUB-ORDINATED LOANS		
Term Finance Certificates (TFCs) - I - Quoted, Unsecured	17.1 1,348,920	1,349,460
Term Finance Certificates (TFCs) - II - Unsecured	17.2 739,000	-
	2,087,920	1,349,460
17.1 Term Finance Certificates (TFCs) - I Quoted, Unsecured		
Total issue	Rupees 1,350 million	
Rating	AA-	
Rate	Payable six monthly at average six months KIBOR plus 150 bps	
Floor	3.50% p.a.	
Cap	10.00% p.a.	
Redemption	6-78th month: 0.25% 84th, 90th and 96th month: 33.25% each	
Tenor	8 years	



17.2 Term Finance Certificates (TFCs) - II Unsecured

Total issue	Rupees 1,500 million
Pre-initial public offer (Pre-IPO)	Rupees 1,125 million
Rating	AA-
Rate	Payable six monthly at average six months KIBOR plus 1.95% without any floor and cap
Redemption	6-84th month: 0.28% 90th and 96th month: 49.86% each
Tenor	8 years

During the year, the Bank obtained appropriate approvals from SBP and SECP for issuance of rated, listed and un-secured subordinated TFC-II. Out of total pre-IPO funds of Rs. 1,125 million, Rs. 739 million have been received by 31 December 2006.

18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2006			2005		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
Not later than one year	331,029	67,025	264,004	142,093	30,188	111,905
Later than one year but not later than five years	500,372	56,166	444,206	261,137	28,031	233,106
	831,401	123,191	708,210	403,230	58,219	345,011

(Rupees in '000)

18.1 The Bank has entered into various lease agreements for computers, office equipments and vehicles. Lease rentals include financial charges at the rate of 10.25% to 12.25% per annum (2005: 10.00%-10.25%) which have been used as discounting factor and are payable monthly. The Bank has the option to purchase the assets upon completion of lease period and has intention to exercise it.



2006 2005
(Rupees in '000)

19. DEFERRED TAX ASSETS / (LIABILITIES)

Deferred tax credits / taxable temporary differences arising in respect of:

– Assets on Ijara Financing	(3,973)	–
– Difference between accounting book value of owned fixed assets and tax base	(353,887)	(225,522)
– Investments	(26,815)	(50,182)
– Difference between accounting book value of leased assets and lease liabilities	(6,277)	–
	(390,952)	(275,704)

Deferred tax debits / deductible temporary differences arising in respect of :

– Provision for general loan losses	9,474	9,474
– Provision for compensated absences	9,764	6,264
– Provision for diminution in the value of investments	987	–
– Difference between accounting book value of leased assets and lease liabilities	–	5,220
	20,225	20,958
	(370,727)	(254,746)

20. OTHER LIABILITIES

Mark-up /return/interest payable in local currency	552,874	437,512
Mark-up/return/interest payable in foreign currencies	45,655	5,704
Accrued expenses	25,488	27,882
Provision for compensated absences	27,898	17,898
Advance payments	58,409	7,242
Taxation (Provision less payments)	771,068	85,399
Unclaimed dividends	12,674	6,592
Unrealized Loss on forward foreign exchange contracts	–	7,078
Branch adjustment account	48,706	47,620
Special exporters accounts in foreign currencies	24,490	69,090
Others	142,396	57,839
	1,709,658	769,856
	1,709,658	769,856



		2006		2005	
		(Rupees in '000)			
21. SHARE CAPITAL					
	2006	2005			
	(Number of shares)				
Authorised Capital					
	<u>500,000,000</u>	<u>300,000,000</u>	Ordinary shares of Rs.10 each	<u>5,000,000</u>	<u>3,000,000</u>
Issued, subscribed and paid up capital					
			Ordinary shares of Rs. 10 each		
	30,000,000	30,000,000	fully paid in cash	300,000	300,000
	232,933,387	189,111,156	Issued as bonus shares	2,329,334	1,891,112
	<u>262,933,387</u>	<u>219,111,156</u>		<u>2,629,334</u>	<u>2,191,112</u>

21.1 Issued, subscribed and paid-up capital at year-end includes 4,373,455 ordinary shares of Rs. 10 each (2005: 3,644,546 shares) held by the associated undertaking.

21.2 After 31 December 2006, the following dividends were proposed by the Board of directors in respect of year 2006. The dividends have not been provided for.

(Rupees in '000)

Bonus issue at 4 shares for 10 shares held	1,051,734
Cash dividend @ Rs. 1.5 per share	394,400

The above bonus issue would increase the paid up capital of the Bank to Rs. 3,681 million in compliance with the BSD circular no. 12 datd 25 August 2004 of the State Bank of Pakistan. The State Bank of Pakistan has granted extension to increase the paid up capital by 31 March 2007.

21.3 Exchange translation reserve

This comprises all foreign currency differences arising from translation of financial statements of foreign operations.

21.4 Statutory reserves

The Bank is required to transfer 20% of its profits to a statutory reserve until the reserve equals share capital. This reserve is not available for distribution.

		2006		2005	
		(Rupees in '000)			
22. SURPLUS ON REVALUATION OF ASSETS - NET					
Surplus on revaluation of securities - net of tax	22.1	49,798	206,674		
Surplus on revaluation of fixed assets - net of tax	22.2	286,258	293,625		
		<u>336,056</u>	<u>500,299</u>		



	2006	2005
	(Rupees in '000)	
22.1 Federal Government securities	80,558	144,219
Quoted shares	(56,283)	51,088
Other securities	52,338	61,549
Related deferred tax liability	(26,815)	(50,182)
	49,798	206,674
22.2 Surplus on revaluation of fixed assets	418,607	429,978
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax	(7,367)	(7,391)
Related deferred tax liability	(3,967)	(3,980)
	(11,334)	(11,371)
	407,273	418,607
Less: Related deferred tax liability on:		
Revaluation of fixed assets	124,982	128,962
Incremental depreciation charged during the year transferred to profit and loss account	(3,967)	(3,980)
	121,015	124,982
	286,258	293,625
23. CONTINGENCIES AND COMMITMENTS		
23.1 Direct Credit Substitutes		
Acceptances	4,180,208	5,673,637
23.2 Transaction-related Contingent Liabilities		
Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credit related to particular transactions issued in favour of:		
– Government	2,977,965	2,398,648
– Financial Institutions	198,103	85,787
– Others	1,486,431	1,429,259
23.3 Trade-related Contingent Liabilities		
Letters of credit	19,965,016	16,227,514
23.4 Other contingencies		

The income tax authorities have finalised the income tax assessments of the Bank upto tax year 2004 (accounting year ended 31 December 2003). For tax year 2005 and 2006 the Bank has filed returns under self-assessment scheme as envisaged in the section 120 of the Income Tax ordinance, 2001. The Income Tax Department has filed appeals against the appellate order relating to the assessment years 1995-1996, 2000-2001, 2001-2002, 2002-2003 and tax years 2003 and 2004 before the Income Tax Appellate Tribunal (ITAT) on which the tax liability, if any, of Rs. 40 million may arise. The Bank, based on the earlier decisions at ITAT level in previous years and the tax advisor's opinion is confident of a favourable outcome and expects that no additional liability would arise.



	2006	2005
	(Rupees in '000)	
23.5 Commitments in respect of forward lending		
Commitments to extend credit	1,265,167	345,000
23.6 Commitments in respect of forward exchange contracts		
Purchase	4,020,798	3,445,614
Sale	7,513,967	5,884,600
The maturities of above contracts are spread over a period upto one year.		
23.7 Commitments for the acquisition of operating fixed assets	706,825	158,039
23.8 Commitments in respect of operating leases		
Not later than one year	1,836	60,608
Later than one year and not later than five years	718	3,519
	2,554	64,127
The Bank has entered into operating lease arrangements whereby vehicles are acquired on operating lease. The lease rentals are payable over a period upto 24 months.		
23.9 Other commitments		
Investment towards capital of Habib Asset Management Limited	–	10,500
Commitment for donation to Habib Education Trust for construction of Habib Public School building	9,000	–
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to:		
– Customers	5,300,188	3,378,651
– Financial institutions	116,962	54,785
On investments	2,136,746	1,264,619
On deposits with financial institutions	98,906	60,590
On securities purchased under resale agreements	136,562	154,472
On call money lendings	68,381	22,509
	7,857,745	4,935,626



	2006	2005
	(Rupees in '000)	
25. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	3,317,868	1,604,922
Securities sold under repurchase agreements	138,132	52,515
Sub-ordinated loan - TFCs	134,907	115,433
Borrowing from State Bank of Pakistan:		
– under Export Refinance Scheme	422,994	323,001
– under Long-Term Financing for Export Oriented Projects	29,000	270
Other short term borrowings	35,299	47,369
	4,078,200	2,143,510
26. GAIN ON SALE OF SECURITIES		
Pakistan Investment Bonds	–	76
Shares - Listed	48,627	10,577
Mutual Funds - Open ended	35,428	16,911
	84,055	27,564
27. OTHER INCOME		
Gain on transfer of membership rights of KSE card to subsidiary company	–	28,250
Gain on disposal of operating fixed assets	17,727	5,203
Miscellaneous income (rent of lockers, recovery of fax, telephone, telex, courier charges, etc.)	176,676	126,688
	194,403	160,141
28. ADMINISTRATIVE EXPENSES		
Salaries, allowances, etc.	962,847	643,314
Charge for defined benefit plan	34.7 30,050	14,713
Contribution to defined contribution plan	38,923	25,960
Charge for compensated absences	10,000	10,398
Non-executive directors' fees, allowances and other expenses	660	65
Rent, taxes, insurance, electricity, etc.	309,810	219,364
Legal and professional charges	17,936	22,335
Communications	95,630	72,052
Repairs and maintenance	93,822	66,962
Rentals of operating leases	60,765	144,566
Financial charges on leased assets	50,954	18,022
Security charges	62,012	41,680
Stationery and printing	76,966	50,025
Advertisement and publicity	47,955	15,703
Donations	28.1 14,750	24,850
Auditors' remuneration	28.2 1,160	1,130
Depreciation	12.2 201,124	104,968
Amortisation	67,797	72,548
Vehicle running expenses	83,699	54,772
Commission and brokerage	65,124	28,098
Subscriptions and publications	16,571	14,138
Clearing charges (NIFT)	21,359	15,237
Others	102,481	67,489
	2,432,395	1,728,389



2006 2005
(Rupees in '000)

28.1 The details of donations in excess of Rupees One hundred thousand are given below:

Agha Khan Hospital and Medical College Foundation	200	650
Al-Sayyeda Benevolent Trust	925	925
Bait-ul-Sukoon Trust	–	500
Beautification of I.I. Chundrigar Road - a social welfare project	–	7,500
Habib Education Trust	9,900	900
Habib Medical Trust	925	925
Habib Poor Fund	900	900
Jinnah Foundation (Memorial) Trust	–	200
Layton Rehmatullah Benevolent Trust	–	100
President Relief Fund for Earthquake Victims-2005	–	10,000
Rahmatbai Habib Food & Clothing Trust	900	900
Rahmatbai Habib Widows & Orphans Trust	900	900
Shaukat Khanum Memorial Hospital and Research Centre	–	125
Society for Children in need of Special Attention	100	–
The Society for the Prevention and Cure of Blindness	–	125

None of the directors or their spouse had any interest in the above donees.

2006 2005
(Rupees in '000)

28.2 **Auditors' remuneration**

Audit fee	650	650
Fee for half yearly review, audit of provident and gratuity fund, special certifications and sundry advisory services	400	450
Out of pocket expenses	110	30
	1,160	1,130

29. OTHER CHARGES

Penalties imposed by State Bank of Pakistan	54	2,453
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30. TAXATION

For the year		
– Current	784,202	685,514
– Deferred	139,347	16,292
	923,549	701,806
	30.1	
For prior year	4,840	(143,857)
	928,389	557,949



	2006	2005
	(Rupees in '000)	
30.1 Relationship between tax expense and accounting profit		
Profit before taxation	<u>2,689,381</u>	<u>2,022,008</u>
Tax at the applicable rate of 35% (2005: 38%)	941,283	768,363
Tax effect of:		
– Expenses that are not deductible in determining taxable Income	19,623	32,447
– Dividend income taxed at reduced rate	(12,515)	(12,811)
– Capital gain on sale of quoted shares being exempt from tax	(29,419)	(10,445)
– Others	4,577	(75,748)
	<u>923,549</u>	<u>701,806</u>
31. EARNINGS PER SHARE - BASIC AND DILUTED		
Profit for the year	<u>1,760,992</u>	<u>1,464,059</u>
Weighted average number of ordinary shares (Numbers)	<u>262,933,387</u>	<u>262,933,387</u>
Basic and diluted earnings per share (Rupees)	<u>6.69</u>	<u>5.57</u>
32. CASH AND CASH EQUIVALENTS		
	2006	2005
	(Rupees in '000)	
Cash and balance with treasury bank	9,346,431	7,582,661
Balance with Other Banks	1,232,902	1,088,891
	<u>10,579,333</u>	<u>8,671,552</u>
33. STAFF STRENGTH		
	2006	2005
	(Numbers)	
Permanent	2,323	1,739
Temporary / on contractual basis	85	70
Daily wages	–	–
Others	–	–
Bank's own staff at end of the year	<u>2,408</u>	1,809
Outsourced	488	373
Total staff strength	<u>2,896</u>	<u>2,182</u>



34. DEFINED BENEFIT PENSION PLAN - EMPLOYEES' GRATUITY FUND

General description

The Bank operates an approved gratuity fund for all its confirmed employees, which is administered by the Board of Trustees. The Bank's costs and contributions are determined based on an actuarial valuation carried out at each year end by using Projected Unit Credit Method. The benefits under the gratuity scheme are payable on retirement at the age of 60 or on earlier cessation of service as under:

34.1 <i>Number of years of eligible service completed:</i>	<i>Amount of gratuity payable:</i>
– Less than 5 years	Nil
– 5 years or more but less than 10 years	1/3rd of basic salary for each year served
– 10 years or more but less than 15 years	2/3rd of basic salary for each year served
– 15 years or more	Full basic salary for each year served

34.2 Principal actuarial assumptions

The last actuarial valuation of the scheme was carried out as on 31 December 2006 and the significant assumptions used for actuarial valuation were as follows:

	2006	2005
Discount rate	10.00% p.a.	9.00% p.a.
Expected rate of increase in salary in future years	9.00% p.a.	8.00% p.a.
Expected rate of return on plan assets	10.00% p.a.	9.00% p.a.

	2006	2005
	(Rupees in '000)	
34.3 Reconciliation of payable to defined benefit plan		
Present value of defined benefit obligations	158,620	108,992
Fair value of plan assets	(96,453)	(63,902)
Net actuarial losses not recognized	(62,167)	(45,090)
	<u>–</u>	<u>–</u>
34.4 Movement in defined benefit obligation:		
Obligation as at 1 January	108,992	80,524
Current service cost	23,830	11,462
Interest cost	9,998	6,589
Benefits paid	(3,399)	(8,240)
Actuarial loss / (gain) on obligation	19,199	18,657
Obligation as at 31 December	158,620	108,992



	2006	2005			
	(Rupees in '000)				
34.5 Movement in fair value of plan assets					
Fair value as at 1 January	63,902	54,399			
Expected return on plan assets	6,220	4,629			
Contribution by the bank	30,050	14,713			
Benefits paid	(3,399)	(8,240)			
Actuarial (loss) / gain on plan assets	(320)	(1,599)			
Fair value as at 31 December	<u>96,453</u>	<u>63,902</u>			
34.6 Movement in (receivable) / payable to defined benefit					
Balance as at 1 January	–	–			
Charge for the year	30,050	14,713			
Contribution to the fund during the year – Bank's Contribution	<u>(30,050)</u>	<u>(14,713)</u>			
Balance as at 31 December	<u>–</u>	<u>–</u>			
34.7 Charge for defined benefit plan					
Current service cost	23,830	11,462			
Interest cost	9,998	6,589			
Expected return on plan assets	(6,220)	(4,629)			
Amortisation of actuarial losses	2,442	1,291			
	<u>30,050</u>	<u>14,713</u>			
34.8 Actual return on plan assets					
The actual return on the assets during the year is:					
– Expected return on plan assets	6,220	4,629			
– Actuarial (loss) / gain on plan assets	<u>(320)</u>	<u>(1,599)</u>			
	<u>5,900</u>	<u>3,030</u>			
34.9 Five year data on surplus / (deficit) of the plans & experience adjustments					
	<u>2006</u>	2005	2004	2003	2002
	(Rupees in '000)				
– Present value of defined benefit obligation	<u>(158,620)</u>	(108,992)	(80,524)	(54,719)	(36,016)
– Fair value of plan assets	<u>96,453</u>	63,902	54,399	43,616	34,614
– (Deficit) / Surplus	<u>(62,167)</u>	<u>(45,090)</u>	<u>(26,125)</u>	<u>(11,103)</u>	<u>(1,402)</u>
– Experience adjustments on plan liabilities - (loss) / gain	<u>19,199</u>	<u>18,657</u>	<u>15,308</u>	<u>9,441</u>	<u>3,241</u>
– Experience adjustments on plan assets - (loss) / gain	<u>(320)</u>	<u>(1,599)</u>	<u>(88)</u>	<u>(290)</u>	<u>1,452</u>



	2006	2005
34.10 Components of plan assets as a percentage of total plan assets		
– Term finance certificate	27.36%	40.00%
– Others (including bank balances)	72.64%	60.00%
	100.00%	100.00%

34.11 Expected contribution to be paid to the funds in the next financial year 2007
(Rupees in '000)

The bank contributes to the gratuity fund according to the actuary's advice. Based on actuarial advice the management estimates that the charge in respect of defined benefit plans for the year ending 31 December 2007 would be as follows:

Expected charge for the year 2007	<u>33,772</u>
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35. COMPENSATION OF CHIEF EXECUTIVE, EXECUTIVE DIRECTOR AND EXECUTIVES

	(Rupees in '000)					
	Chief Executive		Executive Director		*Executives	
	2006	2005	2006	2005	2006	2005
Managerial remuneration	4,000	4,000	2,400	2,400	170,386	90,844
Contribution to provident fund	400	400	240	240	12,930	7,244
Charge for defined benefit plan	333	194	200	117	4,119	4,395
Rent and house maintenance	1,600	1,600	960	960	68,154	36,337
Utilities	741	829	240	242	17,038	9,320
Bonus	1,000	1,000	600	600	40,519	21,979
Medical	59	73	25	23	4,530	2,410
Others	–	–	–	–	2,616	532
	8,133	8,096	4,665	4,582	320,292	173,061
Number of person(s)	1	1	1	1	184	111

The Chief Executive, Executive Director and Executives are also provided with the Bank maintained cars in accordance with the terms of employment.

* Executives mean employees, other than the Chief Executive and Executive Director whose basic salary exceeds five hundred thousand rupees in a financial year.



36. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2006		2005	
	Book value	Fair value	Book value	Fair value
	(Rupees in '000)			
36.1 On-balance sheet financial instruments				
Assets				
Cash and balances with treasury bank	9,346,431	9,346,431	7,582,661	7,582,661
Balances with other banks	1,232,902	1,232,902	1,088,891	1,088,891
Lendings to financial institutions	6,578,800	6,578,800	3,352,747	3,352,747
Investments	21,023,254	20,917,453	19,757,665	19,809,042
Advances	70,795,961	70,795,961	55,303,779	55,303,779
Other assets	1,668,667	1,668,667	1,508,198	1,508,198
	<u>110,646,015</u>	<u>110,540,214</u>	<u>88,593,941</u>	<u>88,645,318</u>
Liabilities				
Bills payable	1,390,613	1,390,613	1,464,648	1,464,648
Borrowings	10,788,554	10,788,554	6,275,868	6,275,868
Deposits and other accounts	91,419,963	91,419,963	75,795,858	75,795,858
Sub-ordinated loan - TFCs	2,087,920	2,087,920	1,349,460	1,349,460
Liabilities against assets subject to finance lease	708,210	708,210	345,011	345,011
Other liabilities	861,988	861,988	581,885	581,885
	<u>107,257,248</u>	<u>107,257,248</u>	<u>85,812,730</u>	<u>85,812,730</u>
36.2 Off-balance sheet financial instruments				
Forward purchase of foreign exchange contracts	<u>4,020,798</u>	<u>4,020,798</u>	<u>3,445,614</u>	<u>3,445,614</u>
Forward sale of foreign exchange contracts	<u>7,513,967</u>	<u>7,513,967</u>	<u>5,884,600</u>	<u>5,884,600</u>

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

The fair value of quoted investments is based on quoted market price. Fair value of unquoted equity investments is determined on the basis of break-up value of these investments as per the latest available audited financial statements. In the opinion of management, the fair value of the remaining financial assets and liabilities are not significantly different from their book value since assets and liabilities are either short term in nature or frequently re-priced, except for fixed term advances of over one year, staff loans and fixed term deposits of over one year.

In the opinion of management, the fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities.



37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Retail Banking	Commercial Banking	Inter Segment Elimination	Total
(Rupees in '000)				
2006				
Total income	5,199,675	6,923,804	(2,902,490)	9,220,989
Total expenses	(3,587,321)	(5,846,777)	2,902,490	(6,531,608)
Net income (loss)	1,612,354	1,077,027	–	2,689,381
Segment Assets (Gross)	64,300,931	99,808,608	(49,111,502)	114,998,037
Segment Non Performing Loans	67,474	320,789	–	388,263
Segment Provision Required	59,229	181,015	–	240,244
Segment Liabilities	63,425,001	94,162,146	(49,111,502)	108,475,645
Segment Return on net				
Assets (ROA) (%)	2.51%	1.08%	–	–
Segment Cost of funds (%)	5.90%	6.48%	–	–
2005				
Total income	3,108,053	4,381,346	(1,517,709)	5,971,690
Total expenses	(1,934,277)	(3,533,114)	1,517,709	(3,949,682)
Net income (loss)	1,173,776	848,232	–	2,022,008
Segment Assets (Gross)	49,723,976	79,159,567	(37,382,002)	91,501,541
Segment Non Performing Loans	82,456	300,937	–	383,393
Segment Provision Required	119,728	102,493	–	222,221
Segment Liabilities	49,032,786	74,604,663	(37,382,002)	86,255,447
Segment Return on net				
assets (ROA) (%)	2.36%	1.07%	–	–
Segment Cost of funds (%)	4.06%	4.92%	–	–

For the purpose of presentation of results of each segment, the inter-segment lending has been remunerated at an average cost to that segment.

38. TRUST ACTIVITIES

The Bank provides services as a trustee to Dawood Money Market Fund. The market value of shares held by the Bank in safe custody on behalf of the fund amounted to Rs. 338.947 million (2005: Rs. 312.553 million)

39. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include major shareholders, subsidiary company, associated companies with or without common directors, retirement benefit funds, directors and key management personnel and their close family members.

The Bank continues to have a policy whereby all transactions with related parties are entered into at arm's length prices using the comparable uncontrolled price method except dividends which have been approved in the Annual General Meeting.

The lending policy in case of related parties has been consistent with that of the bank's overall credit policy and in line with the SBP's Prudential Regulations.

Transactions with related parties, other than those under the terms of employment, are summarised as follows:



	2006				Total
	Associates	Subsidiary	Non Executive Directors	Key Management Personnel	
	(Rupees in '000)				
Deposits					
At beginning of the year	126,643	86,103	17,447	24,401	254,594
Received during the year	8,084,156	9,549,031	93,559	89,294	17,816,040
Repaid during the year	(8,045,316)	(9,587,120)	(105,579)	(99,124)	(17,837,139)
At end of the year	<u>165,483</u>	<u>48,014</u>	<u>5,427</u>	<u>14,571</u>	<u>233,495</u>
Advances					
At beginning of the year	260,000	–	–	11,989	271,989
Given during the year	262,730	70,489	–	1,175	334,394
Repaid during the year	(275,115)	(70,489)	–	(2,258)	(347,862)
At end of the year	<u>247,615</u>	<u>–</u>	<u>–</u>	<u>10,906</u>	<u>258,521</u>
Mark-up earned	21,910	801	2	763	23,476
Mark-up expensed	7,102	523	271	361	8,257
Salaries and allowances	–	–	–	56,207	56,207
Bonus	–	–	–	9,251	9,251
Compensated absences	–	–	–	57	57
Contribution to defined contribution plan	–	–	–	2,573	2,573
Contribution to defined benefit plan	–	–	–	1,222	1,222
Staff Provident fund	–	–	–	36,350	36,350
Directors' fee	–	–	660	–	660
Insurance claim received	5,617	–	–	–	5,617
Insurance premium paid	57,292	–	–	–	57,292
Dividend income	2,004	–	–	–	2,004
Dividend paid	5,467	–	–	–	5,467
Rental income	–	2,216	–	–	2,216
Commission expense	–	1,377	–	–	1,377



	2005				Total
	Associates	Subsidiary	Non Executive Directors (Rupees in '000)	Key Management Personnel	
Deposits					
At beginning of the year	132,461	–	–	2,759	135,220
Received during the year	14,447,937	300,000	187,018	220,887	15,155,842
Repaid during the year	(14,453,755)	(213,897)	(169,571)	(199,245)	(15,036,468)
At end of the year	<u>126,643</u>	<u>86,103</u>	<u>17,447</u>	<u>24,401</u>	<u>254,594</u>
Advances					
At beginning of the year	260,000	–	–	6,313	266,313
Given during the year	17,227	–	–	9,397	26,624
Repaid during the year	(17,227)	–	–	(3,721)	(20,948)
At end of the year	<u>260,000</u>	<u>–</u>	<u>–</u>	<u>11,989</u>	<u>271,989</u>
Mark-up earned	14,907	1	–	410	15,318
Mark-up expensed	813	112	15	26	966
Salaries and allowances	–	–	–	46,728	46,728
Bonus	–	–	–	7,741	7,741
Compensated absences	–	–	–	3,633	3,633
Contribution to defined contribution plan	–	–	–	2,300	2,300
Contribution to defined benefit plan	–	–	–	848	848
Staff Provident fund	–	–	–	23,659	23,659
Directors' fee	–	–	65	–	65
Insurance claim received	6,585	–	–	–	6,585
Insurance premium paid	43,165	–	–	–	43,165
Dividend income	4,008	–	–	–	4,008
Dividend paid	–	–	–	–	–
Rental income	–	92	–	–	92
Commission expense	–	38	–	–	38



40. CAPITAL ADEQUACY

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

	2006	2005
	(Rupees in '000)	
Regulatory Capital Base		
<i>Tier I Capital</i>		
Shareholders Capital	2,629,334	2,191,112
Reserves	2,082,561	2,167,736
Unappropriated profits	1,474,441	58,280
Less: Adjustments for investment in subsidiary company	6,186,336 (200,000)	4,417,128 (200,000)
Total Tier I Capital	5,986,336	4,217,128
<i>Tier II Capital</i>		
Subordinated Debt (upto 50% of total Tier I Capital)	2,087,920	1,349,460
General Provisions subject to 1.25% of Total Risk Weighted Assets	27,069	-
Revaluation Reserve (upto 50%)	143,130	172,356
Total Tier II Capital	2,258,119	1,521,816
Eligible Tier III Capital	-	-
Total Regulatory Capital (a)	8,244,455	5,738,944

Risk-Weighted Exposures

	2006		2005	
	Book value	Risk Adjusted Value	Book value	Risk Adjusted Value
	(Rupees in '000)			
Credit Risk				
Balance sheet items:				
Cash and other liquid assets	10,579,333	311,842	8,671,552	264,666
Money at call	6,578,800	2,550,000	3,352,747	1,800,000
Investments	21,023,254	1,440,888	19,757,665	1,300,090
Loans and advances	70,795,961	60,428,212	55,303,779	47,076,874
Fixed assets	3,910,067	3,910,067	2,475,834	2,475,834
Other assets	2,110,622	2,021,216	1,939,964	1,451,045
	<u>114,998,037</u>	<u>70,662,225</u>	<u>91,501,541</u>	<u>54,368,509</u>



Risk-Weighted Exposures

	2006		2005	
	Book value	Risk Adjusted Value (Rupees in '000)	Book value	Risk Adjusted Value
Off balance sheet items				
Loan repayment guarantees	4,180,208	4,143,606	5,673,637	3,875,229
Purchase and resale agreements	-	-	-	-
Performance bonds etc	4,662,499	1,586,463	3,913,694	1,299,005
Revolving underwriting commitments	-	-	-	-
Stand by letters of credit	19,965,016	8,633,180	16,227,514	6,526,780
Outstanding foreign exchange contracts				
- Purchase	4,020,798	48,246	3,445,614	25,270
- Sale	7,513,967	66,193	5,884,600	44,340
	<u>40,342,488</u>	<u>14,477,688</u>	<u>35,145,059</u>	<u>11,770,624</u>
Credit risk-weighted exposures		<u>85,139,913</u>		<u>66,139,133</u>
Market risk				
General market risk				
Specific market Risk	243,571	243,571	263,962	263,962
Market risk-weighted exposures		<u>243,571</u>		<u>263,962</u>
Total Risk-weighted exposures (b)		<u>85,383,484</u>		<u>66,403,095</u>
Capital adequacy ratio [(a) / (b) x 100]		<u>9.66%</u>		<u>8.64%</u>

41. RISK MANAGEMENT

This section presents information about the Bank's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments.

41.1 Credit Risk

Credit risk is the risk of loss arising from failure by a client or counterparty to meet its contractual obligation. It emanates from loans and advances, commitments to lend, contingent liabilities such as letters of credit and guarantees, and other similar transactions both on and off balance sheet.

Credit risk of the Bank is managed through the credit policies approved by the Board; a well defined credit approval mechanism; prescribed documentation requirement; post disbursement administration, review and monitoring of all credit facilities; and continuous assessment of all credit worthiness of counterparties. Decisions regarding the credit portfolio are taken mainly by the Central Credit Committee. Credit Risk Management Committee of the Board provides overall guidance in managing the Bank's Credit risk.

Counterparty exposure limits are approved in line with State Bank of Pakistan's regulations and the Bank's own policies, by taking into account both qualitative and quantitative criteria. All credit exposures are adequately collateralised, except when specially exempted by SBP as in the case of personal loans and credit cards. There is an established system for continuous monitoring of credit exposures and follow-up of any past due loans with the respective business units. All past due loans, including trade bills, are reviewed on fortnightly basis and pursued for recovery. Any non-performing loans are classified and provided for as per SBP regulations.

Credit facilities, both fund based and non-fund based, extended to large customer groups and industrial sectors are regularly monitored. The Bank has concentration of credit in textile which is the largest sector of Pakistan's economy. Concentration risk is managed by diversification within sub-sectors like spinning, weaving, and composite; credit worthiness of counterparties and adequate collateralisation of exposures.



Stress testing for credit risk is carried regularly to estimate the impact of increase in NPLs, downward shift in NPL categories, and decline in forced sale values of mortgaged collaterals.

41.1.1 Segment by class of business

	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Agriculture / Agri business	690,506	0.98	506,574	0.55	216,277	0.75
Automobiles and Transportation						
Equipment	832,219	1.18	3,973,941	4.35	2,136,455	7.42
Cement	1,158,677	1.64	9,079	0.01	677,923	2.35
Chemicals / Pharmaceuticals	1,229,620	1.74	307,328	0.34	998,275	3.47
Commerce and Trade	7,320,531	10.34	3,119,757	3.41	4,995,178	17.34
Electronics and Electrical appliances	654,670	0.92	36,756	0.04	139,718	0.49
Fertilizers	897,838	1.27	704,535	0.77	115,269	0.40
Food and Allied	2,920,000	4.12	316,857	0.35	1,166,479	4.05
Ghee and Edible Oil	344,985	0.49	83,199	0.09	311,786	1.08
Hotels and Restaurants	207,326	0.29	122,036	0.13	3,514	0.01
Individuals	1,366,127	1.93	54,409,869	59.52	90,651	0.31
Insurance	–	–	615,399	0.67	–	–
Investment Banks / Scheduled Banks	911,752	1.29	1,175,227	1.29	–	–
Iron and Steel	1,626,015	2.30	155,196	0.17	1,832,119	6.36
Manufacturing	1,163,229	1.64	618,808	0.68	732,183	2.54
Modarabas	734,648	1.04	14,864	0.02	–	–
Oil Refinery	521,645	0.74	370,281	0.41	1,967,095	6.83
Paper and Board	156,980	0.22	40,768	0.04	123,611	0.43
Plastic products	277,883	0.39	70,541	0.08	335,447	1.16
Production and Transmission of Energy	361,282	0.51	25,015	0.03	103,525	0.36
Ready-made garments	1,416,331	2.00	77,571	0.08	451,703	1.57
Real estate/Construction	1,780,444	2.51	1,071,435	1.17	671,118	2.33
Rice processing and trading	152,380	0.22	2,476	0.00	125	0.00
Services (other than financial, hotelling and travelling)	601,487	0.85	2,026,856	2.22	604,380	2.10
Shoes and Leather garments	852,437	1.20	90,022	0.10	116,179	0.40
Sugar	2,021,675	2.86	59,159	0.06	292,551	1.02
Surgical Equipments	163,333	0.23	24,222	0.03	23,954	0.08
Metal Products	490,885	0.69	29,098	0.03	88,378	0.31
Synthetic and Rayon	1,031,559	1.46	58,453	0.06	265,202	0.92
Textile	30,509,311	43.09	1,617,066	1.77	5,473,893	19.00
Spinning	15,958,013	22.54	948,692	1.04	3,401,919	11.81
Weaving	5,742,995	8.11	209,088	0.23	666,571	2.31
Composite	8,808,303	12.44	459,286	0.50	1,405,403	4.88
Telecommunication	597,876	0.84	61,770	0.07	24,517	0.09
Woolen	27,015	0.04	36,724	0.04	243,004	0.84
Public/Government	3,039,741	4.29	13,270,027	14.52	3,160,776	10.97
Others	4,735,554	6.69	6,319,054	6.90	1,446,438	5.02
	<u>70,795,961</u>	<u>100.00</u>	<u>91,419,963</u>	<u>100.00</u>	<u>28,807,723</u>	<u>100.00</u>



2005

	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Agriculture / Agri business	245,766	0.44	359,807	0.47	25,973	0.10
Automobiles and Transportation						
Equipment	1,781,089	3.22	4,178,277	5.51	1,454,171	5.63
Cement	121,654	0.22	13,832	0.02	161,362	0.63
Chemicals / Pharmaceuticals	936,398	1.69	367,612	0.49	506,504	1.96
Commerce and Trade	5,415,752	9.79	2,814,155	3.71	5,199,537	20.14
Electronics and Electrical appliances	866,565	1.57	92,822	0.12	51,990	0.20
Fertilizers	23,828	0.04	614,150	0.81	43,363	0.17
Food and Allied	1,720,485	3.11	134,287	0.18	1,037,533	4.02
Individuals	916,767	1.66	43,087,744	56.85	-	-
Investment Banks / Scheduled Banks	507,667	0.92	792,686	1.05	-	-
Iron and Steel	1,175,744	2.13	173,477	0.23	1,608,563	6.23
Manufacturing	2,912,522	5.27	510,198	0.67	-	-
Modarabas	416,042	0.75	128,719	0.17	-	-
Oil Refinery	641,858	1.16	276,322	0.36	19,123	0.07
Plastic products	263,709	0.48	32,715	0.04	287,302	1.11
Ready-made garments	1,064,747	1.92	37,839	0.05	168,409	0.65
Real estate/Construction	1,537,156	2.78	570,849	0.75	234,630	0.91
Rice processing and trading	646,022	1.17	4,107	0.01	38,470	0.15
Services (other than financial, hotelling and travelling)	697,709	1.26	1,786,814	2.36	543,396	2.10
Shoes and Leather garments	596,270	1.08	105,621	0.14	178,937	0.69
Sugar	946,911	1.71	93,714	0.12	330,242	1.28
Metal Products	841,590	1.52	20,943	0.03	228,353	0.88
Synthetic and Rayon	1,571,374	2.84	19,641	0.03	286,738	1.11
Textile	21,641,801	39.14	1,196,579	1.57	5,438,864	21.07
Spinning	10,605,159	19.18	570,652	0.75	2,754,018	10.67
Weaving	3,592,262	6.50	131,191	0.17	785,884	3.04
Composite	7,444,380	13.46	494,736	0.65	1,898,962	7.36
Telecommunication	225,430	0.41	104,793	0.14	20,278	0.08
Woolen	21,027	0.04	39,459	0.05	217,813	0.84
Public/Government	2,244,325	4.06	11,714,066	15.46	4,822,367	18.68
Others	5,323,571	9.63	6,524,630	8.61	2,910,927	11.28
	<u>55,303,779</u>	<u>100.00</u>	<u>75,795,858</u>	<u>100.00</u>	<u>25,814,845</u>	<u>100.00</u>



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

	2006		2005	
	Classified Advances	Specific Provision held	Classified Advances	Specific Provision held
	(Rupees in '000)			
Chemicals/Pharmaceuticals	826	826	3,323	3,199
Food and Allied	8,800	3,700	–	–
Hotels and Restaurants	1,275	1,036	975	98
Individuals	2,201	1,623	804	804
Ready-made garments	81,281	39,766	85,054	46,672
Real estate/Construction	1,054	1,054	–	–
Services (Other than financial, hotelling and travelling)	3,727	1,152	1,956	979
Shoes and Leather garments	206,326	122,888	206,083	110,725
Surgical Equipments	1,000	250	–	–
Textile	81,773	40,880	84,813	32,344
Weaving	1,065	266	–	–
Composite	80,708	40,614	84,813	32,344
Others	–	–	385	331
	388,263	213,175	383,393	195,152

41.1.3 Segment by sector

	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	3,039,741	4.29	13,270,027	14.52	3,160,776	10.97
Private	67,756,220	95.71	78,149,936	85.48	25,646,947	89.03
	70,795,961	100.00	91,419,963	100.00	28,807,723	100.00
	2005					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	2,244,325	4.06	11,714,066	15.45	4,822,367	18.68
Private	53,059,454	95.94	64,081,792	84.55	20,992,478	81.32
	55,303,779	100.00	75,795,858	100.00	25,814,845	100.00



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

	2006		2005	
	Classified Advances	Specific Provision held (Rupees in '000)	Classified Advances	Specific Provision held
Public / Government	-	-	-	-
Private	388,263	213,175	383,393	195,152
	<u>388,263</u>	<u>213,175</u>	<u>383,393</u>	<u>195,152</u>

41.2 GEOGRAPHICAL SEGMENT ANALYSIS

	2006			
	Profit before taxation	Total assets employed (Rupees in '000)	Net Assets employed	Contingencies and Commitments
Pakistan	2,717,213	114,260,152	6,550,224	28,580,741
Middle East	(27,832)	737,885	(27,832)	226,982
	<u>2,689,381</u>	<u>114,998,037</u>	<u>6,522,392</u>	<u>28,807,723</u>

In year 2005 all of the branches of the Bank were located in Pakistan only.

41.3 Market Risk

Market risk is the risk of loss arising from movements in market rates or prices, such as interest rates, foreign exchange rates, and equity prices.

Market risk is managed through the market risk management policy approved by the Board; approval of counterparty and dealer limits; specific senior management approval for each investment; and regular review and monitoring of the investment portfolio by the Asset Liability Management Committee (ALCO). A key element of market risk management is separation of functions and reporting lines for the Treasury Division which undertakes dealing activities within the limits and parameters set by ALCO; the Settlements Department which confirms and settles the aforesaid deals; and the Middle Office which independently monitors and analyses the risks inherent in Treasury operations. Risk Management Committee of the Board provides supervision and guidance in managing the Bank's market risk.

Dealing activities of the Bank include investment in government securities, term finance certificates, and shares and mutual funds; money market transactions; and foreign exchange transactions catering to the needs of its customers. All such activities are carried out within the prescribed limits. Any excess over limits noted by the Settlements Department and /or the Middle Office is reported to senior management and ALCO.



41.4 Foreign Exchange Risk

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	100,269,382	97,507,221	3,662,047	6,424,208
United States Dollar	13,928,150	9,090,193	(4,743,646)	94,311
Great Britain Pound	234,319	1,063,552	829,529	296
Japanese Yen	20	7,515	7,495	–
Euro	523,255	793,122	273,324	3,457
Other currencies	42,911	14,042	(28,749)	120
	<u>114,998,037</u>	<u>108,475,645</u>	<u>–</u>	<u>6,522,392</u>

Foreign exchange risk is the risk of loss from adverse changes in currency exchange rates. The Bank's foreign exchange exposure comprises forward contracts, purchase of foreign bills, foreign currency cash in hand, balances with banks abroad, foreign currency deposits, and foreign currency placements with the State Bank of Pakistan and other banks. Focus of the Bank's foreign exchange activities is on catering to the needs of its customers, both in spot and forward markets.

Foreign exchange risk exposures of the Bank are controlled through dealer limits, open foreign exchange position limits, counterparty exposure limits, and country limits. The Bank manages its foreign exchange exposure by matching foreign currency assets and liabilities within strict limits. The net open position in any single currency and the overall foreign exchange exposure are both managed within the statutory limits as prescribed by the State Bank of Pakistan as well as the internal limits set by the Bank itself. Stress testing for foreign exchange risk is carried out regularly to estimate the impacts of adverse changes in foreign exchange rates.

41.5 Equity Price Risk

Equity price risk is the risk of loss from adverse movements in equity prices. The Bank's policy is to acquire shares for investment purposes and not to run a trading book for buying and selling of shares.

Equity price risk of the Bank is controlled through equity desk/dealer limits, broker limits, equity portfolio limits, future contracts limits, and Continuous Funding System (CFS) limits. Direct investment in equities and mutual funds is managed within the statutory limits as prescribed by the State Bank of Pakistan as well as the internal limits set by the Bank itself. Stress testing for equity price risk is carried out regularly to estimate the impact of decline in stock prices.



41.6 **MISMATCH OF INTEREST RATE SENSITIVE ASSETS AND LIABILITIES**

2006

	Effective Yield/ Interest Rate	Total	Exposed to Yield / Interest rate risk								Non interest bearing financial instruments	
			Upto 1 months	Over 1 months to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 year	Over 2 years to 3 year	Over 3 years to 5 year	Over 5 years to 10 years		Over 10 years
(Rupees in '000)												
On-balance sheet financial Instruments												
<i>Assets</i>												
Cash and balances with treasury banks	0.72%	9,346,431	1,491,027	-	-	-	-	-	-	-	-	7,855,404
Balances with other banks	5.50%	1,232,902	534,321	-	-	2,500	-	-	-	-	-	696,081
Lendings to financial institutions	9.31%	6,578,800	4,993,683	1,585,117	-	-	-	-	-	-	-	-
Investments	7.92%	21,023,254	3,432,935	4,038,212	6,284,169	2,200,435	1,310,357	91,876	1,597,786	1,033,865	-	1,033,619
Advances - Performing	8.84%	70,407,698	351,946	59,892,668	4,875,179	-	-	-	402,819	-	-	4,885,086
- Non-Performing		388,263	-	-	-	-	-	-	-	-	-	388,263
Other assets	-	1,668,667	-	-	-	-	-	-	-	-	-	1,668,667
		110,646,015	10,803,912	65,515,997	11,159,348	2,202,935	1,310,357	91,876	2,000,605	1,033,865	-	16,527,120
<i>Liabilities</i>												
Bills payable	-	1,390,613	-	-	-	-	-	-	-	-	-	1,390,613
Borrowings	7.02%	10,788,554	2,970,779	3,691,902	2,712,218	100,210	183,064	189,064	242,902	652,520	-	45,895
Deposits and other accounts*	4.00%	91,419,963	39,108,362	8,440,231	2,804,970	7,453,231	454,705	1,810,488	1,845,488	76	-	29,502,412
Sub-ordinated loan - TFCs	10.00%	2,087,920	270	-	-	418	836	836	450,233	1,635,327	-	-
Liabilities against assets subject to finance lease	11.02%	708,210	22,531	54,463	61,014	125,998	245,328	149,495	49,381	-	-	-
Other Liabilities	-	861,988	-	-	-	-	-	-	-	-	-	861,988
		107,257,248	42,101,942	12,186,596	5,578,202	7,679,857	883,933	2,149,883	2,588,004	2,287,923	-	31,800,908
On-balance sheet gap		3,388,767	(31,298,030)	53,329,401	5,581,146	(5,476,922)	426,424	(2,058,007)	(587,399)	(1,254,058)	-	(15,273,788)
Total yield / interest risk sensitivity gap		3,388,767	(31,298,030)	53,329,401	5,581,146	(5,476,922)	426,424	(2,058,007)	(587,399)	(1,254,058)	-	
Cumulative yield / interest risk sensitivity gap			(31,298,030)	22,031,371	27,612,517	22,135,595	22,562,019	20,504,012	19,916,613	18,662,555	18,662,555	
Off-balance sheet financial Instruments												
Commitments to extend credit	6.70-13.40%	1,265,167	-	1,265,167	-	-	-	-	-	-	-	-

* Savings deposits, treasurers' call and current deposits have been reported under one month maturity. However, they are not expected to be payable within one month period.



41.7 Yield / Interest Rate Risk

Interest rate risk is the risk of loss from adverse movements in interest rates. The Asset Liability Management Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Bank arising from fluctuation in the market interest rates and mismatching or gaps in the amount of financial assets and financial liabilities in different maturity time bands.

The Bank's interest rate exposure is calculated by categorising its interest sensitive assets and liabilities into various time bands based on the earlier of their contractual repricing or maturity dates.

Interest rate risk exposures of the Bank are controlled through dealer limits, counter-party exposure limits and (when necessary) type-of-instrument limits. Duration and Modified Duration of various types of debt securities as well as their entire portfolio are also calculated, and the impact of adverse change in interest rates on the market value of the securities is estimated. In addition, stress testing for interest rate risk is carried out regularly to estimate the impact of adverse changes in interest rates.

41.8 Liquidity Risk

Liquidity risk is the risk of loss to a bank arising from its inability to meet obligations as they fall due or to fund growth in assets, without incurring unacceptable losses.

Liquidity risk is managed through the liquidity risk management policy approved by the Board; careful monitoring of daily liquidity position by the Treasury Division and the Middle Office; and regular review and monitoring of the liquidity position by the Asset and Liability Management Committee (ALCO). Risk Management Committee of the Board provides supervision and guidance in managing the Bank's liquidity risk.

Key elements of the Bank's liquidity risk management are as follows:

- To maintain a comfortable margin of excess liquidity in the form of cash and readily marketable assets to meet the Bank's funding requirements at any time.
- To keep a strong focus on mobilisation of low-cost core deposits from customers.
- To maintain a realistic balance between the behavioral maturity profiles of assets and liabilities.
- To maintain excellent credit rating, as borrowing costs and ability to raise funds are directly affected by credit rating.
- To have a written contingency funding plan to address any hypothetical situations when access to normal sources of funding is constrained.

In short, the Bank's liquidity risk management addresses the goal of protecting solvency and the ability to withstand stressful events in the marketplace. Stress testing for liquidity risk is carried out regularly to estimate the impact of decline in liquidity on the ratio of liquid assets to deposits plus borrowings.



41.9 **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks.

Operational risk is managed through the Audit Policy and the operational risk management policy approved by the Board, along with the policies on prevention of frauds and forgeries and compliance with "Know Your Customer" and Anti Money Laundering requirements; operational manuals and procedures issued from time to time; a system of internal controls and dual authorisation for important transactions and safe-keeping; and regular audit of the branches. Audit Committee of the Board provides overall guidance in managing the Bank's operational risk.

The Bank's operational risk management framework, as laid down in the Operational Risk Management Policy, is flexible enough to implement in stages and permits the overall risk management approach to evolve in the light of organisational learning and the future needs of the Bank.

The Bank places a high priority on conducting all business dealings with integrity and fairness, as laid down in the Statement of Ethics & Business Practices, which is required to be signed by all employees.

Internal controls are an essential feature of risk reduction in operational risk management. The Bank has sought the assistance of external consultants to further improve the effectiveness and efficiency of its internal controls.



42. MATURITIES OF ASSETS AND LIABILITIES

	2006									
	Total	Upto 1 months	Over 1 months 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
	(Rupees in '000)									
<i>Assets</i>										
Cash and balances with treasury banks	9,346,431	9,346,431	-	-	-	-	-	-	-	-
Balances with other banks	1,232,902	1,230,402	-	-	2,500	-	-	-	-	-
Lendings to financial institutions	6,578,800	4,993,683	1,585,117	-	-	-	-	-	-	-
Investments	21,023,254	3,432,936	4,038,212	6,284,169	2,962,356	1,310,357	91,876	1,597,786	1,033,865	271,697
Advances - Performing	70,407,698	9,022,918	15,098,562	15,090,089	17,872,136	1,845,867	2,636,029	7,027,736	1,472,598	341,763
- Non-Performing	388,263	-	-	-	-	-	-	-	-	388,263
Other assets	2,110,622	1,531,567	190,125	92,856	96,903	52,548	36,403	44,871	42,276	23,073
Operating fixed assets	3,910,067	23,935	340,645	96,737	225,390	291,889	276,403	406,223	403,775	1,845,070
	114,998,037	29,581,872	21,252,661	21,563,851	21,159,285	3,500,661	3,040,711	9,076,616	2,952,514	2,870,016
<i>Liabilities</i>										
Bills payable	1,390,613	1,390,613	-	-	-	-	-	-	-	-
Borrowings	10,788,554	3,016,674	3,691,902	2,712,218	100,210	183,062	189,064	242,902	652,522	-
Deposits and other accounts*	91,419,963	68,610,774	8,440,231	2,804,970	7,453,231	454,705	1,810,488	1,845,488	76	-
Sub-ordinated loan - TFCs	2,087,920	270	-	-	418	836	836	450,233	1,635,327	-
Liabilities against assets subject to finance lease	708,210	22,531	54,463	61,014	125,998	245,328	149,495	49,381	-	-
Other Liabilities	1,709,658	641,193	56,845	135,130	815,398	27,898	12,673	-	20,521	-
Deffered tax liabilities	370,727	-	-	-	-	-	-	370,727	-	-
	108,475,645	73,682,055	12,243,441	5,713,332	8,495,255	911,829	2,162,556	2,958,731	2,308,446	-
	6,522,392	(44,100,183)	9,009,220	15,850,519	12,664,030	2,588,832	878,155	6,117,885	644,068	2,870,016
<i>Net assets</i>										
Share capital	2,629,334									
Reserves	2,082,561									
Unappropriated profit	1,474,441									
Surplus/(deficit) on revaluation of assets	336,056									
	6,522,392									

* Savings deposits, treasurers' call and current deposits have been reported under one months maturity. However, they are not expected to be payable within one month period.



43. ISLAMIC BANKING BUSINESS

The Bank is operating with three Islamic Banking branches at the end of current year as compared to one Islamic Banking branch last year.

	2006	2005
	(Rupees in 000)	
ASSETS		
Cash and balance with treasury banks	117,143	9,063
Balances with and due from financial institution	110,000	–
Investments	25,000	–
Financing and receivables		
– Murabaha	454,865	674,879
– Ijara	402,819	–
Other assets	26,216	13,640
	1,136,043	697,582
LIABILITIES		
Bills payable	4,122	4,032
Deposits and other accounts		
– Current accounts	36,945	49,393
– Saving deposits	84,734	18,750
– Term deposits	808,950	–
– Deposits from financial institutions - remunerative	1,000	–
Due to Head Office	19,351	516,334
Other liabilities	51,937	180
	1,007,039	588,689
NET ASSETS	129,004	108,893
REPRESENTED BY		
Islamic banking fund	100,000	100,000
Reserves	–	–
Unappropriated / unremitted profit	29,004	8,893
	129,004	108,893
Surplus / (deficit) on revaluation of assets	–	–
	129,004	108,893
Remuneration to Shariah Advisor / Board	929	845
CHARITY FUND		
Opening balance	–	–
Additions during the period	121	–
Payments / utilisation during the period	(121)	–
Closing balance	–	–



44. ACCOUNTING ESTIMATES AND JUDGEMENTS

Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past.

Held to maturity investment

The Bank has classified certain investments as held to maturity. In this regard, judgement is involved in evaluating the intention and ability to hold these investments till their respective maturities.

Investment stated at fair value

Management has determined fair value of certain investments by using quotations from active market, and review of conditions and information about the financial instruments. These estimates are subjective in nature and involve some uncertainties and matters of judgement (e.g. valuation, interest rate, etc.) and therefore, cannot be determined with precision.

Property, plant and equipment

The Bank reviews the rate of depreciation, useful life, residual value and value of assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property plant and equipments with a corresponding effect on the depreciation charge and impairment. Land and building are carried at revalued amount and would be affected by the movement in market price.

Impairment of available for sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Retirement benefits

The Bank contributes to the staff gratuity fund on the basis of actuarial valuation which takes into account certain assumptions regarding interest rate, increase in salary and inflation rate etc. Any change in these estimates in future years might affect the Bank's liability with corresponding effect on the charge for the retirement benefits plan.

45. GENERAL

45.1 Revised forms of annual Financial statements

These financial statements have been prepared using the revised format of financial statements prescribed in BSD Circular No.04 dated February 17, 2006 issued by the State Bank of Pakistan.



45.2 Amendments to published standards and new interpretations effective in 2006

IAS 19 (Amendment) - Employee Benefits, is mandatory for the bank's accounting period beginning on or after January 1, 2006. It introduces the option of an alternative recognition approach for recognition of actuarial gains and losses. It also adds new disclosure requirement. As the bank does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of these amendments only impacts the format and extent of disclosure presentation in the financial statements.

Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2006 which are not considered relevant nor have any significant effect on the bank's operations are not detailed in these financial statements.

46. DATE OF AUTHORIZATION

These financial statements were authorized for issue in the Board of Directors meeting held on 21 February 2007.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

ANWAR HAJI KARIM
Director

IMTIAZ ALAM HANFI
Director



Annexure-1

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

(Rupees in '000)

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's/ Husband's Name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written off	Other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Others	Total				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1.	United Exports Company F/16-J, Hub River Road, S.I.T.E. Karachi.	Mr. Shamim Ahmed (Sole Proprietor) (NIC No. 42201-8695701-7)	Mr. Jameel-ur-Rahman	43,052	2,797	-	45,849	-	2,591	-	2,591
2.	Jubilee Spinning & Weaving Mills B-28 Manghopir Road, S.I.T.E. Karachi.	Mr. Muhammad Rafi (Director) (NIC No. 517-37-040186) Mr. Shaukat Shafi (Director) (NIC No. 270-38-173300) Mr. Salman Raif (Director) (NIC No. 517-90-040190) Mr. Tariq Shafi (Director) (NIC No. 244-86-023949)	Haji Muhammad Shafi Haji Muhammad Shafi Haji Muhammad Rafi Haji Muhammad Rafi	-	-	-	-	1,524	-	-	1,524
			Total	43,052	2,797	-	45,849	1,524	2,591	-	4,115

Note 1: The amount of principal written off was against the specific provision held by the bank.

Note 2: Interest / mark-up written off was against suspended mark-up.



Notice of Annual General Meeting

Notice is hereby given that the Sixteenth Annual General Meeting of the Bank AL Habib Limited will be held at the Registered Office of the Bank located at 126-C, Old Bahawalpur Road, Multan, on Thursday, March 29, 2007 at 12:00 noon to transact the following business:

1. To receive and adopt the Audited Annual Accounts and Consolidated Accounts of the Bank for the year ended December 31, 2006 together with the Directors' and Auditors' Report thereon.
2. To consider and approve cash dividend @ 15%, i.e., Rs. 1.50 per share of Rs. 10/- each for the year ended December 31, 2006 as recommended by the Board of Directors.
3. To consider and approve the issue of 40% bonus shares as recommended by the Board of Directors in the proportion of 40 shares for every 100 shares held by the shareholders and in this regard to pass the following resolution:

“RESOLVED that a sum of Rs. 1,051,733,540/- (Rupees one billion fifty one million seven hundred thirty three thousand five hundred forty only) out of the un-appropriated profit be capitalized and distributed by issuing 105,173,354 fully paid ordinary shares of Rs. 10 each as bonus shares in the proportion of 40 shares for every hundred shares held, to those members whose names appear in the register of members as at the close of business on March 15, 2007 and that shares so distributed shall be treated for all practical purposes as an increase in the paid-up capital of the Bank.

FURTHER RESOLVED that the bonus shares so distributed shall rank pari passu in all respect with the existing shares of the Bank.

FURTHER RESOLVED that the Directors be and are hereby authorized to consolidate all fractions of bonus shares and sell in the Stock Market and pay the proceeds of sale when realized to a charitable trust.

FURTHER RESOLVED that the Directors be and are hereby authorized and empowered to give effect to this resolution and to do or cause to be done all acts, deeds and things that may be necessary or required for the issue, allotment and distribution of 105,173,354 shares”.

4. To appoint auditors for the year 2007 and to fix their remuneration. Messrs KPMG Taseer Hadi & Co., Chartered Accountants, being eligible offer themselves for re-appointment.
5. To elect Directors of the Bank in accordance with Section 178(1) of the Companies Ordinance, 1984. The number of Directors to be elected pursuant to Section 178(1) of the Companies Ordinance, 1984 has been fixed at 9 (nine) by the Board of Directors in addition to one Director nominated by NIT.

The following being eligible, have offered themselves for re-election:

Mr. Ali Raza D. Habib, Mr. Abbas D. Habib, Mr. Anwar Haji Karim, Mr. Hasnain A. Habib, Mr. Imtiaz Alam Hanfi, Mr. Murtaza H. Habib, Mr. Qumail R. Habib, Mr. Shameem Ahmed and Syed Mazhar Abbas.

6. To consider any other business of the Bank with the permission of the Chair.



Special Business

7. To approve the remuneration payable to the Chief Executive and Executive Director of the Bank. A statement of material facts under section 160(1)(b) of the Companies Ordinance, 1984 relating to the aforesaid Special Business to be transacted at the said Annual General Meeting (AGM) is annexed.

By order of the Board

MAHMOOD S. ALLARAKHIA
Company Secretary

Karachi: February 21, 2007

Notes:

1. Any member desirous to contest the election of Directors shall file the following with the Company Secretary of the Bank at its Registered Office located at 126-C, Old Bahawalpur Road, Multan, not later than 14 days before the day of the above said meeting:
 - a) his/her intention to offer himself/herself for the election in terms of Section 178(3) of the Companies Ordinance, 1984 together with a consent in form 28;
 - b) declarations under clauses (ii), (iii), (iv) and (v) of the Code of Corporate Governance;
 - c) an affidavit in terms of BPRD Circular No. 12 dated June 2, 2000; and
 - d) a duly completed questionnaire along with a declaration that he/she is not ineligible to become director of the Bank in terms of BPD Circular No. 13 of 2004 dated May 17, 2004.A copy of the relevant documents may be obtained from the office of Company Secretary of the Bank or may be downloaded from the websites of the SECP and SBP.
2. In terms of the criteria prescribed by SBP, association of the following persons as director is undesirable and against the public interest:
 - a) A person who is/has been associated with any illegal activity, especially related to banking business;
 - b) A person who in his/her individual capacity or a proprietary concern or any partnership firm or any private limited company or any unlisted company or any listed company (of which he/she has been a proprietor, partner or director or shareholder) has been in default of payment of dues owed to any financial institution and/or in default of payment of any taxes. It should also be noted that under the SBP regulations a person is not permitted to be a director of more than one financial institution.
3. A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his / her behalf. A proxy must be a member of the Bank. Proxy form in order to be effective, must be received at the Registered Office of the Bank located at 126-C, Old Bahawalpur Road, Multan, duly stamped and signed not less than 48 hours before the meeting.
4. The CDC account / sub account holders are requested to bring with them their computerized National ID Cards along with participant(s) ID Number and their account numbers at the time of attending the Annual General Meeting in order to facilitate identification of the respective shareholders. In case of corporate entity, the Board of Directors' Resolution / Power of Attorney with specimen signatures be produced at the time of meeting.
5. The share transfer book of the Bank will remain closed from March 16, 2007 to March 26, 2007 (both days inclusive). Members are requested to promptly communicate any change in their address to our Share Registrar M/s. Gangjees Registrar Services (Pvt) Ltd., located at 516 Clifton Center, Khyabane-Roomi, Kehkashan, Block-5, Clifton, Karachi-75600.



Statement Under Section 160 of the Companies Ordinance, 1984

Subsequent to the re-appointment of the Chief Executive by the Board of Directors in their meeting held on February 21, 2007, it is intended to propose the following resolution to be passed as an Ordinary Resolution:

“RESOLVED that the remuneration of the Chief Executive shall not exceed Rs. 750,000 per month exclusive of perquisites, benefits and other allowances to which he is entitled under the terms of his employment, subject to an increment not exceeding 15% per annum”.

It is further intended to propose the following resolution to be passed as an Ordinary Resolution:

“RESOLVED that the remuneration of Mr. Qumail R. Habib, Executive Director shall not exceed Rs. 450,000 per month exclusive of perquisites, benefits and other allowances to which he is entitled under the terms of his employment, subject to an increment not exceeding 15% per annum”.



Pattern of Shareholding as at December 31, 2006

Number of Shareholders	Size of Shareholding				Total Shares Held
482	From	1	To	100	24,828
972	From	101	To	500	311,658
937	From	501	To	1,000	769,662
2,624	From	1,001	To	5,000	9,348,905
333	From	5,001	To	10,000	2,548,822
103	From	10,001	To	15,000	1,292,343
68	From	15,001	To	20,000	1,208,229
43	From	20,001	To	25,000	970,638
36	From	25,001	To	30,000	991,567
17	From	30,001	To	35,000	544,309
20	From	35,001	To	40,000	753,630
45	From	40,001	To	50,000	2,015,106
32	From	50,001	To	60,000	1,778,209
35	From	60,001	To	80,000	2,552,516
56	From	80,001	To	100,000	4,957,378
48	From	100,001	To	150,000	5,651,348
24	From	150,001	To	200,000	4,225,789
18	From	200,001	To	250,000	4,020,887
26	From	250,001	To	300,000	7,020,706
9	From	300,001	To	350,000	2,960,002
25	From	350,001	To	600,000	10,487,210
13	From	600,001	To	1,000,000	10,859,464
47	From	1,000,001	To	46,130,000	187,640,181
6,013					262,933,387

Categories of Shareholders	Number of Shareholders	Number of Shares Held	Percentage
Individuals	5,883	164,398,551	62.53
Investment Companies	4	2,564	0.00
Insurance Companies	9	21,686,405	8.25
Joint Stock Companies	79	13,990,693	5.32
Financial Institutions	12	47,393,134	18.02
Modaraba Companies	4	6,340,468	2.41
Mutual Funds	3	155,492	0.06
Foreign Companies	8	7,050,287	2.68
Others	11	1,915,793	0.73
TOTAL	6,013	262,933,387	100.00



Pattern of Shareholding as at December 31, 2006

Additional Information

Shareholders' Category	Number of Shareholders	Number of Shares Held
Associated Company		
Habib Sugar Mills Ltd.	1	4,373,455
NIT		
National Investment Trust National Bank of Pakistan, Trustee Department	1	46,128,895
Directors		
Ali Raza D. Habib	1	2,461,922
Qumail R. Habib	1	3,780,123
Anwar Haji Karim	1	2,921,481
Tariq Iqbal Khan (NIT Nominee)	–	–
Murtaza H. Habib	1	3,240,745
Syed Mazhar Abbas	1	4,372
Hasnain A. Habib	1	4,682,342
Imtiaz Alam Hanfi	1	1,213
Shameem Ahmed	1	500
Chief Executive Officer		
Abbas D. Habib	1	9,823,490
Directors' Spouses and Minor Children		
Mrs. Razia A. Raza Habib W/o Mr. Ali Raza D. Habib	1	1,095,552
Mrs. Niamet Fatima W/o Mr. Abbas D. Habib	1	1,139,859
Master Qasim Abbas Habib S/o Mr. Abbas D. Habib (Joint A/c)	1	219,103
Executives	5	47,593
Banks, Development Financial Institutions, Insurance Companies, Investment Companies, Non-Banking Financial Institutions, Modarabas and Mutual Funds	31	29,449,168
Joint Stock Companies and Corporations	78	9,617,238
Individuals	5,866	134,980,256
Others	19	8,966,080
	6,013	262,933,387



Consolidated Financial Statements

Bank AL Habib Limited

and

AL Habib Capital Markets (Pvt) Limited

(Subsidiary Company)



Bank AL Habib Limited and its Subsidiary Company Directors' Report on Audited Consolidated Financial Statements

The Directors are pleased to present the Audited Consolidated Financial Statements of Bank AL Habib Limited and the Bank's Brokerage Subsidiary M/s. AL Habib Capital Markets (Private) Limited for the year ended December 31, 2006.

	(Rupees in '000)
Profit for the year before tax	2,706,385
Taxation	(933,681)
Profit for the year after tax	<u>1,772,704</u>
Share of profit attributable to minority interest	(1,139)
Profit attributable to share holders	<u>1,771,565</u>
Unappropriated Profit brought forward	812,645
Transfer from surplus on revaluation of fixed assets - net of tax	<u>7,367</u>
Profit available for Appropriation	<u>2,591,577</u>
Appropriations:	
Transfer to Statutory Reserve	(352,198)
Cash Dividend - 2005	(328,667)
Issue of Bonus Shares - 2005	(438,222)
	<u>(1,119,087)</u>
Unappropriated Profit carried forward	<u><u>1,472,490</u></u>
Earnings per share (after tax)	<u><u>6.74</u></u>

Pattern of Shareholding

The pattern of shareholding as at December 31, 2006 is annexed with the financial statements of Bank AL Habib Limited.

On behalf of the Board of Directors

Karachi: February 21, 2007

ALI RAZA D. HABIB
Chairman



Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Bank AL Habib Limited as at 31 December 2006 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. The financial statements include unaudited certified returns from the branches, except for nine branches, which have been audited by us.

These financial statements are responsibility of the Bank's management. Our responsibility is to express our opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly the financial position of Bank AL Habib Limited as at 31 December 2006 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Karachi: February 21, 2007

KPMG Taseer Hadi & Co.
Chartered Accountants



Consolidated Balance Sheet as at 31 December 2006

	Note	2006	2005 (Restated)
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	7	9,346,444	7,582,667
Balances with other banks	8	1,233,948	1,088,891
Lendings to financial institutions	9	6,578,800	3,352,747
Investments	10	21,008,556	19,636,711
Advances	11	70,875,727	55,368,841
Operating fixed assets	12	3,978,479	2,536,357
Deferred tax assets		–	–
Other assets	13	2,238,362	1,972,544
		115,260,316	91,538,758
LIABILITIES			
Bills payable	14	1,390,613	1,464,648
Borrowings from financial institutions	15	10,788,554	6,275,868
Deposits and other accounts	16	91,371,949	75,728,689
Sub-ordinated loans	17	2,087,920	1,349,460
Liabilities against assets subject to finance lease	18	712,975	348,006
Deferred tax liabilities	19	371,860	251,997
Other liabilities	20	1,916,895	788,550
		108,640,766	86,207,218
NET ASSETS		6,619,550	5,331,540
REPRESENTED BY :			
Share capital	21	2,629,334	2,191,112
Reserves		2,082,561	1,729,514
Unappropriated profit		1,472,490	812,645
Minority interest		99,109	97,970
		6,283,494	4,831,241
Surplus on revaluation of assets - net of deferred tax	22	336,056	500,299
		6,619,550	5,331,540
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

ANWAR HAJI KARIM
Director

IMTIAZ ALAM HANFI
Director



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

	Note	2006 (Rupees in '000)	2005
Mark-up /return/interest earned	24	7,863,517	4,935,964
Mark-up/return/interest expensed	25	(4,079,607)	(2,143,167)
Net mark-up/return/interest income		3,783,910	2,792,797
Provision against non-performing loans and advances	11.4	(19,652)	(73,817)
Provision for diminution in the value of investment	10.2.1	(1,307)	(1,513)
Bad debts written-off directly		—	—
Net mark-up/return/interest income after provisions		(20,959)	(75,330)
		3,762,951	2,717,467
NON MARK-UP/INTEREST INCOME			
Fees, commission and brokerage income		590,629	508,889
Dividend income		39,712	38,820
Income from dealing in foreign currencies		466,761	300,795
Gain on sale of securities	26	104,939	27,564
Unrealised gain on revaluation of investment classified as held for trading		652	134
Other income	27	194,998	130,838
Total non-mark-up/interest income		1,397,691	1,007,040
		5,160,642	3,724,507
NON MARK-UP/INTEREST EXPENSES			
Administrative expenses	28	(2,465,998)	(1,737,136)
Other provisions / assets written-off		—	—
Other charges	29	(54)	(2,453)
Total non-mark-up/interest expenses		(2,466,052)	(1,739,589)
Extra-ordinary/unusual items		—	—
		2,694,590	1,984,918
Share of profit of associates		11,795	10,041
PROFIT BEFORE TAXATION		2,706,385	1,994,959
Taxation – Current	30	(785,610)	(685,514)
– Prior years		(4,840)	143,857
– Deferred		(143,231)	(13,542)
		(933,681)	(555,199)
PROFIT AFTER TAXATION		1,772,704	1,439,760
Attributable to:			
Equity holders of parent		1,771,565	1,441,790
Minority interest		1,139	(2,030)
		1,772,704	1,439,760
		(Rupees)	
Basic and diluted earnings per share	31	6.74	5.48

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
Chief Executive and
Managing Director

ANWAR HAJI KARIM
Director

IMTIAZ ALAM HANFI
Director



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

	Share Capital	Capital Reserves		Revenue Reserves			Unappro- priated Profit	Total	Minority Interest	Total Equity
		Reserve for Issue of Bonus Shares	Statutory Reserve	Special Reserve	General Reserve	Exchange Translation Reserve				
(Rupees in '000)										
Balance as at 01 Jan. 2005 as previously stated	1,352,539	473,389	770,202	126,500	540,000	-	21,460	3,284,090	-	3,284,090
Effect of change in accounting policy with respect to bonus shares (Note 6.11.2)	-	(473,389)	-	-	-	-	473,389	-	-	-
Balance as at 01 Jan. 2005 as restated	1,352,539	-	770,202	126,500	540,000	-	494,849	3,284,090	-	3,284,090
<i>Changes in equity for the year ended 31 Dec. 2005</i>										
Transfer from surplus on revaluation of fixed assets - net of tax (note 22.2)	-	-	-	-	-	-	7,391	7,391	-	7,391
Profit for the year	-	-	-	-	-	-	1,441,790	1,441,790	(2,030)	1,439,760
Total recognised income and expense for the year	-	-	-	-	-	-	1,449,181	1,449,181	(2,030)	1,447,151
Transfer to statutory reserve	-	-	292,812	-	-	-	(292,812)	-	-	-
Issue of bonus shares	838,573	-	-	-	-	-	(838,573)	-	-	-
Issue of shares	-	-	-	-	-	-	-	-	100,000	100,000
Balance as at 31 Dec. 2005-restated	2,191,112	-	1,063,014	126,500	540,000	-	812,645	4,733,271	97,970	4,831,241
<i>Changes in equity for the year ended 31 Dec. 2006</i>										
Final cash dividend paid for the year ended 31 Dec. 2005	-	-	-	-	-	-	(328,667)	(328,667)	-	(328,667)
Transfer from surplus on revaluation of fixed assets - net of tax (note 22.2)	-	-	-	-	-	-	7,367	7,367	-	7,367
Exchange differences on translation of net investment in foreign branch	-	-	-	-	-	849	-	849	-	849
Profit for the year	-	-	-	-	-	-	1,771,565	1,771,565	1,139	1,772,704
Total recognised income and expense for the year	-	-	-	-	-	849	1,778,932	1,779,781	1,139	1,780,920
Transfer to statutory reserve	-	-	352,198	-	-	-	(352,198)	-	-	-
Issue of bonus shares	438,222	-	-	-	-	-	(438,222)	-	-	-
Balance as at 31 Dec. 2006	2,629,334	-	1,415,212	126,500	540,000	849	1,472,490	6,184,385	99,109	6,283,494

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

ANWAR HAJI KARIM
Director

IMTIAZ ALAM HANFI
Director



Consolidated Cash Flow Statement for the

	2006	2005
	(Rupees in '000)	
Cash Flow From Operating Activities		
Profit before taxation	2,706,385	1,994,959
Dividend Income	(39,712)	(38,820)
	2,666,673	1,956,139
Adjustments for:		
Depreciation	203,630	106,321
Amortisation	69,297	73,298
Charge for compensated absences	10,000	10,398
Provision for diminution in the value of investment	1,307	1,513
Provision against non-performing loans and advances	19,652	73,817
Financial charges on leased assets	50,954	18,193
Share of profit from associates	(11,795)	(10,041)
Unrealised gain on revaluation of investment classified	(652)	-
Gain on disposal of operating fixed assets	(17,727)	(5,203)
	324,666	268,296
	2,991,339	2,224,435
(Increase) / decrease in operating assets		
Lendings to financial institutions	(3,226,053)	(881,747)
Advances	(15,526,538)	(8,075,705)
Other assets (excluding advance taxation)	(357,765)	(805,514)
	(19,110,356)	(9,762,966)
Increase / (decrease) in operating liabilities		
Bills payable	(74,035)	120,011
Borrowings from financial institutions	4,512,686	(1,699,317)
Deposits	15,643,260	13,558,061
Other liabilities	425,751	384,317
	20,507,662	12,363,072
	4,388,645	4,824,541
Income tax paid	(104,781)	(451,872)
Net cash flows from operating activities (Balance carried forward)	4,283,864	4,372,669

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
Chief Executive and
Managing Director



year ended 31 December 2006

	Note	2006 (Rupees in '000)	2005
Net cash flows from operating activities (Balance brought forward)		4,283,864	4,372,669
Cash Flow From Investing Activities			
Net investments		(1,542,868)	(5,425,116)
Dividend received		40,429	38,820
Investments in operating fixed assets		(1,134,134)	(835,898)
Payment of non-refundable deposits for the acquisition of properties		—	(47,500)
Sale proceeds of vehicle and equipment disposed-off		27,883	7,274
Net cash flows from investing activities		(2,608,690)	(6,262,420)
Cash Flow From Financing Activities			
Issue of shares		—	100,000
Sub-ordinated loans		738,460	(540)
Payments of lease obligations		(182,215)	(64,969)
Dividend paid		(322,585)	(288)
Net cash flows from financing activities		233,660	34,203
Increase / (Decrease) in cash and cash equivalents		1,908,834	(1,855,548)
Cash and cash equivalents at the beginning of the year		8,671,558	10,527,106
Cash and cash equivalents at the end of the year	32	10,580,392	8,671,558

The annexed notes 1 to 46 form an integral part of these consolidated financial statements.

ANWAR HAJI KARIM
Director

IMTIAZ ALAM HANFI
Director



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

1. STATUS AND NATURE OF BUSINESS

The group consists of:

- Bank AL Habib Limited (Holding Company)
- AL Habib Capital Markets (Private) Limited (Subsidiary Company)

Bank AL Habib Limited (holding company and the Bank) was incorporated in Pakistan on 15 October 1991 as a public limited company under the Companies Ordinance, 1984 having its registered office at 126-C, Old Bahawalpur Road, Multan with principal place of business being in Karachi. Its shares are listed on all the Stock Exchanges in Pakistan. It is a scheduled bank principally engaged in the business of commercial banking with a network of 152 branches (2005: 100 branches), including an Offshore Banking Unit (OBU) in the Kingdom of Bahrain and a branch in Karachi Export Processing Zone and three Islamic Banking branches.

The Bank has invested in 66.67% shares of AL Habib Capital Market (Private) Limited. The principal objective of the company is to engage in the business of equity, money market and foreign exchange brokerage, equity research and corporate financial advisory and consultancy services. AL Habib Capital Markets (Private) Limited (the Company) was incorporated in Pakistan as a (Private) Limited Company on 23 August 2005 under the Companies Ordinance, 1984 and started operations from 14 December 2005.

2. BASIS OF PRESENTATION

In accordance with the Islamic Banking System, trade related modes of financing include purchase of goods by the Bank from its customers and simultaneous re-sale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

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

The Securities and Exchange Commission of Pakistan has approved and notified 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 followed in preparation of these financial statements as the State Bank of Pakistan vide BSD Circular No. 10 dated 26 August 2002 has deferred the implementation of these standards for the banks in Pakistan till further instructions.

During 2005, the Securities and Exchange Commission of Pakistan notified the Islamic Financial Accounting Standard - 1 issued by the Institute of Chartered Accountants of Pakistan relating to accounting for Murabaha transactions undertaken by a bank, effective for financial periods beginning on or after 01 January 2006. The standard has not been adopted by stand-alone Islamic branches of conventional banks pending resolution of certain issues, e.g., invoicing of goods, recording of



inventories, concurrent application with other approved accounting standards in place for conventional banks, etc.

4. BASIS OF MEASUREMENT

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

Use of estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimations uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 44 to these financial statements.

Functional currency and presentation currency

These financial statements are presented in Pak Rupees which is the Bank's functional currency. All financial information presented in Pak Rupees have been rounded to the nearest thousand.

5. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARD THAT ARE NOT YET EFFECTIVE

The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning on or after 01 January 2007 are either not relevant to Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain increased disclosures:

- IAS 1 - Presentation of Financial Statements - amendments relating to capital disclosures.
- IFRS 2 - Share-Based payments.
- IFRS 3 - Business combinations.
- IFRS 5 - Non-Current assets held for sale and discontinued operations.
- IFRS 6 - Exploration for and evaluation of mineral resources.
- IFRIC 8 - Scope of IFRS 2 Share-Based payments.
- IFRIC 9 - Reassessment of embedded derivatives.
- IFRIC 10 - Interim financial reporting and impairment.
- IFRIC 11 - Group and treasury share transactions.
- IFRIC 12 - Services concession arrangements.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as specified in note 6.11.2.

6.1 Basis of consolidation

Subsidiaries are those companies in which the Bank directly or indirectly controls, beneficially owns or hold more than 50% of the shares or otherwise has the power to elect and appoint more than 50% of its directors. The financial statements of the subsidiary are included in the consolidated financial statements from the date the control commences until the date the control ceases. In



preparing consolidated financial statements, the financial statements of the Bank and subsidiary are combined on a line by line basis by adding together like items of assets, liabilities, equity, income and expenses. Significant intercompany transactions have been eliminated.

The Bank has the following subsidiary and associates:

Subsidiary	Percentage of shareholding
AL Habib Capital Markets (Private) Limited	66.67 percent
Associates	
Habib Sugar Mills Limited	6.19 percent
Habib Asset Management Limited	30.00 percent

Investment in associates is accounted for under equity method of accounting.

6.2 Cash and cash equivalents

Cash and cash equivalents, for the purpose of cash flow statement, represent cash and balances with treasury banks, balances with other banks in current, deposit and savings accounts with original maturity of three months or less.

6.3 Repurchase agreements

The Bank enters into purchase / (sale) of investments under agreements to resell / (repurchase) investments at a certain date in the future at a fixed price. Investments purchased subject to commitment to resale them at the future dates are not recognised. The amounts paid are recognised as lendings to financial institutions. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for investments. The proceeds from the sale of the investments are reported in borrowings from financial institutions.

The difference between the purchase / (sale) and resale / (repurchase) consideration is recognised on a time proportion basis over the period of the transaction and is included in mark-up / return / interest earned or expensed.

6.4 Investments

In accordance with BSD Circular No. 10 dated 13 July 2004 as amended vide BSD Circular No.11 dated 04 August 2004 and BSD Circular No. 14 dated 24 September 2004, issued by the State Bank of Pakistan, the Bank classifies its investment portfolio into 'Held for Trading', 'Held to Maturity' and 'Available for Sale' securities as follows:

Held for trading

These are investments acquired principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin.

Held to maturity

These are investments with fixed or determinable payments and fixed maturity and the Bank has the positive intent and ability to hold them till maturity.

Available for sale

These are investments which do not fall under the held for trading and held to maturity categories.

Quoted securities where ready quotes are available on Reuters Page (PKRV) or Stock Exchange, other than investments classified as held to maturity and investments in associates, are valued at fair value. Investments classified as held to maturity are carried at amortised cost.



Provision for diminution in the value of equity securities is made after considering permanent impairment, if any in their values and is taken to profit and loss account.

Investment in unquoted securities are carried at cost less impairment loss, if any.

The difference between the face value and purchase price is amortised over the remaining life of the investment using effective yield method, in order to determine amortised cost.

The surplus / deficit arising as a result of revaluation at fair value on trading portfolio is taken to income and that relating to the available for sale portfolio is kept in a separate account and shown below equity.

Gains or losses on disposals of investments are dealt with through the profit and loss account in the year in which they arise.

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised using the trade date method of accounting.

6.5 **Advances**

Loans and advances

Loans and advances are stated net of provisions for non performing advances. Specific and General provisions for non performing advances are determined keeping in view the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Advances are written-off when they are considered irrecoverable.

Finance lease receivables / Ijarah financing receivable

Leases where the Bank transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable is recognized at an amount equal to the present value of the lease payments including any guaranteed residual value. Finance lease receivables are included in loans and advances to customers.

6.6 **Operating fixed assets**

Tangible - owned

Lease hold lands are stated at revalued amounts. Buildings on lease hold land are stated at revalued amount less accumulated depreciation. All other operating fixed assets are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged to income applying the straight line method by taking into consideration the estimated useful lives of the related assets.

Residual value, useful lives and depreciation methods are reviewed and adjusted, if required, at each balance sheet date.

Gains or losses on disposal of fixed assets are included in income currently.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Costs incurred on renovations are capitalized as improvements to lease hold buildings.

Surplus on revaluation of fixed assets (net of deferred taxation) to the extent of the incremental depreciation charged on the revalued assets is transferred to retained earnings.

Tangible - leased

Leases where the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance lease are accounted for by recording the assets and related liability. These are stated at lower of fair value and the present value of minimum lease payments at the inception of lease less accumulated depreciation. Financial charges are allocated over the period of lease term so as to provide a constant periodic rate of financial charge on the outstanding liability. Depreciation is charged on the basis similar to the owned assets.



Intangible assets - owned

Intangible assets are stated at cost less accumulated amortisation. Amortisation is based on straight line method by taking into consideration the estimated useful life.

Capital work in progress

Capital work in progress is stated at cost.

6.7 Taxation

Income tax expense comprises of current and deferred tax. Income tax expenses are recognised in Profit and Loss account except to the extent that it relates to the items recognised directly in equity, in which case it is recognised in equity.

Current

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustments to the tax payable in respect of the previous years.

Deferred

Deferred tax is provided using the balance sheet liability method providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

6.8 Staff retirement benefits

Defined benefit plan - Employees' Gratuity Fund

The Bank operates an approved gratuity fund for all its confirmed employees, which is administered by the Board of Trustees. The Bank's costs and contributions are determined based on an actuarial valuation carried out at each year end using Projected Unit Credit Method. Net cumulative unrecognized actuarial gains / losses relating to previous reporting period in excess of the higher of 10% of present value of defined benefit obligation or 10% of the fair value of plan assets are recognized as income or expense over the estimated working lives of the employees.

Defined contribution plan - Employees' Provident Fund

The Bank operates an approved Provident Fund Scheme for all its regular permanent employees administered by the Board of Trustees. Equal monthly contributions are made both by the Bank and its employees to the fund at the rate of 10% of the basic salary in accordance with the terms of the scheme.

The Subsidiary Company operates an unapproved funded contributory Provident Fund Scheme for all confirmed employees of the company. Contributions are made by the employer and employee to the fund at the rate of 10% of the basis salary in accordance with the terms of the scheme.

6.9 Revenue recognition

Mark-up income and expenses are recognized on a time proportion basis taking into account effective yield on the instrument, except in case of advances classified under the Prudential Regulations issued by the State Bank of Pakistan on which mark-up is recognized on receipt basis.

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over



the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.

Fee, commission and brokerage income are recognized as services are performed.

Dividend income is recognized at the time of book closure of the company declaring dividend when the Bank's right to receive has been established.

6.10 **Foreign currencies**

Foreign currency transactions are translated into rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. The fair value of forward cover taken from the State Bank of Pakistan for foreign currency deposits is added / deducted from value of foreign currency deposits. Outstanding forward foreign exchange contracts and foreign bills purchased excluding swap contracts are valued at the market rates applicable to the respective maturities.

However, premium on swap contracts is amortised over the period of swap and the movement in ready rates since the initiation of swap is also accounted for. Exchange gains and losses are included in income currently except those arising on the translation of foreign branches which are taken to equity.

The assets and liabilities of foreign operations are translated to Pakistani rupees at exchange rates prevailing at the balance sheet date. The results of foreign operations are translated at average rate of exchange for the year.

6.11 **Dividends**

6.11.1 Dividends including stock dividends are accounted for in the period in which these are approved.

6.11.2 During the year the Institute of Chartered Accountants of Pakistan issued a circular number 06-2006 dated 19 June 2006 which requires that all declarations of dividends to holders of equity instruments including declaration of bonus issues and other appropriations except appropriations which are required by law after the balance sheet date, should not be recognized as liabilities or change in reserves at the balance sheet date. Previously, declarations of bonus issues to holders of equity instruments and transfers to reserves relating to profit for the year although declared subsequent to year end, were accounted for in the year to which those related. This change has been applied retrospectively and comparatives have been restated. The change in accounting policy had no effect on the overall equity of the Group.

6.12 **Provision for guarantee claims and other off balance sheet obligations**

Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists for the Bank to settle the obligation. Expected recoveries are recognized by debiting customer's account. Charge to profit and loss account is stated net-of expected recoveries.

6.13 **Other provisions**

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

6.14 **Derivative financial instruments**

Derivative financial instruments are initially measured at fair value and subsequently remeasured at fair value. Gain or loss on remeasurement to fair value is recognised in profit and loss account.

6.15 **Acceptances**

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers.



The Bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

6.16 Employees' compensated absences

Employees' entitlement to annual leave is recognised when they accrue to employees. A provision is made for estimated liability for annual leave as a result of services rendered by the employee against unavailed leaves upto the date of balance sheet.

6.17 Off-setting

Financial assets and financial liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognised amount and the Bank intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

6.18 Impairment

The carrying amount of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss account.

6.19 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and reward.

Business segments

Retail banking

Consists of retail lending, deposits and banking services to private individuals and small business. The retail banking activities includes provision of banking and other financial services, such as Current and Savings Accounts, Credit Cards, Consumer Banking Products etc to personal customers, small merchants and SMEs.

Corporate commercial banking

The Commercial Banking represents provision of banking services including Treasury and International Trade related activities to large corporate customers, multinational companies, government and semi government departments and institutions and SMEs treated as corporate under SBP Prudential Regulations.

Retail brokerage

Retail brokerage activities includes the business of equity, money market and foreign exchange brokerage, equity research and corporate financial advisory and consultancy services.

Geographical segments

The Group operates in two geographics regions, being:

- Pakistan
- Middle East



	2006	2005
	(Rupees in '000)	
7. CASH AND BALANCES WITH TREASURY BANKS		
In hand		
Local currency	1,692,425	1,957,363
Foreign currencies	205,116	302,395
With State Bank of Pakistan in:		
Local currency current account	7.1 5,029,485	3,698,694
Local currency current account-Islamic Banking	7.2 115,000	7,804
Foreign currency deposit account		
Cash reserve account	487,084	339,359
Special Cash Reserve account	7.3 1,461,252	1,018,078
Local US Dollar collection account	7.4 29,775	24,533
With National Bank of Pakistan in:		
Local currency current account	326,307	234,441
	9,346,444	7,582,667

7.1 This represents statutory cash reserve maintained under Section 22 of the Banking Companies Ordinance, 1962.

7.2 This represents statutory cash reserve maintained by Islamic Banking Branch in accordance with BPD Circular No. 01 dated 01 January 2003 issued by Islamic Banking department of the State Bank of Pakistan.

7.3 This represents special cash reserve maintained against foreign currency deposits mobilised under FE 25 Circular issued by the State Bank of Pakistan and is remunerated at the rate declared by the State Bank of Pakistan on monthly basis.

7.4 This represents US Dollar settlement account opened with the State Bank of Pakistan in accordance with FE Circular No. 2 dated 19 February 2004 and is remunerated at the rate declared by the State Bank of Pakistan on monthly basis.

	2006	2005
	(Rupees in '000)	
8. BALANCES WITH OTHER BANKS		
In Pakistan		
In current accounts	101,749	138,366
In term deposit accounts	8.1 2,500	2,500
In savings accounts	8.2 110,000	-
Outside Pakistan		
In current accounts	595,378	573,357
In deposit accounts	8.3 424,321	374,668
	1,233,948	1,088,891



- 8.1 This carries mark-up at the rate of 4.00% per annum (2005: 4.00%) maturing in October 2007.
- 8.2 These represent saving deposits by Islamic Banking Division with expected profit ranging from 4.32% to 7.00% per annum.
- 8.3 These carry mark-up ranging from 4.67% to 5.17% per annum (2005: 3.16% to 4.44%).

2006 2005
(Rupees in '000)

9. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	9.1	3,250,000	–
Certificates of Investment	9.2	1,900,000	1,800,000
Repurchase agreement lendings (Reverse Repo)	9.3	1,428,800	1,552,747
		<u>6,578,800</u>	<u>3,352,747</u>

- 9.1 These represent lendings made in the local inter-bank market at rates ranging from 8.10% to 10.50% per annum and have a maturity period of upto one month.
- 9.2 These are certificates of investment of financial institutions carrying profit rates ranging from 10.70% to 11.55% per annum (2005: 9.73% to 11.00%) and have a maturity period of upto three months.
- 9.3 These are short term lendings to different financial institutions secured against Government and listed securities carrying mark-up ranging from 8.70% to 8.75% per annum (2005: 8.30% to 8.40%) and have a maturity period of upto two months.

2006 2005
(Rupees in '000)

9.4 Particulars of lending

In local currency	<u>6,578,800</u>	<u>3,352,747</u>
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9.5 Securities held as collateral against lendings to financial Institutions

	<u>2006</u>			<u>2005</u>		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
Market Treasury Bills	<u>1,428,800</u>	<u>–</u>	<u>1,428,800</u>	<u>1,552,747</u>	<u>–</u>	<u>1,552,747</u>
	<u>1,428,800</u>	<u>–</u>	<u>1,428,800</u>	<u>1,552,747</u>	<u>–</u>	<u>1,552,747</u>

(Rupees in '000)

- 9.6 The market value of securities held as collateral against lendings to financial institutions amounted to Rs. 1,432 million (2005: Rs. 1,551 million).



10. INVESTMENTS

10.1 Investments by type	2006			2005		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
	(Rupees in '000)					
<i>Available for sale securities</i>						
Market Treasury Bills	12,656,048	2,428,711	15,084,759	5,244,290	–	5,244,290
Pakistan Investment Bonds	1,320,296	–	1,320,296	1,575,194	–	1,575,194
Ordinary shares of listed companies and closed end mutual funds	516,141	–	516,141	334,364	–	334,364
Ordinary shares of unlisted companies	35,700	–	35,700	35,700	–	35,700
Term Finance Certificates – Listed	204,990	–	204,990	25,000	–	25,000
Open ended mutual funds	249,752	–	249,752	319,020	–	319,020
S.W.I.F.T.	4,175	–	4,175	1,657	–	1,657
	14,987,102	2,428,711	17,415,813	7,535,225	–	7,535,225
<i>Held to maturity securities</i>						
Market Treasury Bills	–	–	–	7,526,139	510,189	8,036,328
Pakistan Investment Bonds	2,066,584	–	2,066,584	2,463,871	–	2,463,871
Unlisted Sukuk Bonds	25,000	–	25,000	–	–	–
Term Finance Certificates – Listed	345,509	–	345,509	375,064	–	375,064
– Unlisted	261,869	–	261,869	270,618	–	270,618
Unlisted WAPDA Bonds	600,044	–	600,044	600,074	–	600,074
	3,299,006	–	3,299,006	11,235,766	510,189	11,745,955
<i>Held for trading</i>						
Ordinary shares of listed companies	155,073	–	155,073	59,126	–	59,126
<i>Associated companies</i>						
<i>Listed</i>						
- Habib Sugar Mills Ltd.	52,259	–	52,259	40,928	–	40,928
<i>Unlisted</i>						
- Habib Asset Management Ltd.	11,960	–	11,960	–	–	–
Investments at cost	18,505,400	2,428,711	20,934,111	18,871,045	510,189	19,381,234
Provision for diminution in the value of investment	(2,820)	–	(2,820)	(1,513)	–	(1,513)
Investments - Net of Provisions	18,502,580	2,428,711	20,931,291	18,869,532	510,189	19,379,721
Surplus on revaluation of held for trading securities	652	–	652	134	–	134
Surplus on revaluation of available for sale securities	76,613	–	76,613	256,856	–	256,856
Total Investments	18,579,845	2,428,711	21,008,556	19,126,522	510,189	19,636,711
10.1.1 Strategic Investment made during the year						
Associate						
– Habib Asset Management Ltd.	4,500	–	4,500	–	–	–
	4,500	–	4,500	–	–	–



	Note	2006 (Rupees in '000)	2005 (Rupees in '000)
10.2 Investments by segment			
<i>Federal Government Securities - at amortised cost</i>			
– Market Treasury Bills	10.5	15,084,759	13,280,618
– Pakistan Investment Bonds	10.6	3,386,880	4,039,065
– WAPDA Bonds	10.10	600,044	600,074
– Sukuk Bonds	10.13	25,000	–
		19,096,683	17,919,757
<i>Fully paid-up ordinary shares and closed end mutual funds - at cost</i>			
– Listed companies and closed end mutual funds	10.7	671,214	393,490
– Unlisted companies	10.8	35,700	35,700
		706,914	429,190
<i>Term Finance Certificates (TFCs) - at amortized cost</i>			
– Listed TFCs	10.9	550,499	400,064
– Unlisted TFCs	10.9	261,869	270,618
		812,368	670,682
<i>Others - at cost</i>			
– Associated companies	10.11	64,219	40,928
– Open ended mutual funds	10.12	249,752	319,020
– S.W.I.F.T.	10.14	4,175	1,657
		318,146	361,605
Investments at cost		20,934,111	19,381,234
Less: Provision for diminution in the value of investment	10.2.1	(2,820)	(1,513)
Investments - net provision		20,931,291	19,379,721
Surplus on revaluation of held for trading securities		652	134
Surplus on revaluation of available for sale securities		76,613	256,856
Total investments		21,008,556	19,636,711
10.2.1 Particulars of provision			
Opening balance		1,513	–
Charge for the year		1,307	1,513
Closing balance		2,820	1,513
10.2.2 Particulars of provision in respect of type and segment			
Available for sale - fully paid ordinary shares - unlisted company		2,820	1,513
– Pakistan Export Finance Guarantee Agency Ltd.			

10.2.3 Financial information of associated companies

		2006				2005			
	Year Ended	Total Assets	Total Liabilities	Revenues	Profit/(Loss)	Total Assets	Total Liabilities	Revenues	Profit/(Loss)
		(Rupees in '000)							
Habib Sugar Mills Ltd.	30 Sept. 06	2,395,706	832,639	4,019,324	215,589	2,019,209	812,898	2,812,407	162,340
Habib Asset Management Ltd.	30 June 06	29,139	47	401	(908)	–	–	–	–



10.3 Quality of available for sale securities

	2006			2005		
	Rating	Cost (Rupees in '000)	Market value	Rating	Cost (Rupees in '000)	Market value
Federal government securities						
- Market Treasury Bills	Unrated	15,084,759	15,074,084	Unrated	5,244,290	5,245,132
- Pakistan Investment Bonds	Unrated	1,320,296	1,411,527	Unrated	1,575,194	1,718,570
		16,405,055	16,485,611		6,819,484	6,963,702

Shares and close end mutual funds - listed

No. of ordinary shares		Name of Companies						
2006	2005		Rating	Cost	Market value	Rating	Cost	Market value
-	1,000,000	ABAMCO Composite Fund	-	-	-	Unrated	10,000	9,550
25,921	22,540	Atlas Battery Limited	Unrated	2,328	1,814	Unrated	2,328	1,688
31,250	20,000	Attock Refinery Limited	AA-	5,156	2,603	AA-	4,214	4,160
201,595	110,000	Cherat Cement Company Limited	Unrated	15,938	8,265	Unrated	9,910	9,708
110,000	-	D.G. Khan Cement Company Limited	Unrated	10,231	6,925	-	-	-
45,000	210,000	Engro Chemicals Pakistan Limited	AA-	8,504	7,605	AA-	29,831	34,535
550,000	200,000	Fauji Fertilizer Bin Qasim Limited	Unrated	18,521	15,675	Unrated	5,751	7,630
398,200	198,136	Fauji Fertilizer Company Limited	Unrated	44,696	42,030	Unrated	18,356	27,145
401,493	301,875	International Industries Limited	Unrated	5,720	43,763	Unrated	5,720	47,666
300,000	200,000	Kot Adu Power Company Limited	Unrated	12,560	12,210	Unrated	8,368	9,700
50,000	75,000	Lucky Cement Limited	Unrated	5,693	2,995	Unrated	5,544	6,292
400,000	-	Maple Leaf Cement Factory Limited	Unrated	18,173	6,960	-	-	-
25,000	-	National Refinery Limited	AAA	7,499	6,475	-	-	-
100,000	83,160	Nishat Chunian Limited	Unrated	9,177	3,815	Unrated	7,620	7,102
315,000	-	Oil and Gas Development Company	Unrated	42,824	36,131	-	-	-
133,600	35,100	Packages Limited	AA	26,139	28,056	AA	5,579	7,090
-	110,000	Pak Suzuki Motor Company Limited	-	-	-	Unrated	15,844	22,880
125,000	-	Pakistan Oil Fields	Unrated	45,113	43,719	-	-	-
100,000	-	Pakistan Petroleum Limited	Unrated	18,608	23,200	-	-	-
70,000	-	Pakistan State Oil Company Limited	AAA	22,578	20,580	-	-	-
4,875,000	7,839,500	Pakistan Strategic Allocation Fund	5 Star	48,750	41,438	Unrated	78,395	91,722
750,000	400,000	Pakistan Telecommunication Co. Ltd.	Unrated	46,256	33,225	Unrated	31,037	26,160
250,000	-	PICIC Growth Fund	4 Star	10,028	7,038	-	-	-
100,000	100,000	PICIC Investment Fund	4 Star	1,950	1,450	Unrated	1,950	1,820
26,250	21,000	Shell Pakistan Limited	Unrated	7,348	10,449	Unrated	7,348	16,632
262,000	262,000	Sitara Energy Limited	Unrated	9,164	4,100	Unrated	9,164	4,716
408,292	371,175	Standard Chartered Modaraba	AA+	10,970	6,206	AA+	10,970	8,017
-	50,000	Suzuki Motorcycle Pakistan Limited	-	-	-	Unrated	1,461	835
1,597,500	1,597,500	The Hub Power Company Limited	Unrated	62,217	43,133	Unrated	62,217	38,340
-	35,000	Tri-Pack Films Limited	-	-	-	A+	2,757	2,063
				516,141	459,860		334,364	385,451

The par value of these shares / units is Rs. 10 each.



			2006			2005		
			Rating	Cost	Market value	Rating	Cost	Market value
			(Rupees in '000)			(Rupees in '000)		
Open Ended Mutual Funds								
No. of units	Name of Companies							
2006	2005							
-	200,000	Al Falah GHP Value Fund	-	-	-	Unrated	10,000	10,238
50,000	-	Atlas Islamic Fund	Unrated	25,000	25,000	-	-	-
27,729	22,499	Atlas Stock Market Fund	Unrated	10,000	15,331	Unrated	10,000	14,148
1,022,180	1,916,754	Dawood Money Market Fund	5 Star	77,252	107,702	Unrated	161,520	200,684
520,731	421,660	Faysal Balanced Growth Fund	MFR 3 Star	37,500	52,474	Unrated	37,500	53,277
-	1,000,000	Faysal Income and Growth Fund	-	-	-	A+	100,000	102,410
5,095,000	-	NAFA Cash Fund	A	50,000	53,600	-	-	-
1,001,808	-	Pakistan Int. Element Islamic Fund	Unrated	50,000	47,955	-	-	-
				<u>249,752</u>	<u>302,062</u>		<u>319,020</u>	<u>380,757</u>

Shares - unlisted

No. of ordinary shares	Name of Companies							
2006	2005							
30	30	Khushhali Bank Limited	A-	30,000	30,000	Unrated	30,000	30,000
569,958	569,958	Pakistan Export Finance Guarantee Agency Limited	Unrated	5,700	5,700	Unrated	5,700	5,700
				<u>35,700</u>	<u>35,700</u>		<u>35,700</u>	<u>35,700</u>

Term finance certificates - listed

No. of certificates	Name of Companies							
2006	2005							
6,000	-	Allied Bank Limited	A	30,000	30,099	Unrated	-	-
5,000	5,000	Askari Commercial Bank Limited-II	AA	24,990	24,363	Unrated	25,000	24,814
5,000	-	Jahangir Siddiqui & Company Ltd. - IV	AA+	25,000	25,498	-	-	-
20,000	-	Orix Leasing Pakistan Limited	AA+	100,000	100,000	-	-	-
5,000	-	United Bank Limited - III	AA-	25,000	25,058	-	-	-
				<u>204,990</u>	<u>205,018</u>		<u>25,000</u>	<u>24,814</u>
S.W.I.F.T.			Unrated	4,175	4,175	Unrated	1,657	1,657

10.3.1 Long term or medium term ratings are used.

10.4 The market value of held to maturity securities at 31 December 2006 amounted to Rs. 3,101 million (2005: 11,722 million).



- 10.5 Market Treasury Bills carry yield ranging from 8.64% to 9.00% per annum (2005: 8.23% to 8.76%) having maturity upto one year.
- 10.6 Pakistan Investment Bonds are for a period of 5 and 10 years with yields ranging from 7.00% to 14.00% per annum (2005: 6.00% to 14.00%). Pakistan Investment Bonds having a face value of Rs. 5 million are pledged with Controller of Military Accounts, Karachi as a security deposit for extending banking facilities on account of regimental funds vis-a-vis private fund accounts.

10.7 Particulars of investments in shares and closed end mutual funds - listed

Cost of the investments of the Bank in shares and close ended mutual funds are as follows:

Available for sale-cost

<u>No. of ordinary shares</u>		<u>Name of Companies</u>	<u>2006</u>		<u>2005</u>	
<u>2006</u>	<u>2005</u>		<u>(Rupees in '000)</u>			
–	1,000,000	ABAMCO Composite Fund	–		10,000	
25,921	22,540	Atlas Battery Limited	2,328		2,328	
31,250	20,000	Attock Refinery Limited	5,156		4,214	
201,595	110,000	Cherat Cement Company Limited	15,938		9,910	
110,000	–	D.G. Khan Cement Company Limited	10,231		–	
45,000	210,000	Engro Chemicals Pakistan Limited	8,504		29,831	
550,000	200,000	Fauji Fertilizer Bin Qasim Limited	18,521		5,751	
398,200	198,136	Fauji Fertilizer Company Limited	44,696		18,356	
401,493	301,875	International Industries Limited	5,720		5,720	
300,000	200,000	Kot Adu Power Company Limited	12,560		8,368	
50,000	75,000	Lucky Cement Limited	5,693		5,544	
400,000	–	Maple Leaf Cement Factory Limited	18,173		–	
25,000	–	National Refinery Limited	7,499		–	
100,000	83,160	Nishat Chunian Limited	9,177		7,620	
315,000	–	Oil and Gas development Company	42,824		–	
133,600	35,100	Packages Limited	26,139		5,579	
–	110,000	Pak Suzuki Motor Company Limited	–		15,844	
125,000	–	Pakistan Oil Fields	45,113		–	
100,000	–	Pakistan Petroleum Limited	18,608		–	
70,000	–	Pakistan State Oil Company Limited	22,578		–	
4,875,000	7,839,500	Pakistan Strategic Allocation Fund	48,750		78,395	
750,000	400,000	Pakistan Telecommunications Company Limited	46,256		31,037	
250,000	–	PICIC Growth Fund	10,028		–	
100,000	100,000	PICIC Investment Fund	1,950		1,950	
26,250	21,000	Shell Pakistan Limited	7,348		7,348	
262,000	262,000	Sitara Energy Limited	9,164		9,164	
408,292	371,175	Standard Chartered Modaraba	10,970		10,970	
–	50,000	Suzuki Motorcycle Pakistan Limited	–		1,461	
1,597,500	1,597,500	The Hub Power Company Limited	62,217		62,217	
–	35,000	Tri-Pack Films Limited	–		2,757	
			516,141		334,364	



Held for Trading - cost

No. of ordinary shares		Name of Companies	2006	2005
2006	2005		(Rupees in '000)	
45,500	–	Pakistan Industrial Credit and Investment Corporation	3,026	–
2,500	–	Askari Commercial Bank Limited	264	–
139,000	–	The Bank of Punjab	13,873	–
15,500	–	Lakson Tobacco	5,550	–
127,600	–	International General Insurance Co. of Pakistan Ltd.	50,753	–
94,400	–	EFU General Insurance	20,111	–
4,400	–	BOC Pakistan	621	–
22,000	–	DADEX Eternit	1,320	–
45,400	–	Pakistan Refinery Limited	9,947	–
28,400	–	Millat Tractors Limited	7,982	–
9,600	–	Dawood Hercules	2,794	–
55,900	–	Abbott Laboratories (Pakistan) Ltd.	8,568	–
283,000	–	Habib ADM Limited	5,024	–
10,300	–	Pak Suzuki Motors Company	4,245	–
430,000	–	Soneri Bank Limited	20,995	–
–	600,000	Fauji Fertilizer Bin Qasim Limited	–	22,858
–	75,000	MCB Bank Limited	–	12,577
–	160,000	Oil and Gas Development Company	–	18,798
–	75,000	Pakistan Telecommunication Corporation Limited	–	4,893
			155,073	59,126
			671,214	393,490

10.8 Particulars of investments in shares - unlisted - Available for sale

Cost of investments of the Bank in fully paid-up ordinary shares of unlisted companies are as follows:

No. of ordinary shares		Name of Companies	2006	2005
2006	2005		(Rupees in '000)	
30	30	Khushhali Bank Limited Formed as per the directive of the Government of Pakistan to provide micro finance in rural area for alleviating poverty. The par value per share is Rs. 1,000,000 Break-up value Rs. 1,019,575 per share. Chief Executive Officer: Mr. Ghalib Nishter	30,000	30,000
569,958	569,958	Pakistan Export Finance Gurantee Agency Limited A Joint venture between Asian Development Bank and thirteen commercial banks in Pakistan. The par value per share is Rs. 10 Break-up value Rs. 5.05 per share. Chief Executive Officer: Mr. S. M. Zaem.	5,700	5,700
			35,700	35,700



10.9 Particulars of Investment in Term Finance Certificates

Cost of investments of the Bank in Term Finance Certificates are as follows:

No. of Certificates		Redeemable Value per certificate	Maturity Date	Name of Companies	2006	2005	
						(Rupees in '000)	
2006	2005						
<i>Listed-Held to Maturity</i>							
20,000	20,000	4,997.00	Feb-13	Askari Commercial Bank Limited-I	99,940	99,980	
15,000	15,000	4,996.16	Nov-12	Bank Al Falah Limited	74,942	74,971	
-	2,000	5,000.00	Sep-06	First Dawood Investment Bank Ltd.	-	10,000	
5,000	5,000	3,745.50	Apr-08	Jahangir Siddiqui & Company Ltd.	18,728	24,975	
-	10,000	-	Jul-06	Orix Leasing Pakistan Limited	-	50,000	
9,000	9,000	4,997.00	Feb-13	Prime Commercial Bank Limited	44,973	44,991	
5,000	5,000	4,997.00	May-13	Soneri Bank Limited	24,985	24,995	
7,928	7,928	832.65	Jun-07	Sui Southern Gas Company Ltd.	6,601	19,804	
5,000	-	4,999.00	Feb-13	Union Bank Limited - III	24,995	-	
4,000	4,000	4,999.70	Mar-13	United Bank Limited - II	19,999	20,000	
5,000	-	5,000.00	Sep-14	United Bank Limited - III	25,000	-	
1,070	1,070	4,996.16	Aug-12	United Bank Limited - I	5,346	5,348	
					345,509	375,064	
<i>Listed-Available for sale</i>							
6,000	-	5,000.00	Dec-14	Allied Bank Limited	30,000	-	
5,000	5,000	4,998.00	Oct-13	Askari Commercial Bank Ltd.-II	24,990	25,000	
5,000	-	5,000.00	May-12	Jahangir Siddiqui & Company Ltd.-IV	25,000	-	
20,000	-	5,000.00	5 Years*	Orix Leasing Pakistan Ltd.-Pre IPO	100,000	-	
5,000	-	5,000.00	Sep-14	United Bank Limited - III	25,000	-	
					204,990	25,000	
					550,499	400,064	
<i>Unlisted-Held to Maturity</i>							
10	10	10,000,000.00	Jul-12	Pak Arab Fertilizers Co. (Pvt) Ltd.	100,000	100,000	
35,000	35,000	4,624.82	Feb-11	Pakistan International Airlines Corporation	161,869	170,618	
					261,869	270,618	

These Term Finance Certificates are redeemable in half yearly installments and carry rate of return ranging from 8.45% to 13.06% per annum (2005: 7.50% to 13.50%). The certificates of Bank Alfalah Limited, United Bank Limited, Soneri Bank Limited, Prime Commercial Bank Limited, Union Bank Limited, Allied Bank Limited and Askari Commercial Bank Limited are subordinated.

* The maturity date of these Term Finance Certificates will be announced after public offer.



10.10 Particulars of Investment in WAPDA Bonds - Unlisted - Held to Maturity

Cost of investment of the Bank in WAPDA bonds is as follows:

<u>No. of Certificates</u>		<u>Redeemable Value per certificate</u>	<u>Maturity Date</u>	<u>Name of Company</u>	<u>2006</u>	<u>2005</u>
2006	2005				(Rupees in '000)	
120,000	120,000	5,000.00	Apr-08	Water and Power Development Authority	600,044	600,074

These bonds are redeemable at the end of the tenor and carry rate of return equal to the State Bank of Pakistan discount rate less 0.25% per annum (2005: SBP's discount rate less 0.25%).

10.11 Particulars of Investment in associated companies

Cost of investments of the Bank in associated companies are as follows:

Listed

<u>No. of shares</u>		<u>Name of Companies</u>	<u>2006</u>	<u>2005</u>
2006	2005		(Rupees in '000)	
2,671,998	2,003,999	Habib Sugar Mills Ltd. Market value Rs. 115.698 million (2005: Rs. 92.785 million) The par value per share is Rs. 5. Chief Executive: Mr. Raeesul Hasan	52,259	40,928

Unlisted

1,350,000	–	Habib Asset Management Limited 30.00% of share capital of company is owned by the Bank The par value per share is Rs. 10 Break up value per share Rs. 9.70 Chief Executive: Mr. Imran Azim	11,960	–
			64,219	49,928

10.11.1 Movement of Investment in associates

Beginning of the year	40,928	30,887
Share of profit	11,795	10,041
Investment made	13,500	–
Dividend received	(2,004)	–
Closing	64,219	40,928



10.12 Particulars of Investment in open ended mutual funds - Available for sale

Cost of investments of the Bank in open ended mutual funds are as follows:

No. of units		Book Value per unit	Name of Funds	2006	2005
2006	2005			(Rupees in '000)	
-	200,000	50.00	Alfalah GHP Value Fund	-	10,000
50,000	-	500.00	Atlas Islamic Fund	25,000	-
27,729	22,499	360.63	Atlas Stock Market Fund	10,000	10,000
1,022,180	1,916,754	75.58	Dawood Money Market Fund	77,252	161,520
520,731	421,660	72.01	Faysal Balanced Growth Fund	37,500	37,500
-	1,000,000	100.00	Faysal Income and Growth Fund	-	100,000
5,095,000	-	9.81	NAFA Cash Fund	50,000	-
-	-	-	Pakistan International Element Islamic Fund	-	-
1,001,808	-	49.91		50,000	-
				249,752	319,020

10.13 Particulars of Investment in Sukuk Bonds - Unlisted - Held to Maturity

Cost of investment of the Bank in Sukuk Bonds is as follows:

No. of Certificates		Redeemable Value per certificate	Maturity Date	Name of Company	2006	2005
2006	2005				(Rupees in '000)	
5,000	-	5,000	Oct-12	WAPDA Sukuk	25,000	-

These bonds are redeemable semi annually and carry rate of return equal to the KIBOR plus 35 bps.

10.14 Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T) allocated shares based on the financial contribution from network based services by the Bank. Based on the Bank's financial contribution, the Bank has 24 shares (2005: 12 shares) of S.W.I.F.T. at year end.

2006
(Rupees in '000)

11. ADVANCES

Loans, cash credits, running finances, etc.

In Pakistan	62,812,469	50,621,180
Outside Pakistan	1,023,482	-
	63,835,951	50,621,180

Net investment in finance lease / Ijara financing

In Pakistan	402,819	-
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Bills discounted and purchased (excluding treasury bills)

Payable in Pakistan	1,992,115	1,940,593
Payable outside Pakistan	4,885,086	3,029,289
	6,877,201	4,969,882

Advances - gross

	71,115,971	55,591,062
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Provision for non-performing advances - Note 11.3

	(240,244)	(222,221)
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Advances - net of provisions

	70,875,727	55,368,841
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	2006	2005
	(Rupees in '000)	
11.1 Particulars of advances:		
11.1.1 In local currency	59,426,656	48,168,444
In foreign currencies	11,449,071	7,200,397
	70,875,727	55,368,841
11.1.2 Short term (for upto one year)	57,551,733	45,038,994
Long term (for over one year)	13,323,994	10,329,847
	70,875,727	55,368,841

11.2 Net investment in finance lease/Ijara financing

	2006				2005			
	Not later than one year	Later than one year and less than five years	Over Five years	Total	Not later than one year	Later than one year less than five years	Over Five years	Total
	(Rupees in '000)							
Lease rentals receivable	87,456	393,497	-	480,953	-	-	-	-
Add: Residual value	-	37,822	-	37,822	-	-	-	-
Minimum lease payments	87,456	431,319	-	518,775	-	-	-	-
Financial charges for future periods	(40,180)	(75,776)	-	(115,956)	-	-	-	-
Present value of minimum lease payments	47,276	355,543	-	402,819	-	-	-	-

11.3 Advances include Rs. 388.263 million (2005: Rs. 383.393 million) which have been placed under non-performing status as detailed below:

	2006								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Category of classification									
Substandard	5,955	-	5,955	1,489	-	1,489	1,489	-	1,489
Doubtful	18,916	-	18,916	9,458	-	9,458	9,458	-	9,458
Loss	363,392	-	363,392	202,228	-	202,228	202,228	-	202,228
	388,263	-	388,263	213,175	-	213,175	213,175	-	213,175
General Provision	-	-	-	-	-	-	27,069	-	27,069
	388,263	-	388,263	213,175	-	213,175	240,244	-	240,244



	2005								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Substandard	975	-	975	98	-	98	98	-	98
Doubtful	66,288	-	66,288	23,325	-	23,325	23,325	-	23,325
Loss	316,130	-	316,130	171,729	-	171,729	171,729	-	171,729
	383,393	-	383,393	195,152	-	195,152	195,152	-	195,152
General Provision	-	-	-	-	-	-	27,069	-	27,069
	<u>383,393</u>	<u>-</u>	<u>383,393</u>	<u>195,152</u>	<u>-</u>	<u>195,152</u>	<u>222,221</u>	<u>-</u>	<u>222,221</u>

11.3.1 The Prudential Regulations issued by the State Bank of Pakistan effective from 01 January 2004 require banks to maintain a general reserve equal to 1.5% of the consumer portfolio which is fully secured and 5% of the consumer portfolio which is unsecured to protect the Bank from the risk associated with the economic cyclical nature of this business. The Bank created the general provision for secured and unsecured consumer portfolio amounting to Rs. 27.069 million (2005: Rs. 27.069 million).

11.4 Particulars of provision against non-performing advances:

	2006			2005		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	195,152	27,069	222,221	100,028	70,000	170,028
Charge for the year	37,664	-	37,664	146,498	-	146,498
Reversals	(18,012)	-	(18,012)	(29,750)	(42,931)	(72,681)
	19,652	-	19,652	116,748	(42,931)	73,817
Amount Written Off 11.5	(1,629)	-	(1,629)	(21,624)	-	(21,624)
Closing balance	<u>213,175</u>	<u>27,069</u>	<u>240,244</u>	<u>195,152</u>	<u>27,069</u>	<u>222,221</u>

11.4.1 Particulars of provision against non-performing advances:

	2006			2005		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	<u>213,175</u>	<u>27,069</u>	<u>240,244</u>	<u>195,152</u>	<u>27,069</u>	<u>222,221</u>



11.5 Particulars of write offs:

		2006	2005
		(Rupees in '000)	
11.5.1	Against provision	1,629	21,624
	Directly charged to profit and loss account	-	-
		<u>1,629</u>	<u>21,624</u>
11.5.2	Write-offs of Rs. 500,000 and above	1,524	21,624
	Write-offs of below Rs. 500,000	105	-
		<u>1,629</u>	<u>21,624</u>

11.6 Detail of loans written-off of Rs. 500,000 and above:

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended 31 December 2006 is given in Annexure 1.

11.7 Particulars of Loans and Advances to Directors, Associated Companies, etc.

2006 2005
(Rupees in '000)

(i) Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons.

Balance at beginning of the year	11,989	6,313
Loans granted during the year	1,175	9,397
Repayments	(2,258)	(3,721)
Balance at end of the year	<u>10,906</u>	<u>11,989</u>

(ii) Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members.

Balance at beginning of the year	260,000	260,000
Loans granted during the year	333,219	17,227
Repayments	(345,604)	(17,227)
Balance at end of the year	<u>247,615</u>	<u>260,000</u>



		2006	2005		
		(Rupees in '000)			
12. OPERATING FIXED ASSETS					
Capital work-in-progress	12.1	385,776	196,805		
Property and equipment	12.2	3,542,408	2,299,572		
Intangible assets	12.3	9,555	5,230		
Stock exchange membership card		34,750	34,750		
Dubai Gold Commodity Exchange card		5,990	-		
		3,978,479	2,536,357		
12.1 Capital work-in-progress					
Civil works		170,734	111,849		
Advance payment towards property and equipments		208,024	80,847		
Consultants fee and other charges		7,018	4,109		
		385,776	196,805		
12.2 Property and equipment					
		2006			
	Cost/Revalued Amount			Book value	
	As at 1 Jan. 2006	Additions/ (Deletions)/ Adjustments*	As at 31 Dec. 2006	As at 31 Dec. 2006	
				Rate of depreciation %	
				Depreciation	
	As at 1 Jan. 2006	Charge/ (Deletions) adjustments	As at 31 Dec. 2006		
				(Rupees in '000)	
<i>Owned</i>					
Leasehold land	618,866	286,621 22,507 *	927,994	-	-
Buildings on leasehold land	1,272,318	498,350 (22,507) *	1,748,161	64,144	58,538
Improvements to leasehold buildings	40,377	61,673	102,050	2,227	3,088
Furniture and fixtures	132,718	61,595 (1,284)	193,029	45,486	14,743 (828)
Electrical, office and computer equipment	66,616	15,335 (3,999)	77,952	53,795	4,405 (3,481)
Vehicles	3,566	3,980 (1,246)	6,300	2,328	558 (995)
	2,134,461	927,554 (6,529)	3,055,486	167,980	81,332 (5,304)
<i>Leased</i>					
Electrical, office and computer equipment	283,282	394,278 (3,482)	674,078	48,477	81,519 (1,171)
Vehicles	119,501	134,943 (8,515)	245,929	21,215	40,780 (1,743)
	402,783	529,221 (11,997)	920,007	69,692	122,299 (2,914)
	2,537,244	1,456,775 (18,526)	3,975,493	237,672	203,631 (8,218)
				433,085	3,542,408



	2005								
	Cost/Revalued Amount			Depreciation			Book value		
	As at 1 Jan. 2005	Additions/ (Deletions)/ Adjustments*	As at 31 Dec. 2005	As at 1 Jan. 2005	Charge/ (Deletions)	As at 31 Dec. 2005	As at 31 Dec. 2005	Rate of depreciation %	
	(Rupees in '000)								
<i>Owned</i>									
Leasehold land	248,250	172,596 198,020 *	618,866	-	-	-	618,866	-	
Buildings on leasehold land	1,035,336	435,002 (198,020)*	1,272,318	29,723	34,421	64,144	1,208,174	2.00 - 6.67	
Improvements to leasehold building	24,341	16,036	40,377	609	1,618	2,227	38,150	5	
Furniture and fixtures	101,416	32,337 (1,035)	132,718	35,590	10,813 (917)	45,486	87,232	10	
Electrical, office and computer equipments	61,425	10,278 (5,087)	66,616	55,084	3,595 (4,884)	53,795	12,821	20	
Vehicles	3,233	854 (521)	3,566	2,324	518 (514)	2,328	1,238	20	
	1,474,001	667,103 (6,643)	2,134,461	123,330	50,965 (6,315)	166,980	1,966,481		
<i>Leased</i>									
Electrical, office and computer equipment	100,968	182,539 (225)	283,282	10,097	38,447 (67)	48,477	234,805	20	
Vehicles	47,616	73,848 (1,963)	119,501	4,762	16,909 (456)	21,215	98,286	20	
	148,584	256,387 (2,188)	402,783	14,859	55,356 (523)	69,692	333,091		
	1,622,585	923,490 (8,831)	2,537,244	138,189	106,321 (6,838)	237,672	2,299,572		

12.3 Intangible assets

	2006								
	Cost			Amortization			Book value		
	As at 1 Jan.	Additions	(Deletions)	As at 31 Dec.	As at 1 Jan.	Charge	As at 31 Dec.	As at 31 Dec. %	Rate of amortization %
	(Rupees in '000)								
Computer software	54,459	17,610	-	72,069	49,229	13,285	62,514	9,555	50
	2005								
	Cost			Amortization			Book value		
	As at 1 Jan.	Additions	(Deletions)	As at 31 Dec.	As at 1 Jan.	Charge	As at 31 Dec.	As at 31 Dec.	Rate of amortization %
	(Rupees in '000)								
Computer software	45,499	8,960	-	54,459	40,504	8,725	49,227	5,230	50

Various computer software costing Rs. 6 million procured by the Bank have been fully amortised and continue to remain in the Bank's use.



12.4 Disposals / deletions of fixed assets during the year with original cost or book value in excess of Rupees one million or two hundred fifty thousand respectively (whichever is less):

Particulars	Cost	Book Value	Sale Price	Mode of disposal	Particulars of purchaser
		(Rupees in '000)			
Furniture and Fixtures	953	348	120	Auction	Karachi Auction Mart, 7/C, Mai Kolachi Road, Karachi.

12.5 During the year no assets were disposed-off to the Chief Executive or a director or an executive or a shareholder holding not less than ten percent of the voting shares of the Bank or any related party.

12.6 In 2004 leasehold land and buildings were revalued by M/s Iqbal A. Nanjee & Co. on the basis of market value which resulted in net surplus of Rs. 441.312 million over the book value of the assets as on 01 January 2004.

Had there been no revaluation, the net book value of specific classes of property, plant and equipment would have amounted to:

	Net Book Value	
	2006	2005
	(Rupees in '000)	
Leasehold land	866,479	431,023
Buildings on leasehold land	1,265,946	929,803
	2,132,425	1,360,826
	2006	2005
	(Rupees in '000)	

13. OTHER ASSETS

Income / mark-up accrued in local currency		1,425,045	1,088,692
Income / mark-up accrued in foreign currency		90,910	11,882
Advances, deposits, advance rent and other prepayments		239,902	178,740
Advance taxation (payments less provisions)		275	38
Deferred costs	13.1	29,228	76,390
Unrealized gain on forward foreign exchange contracts		31,330	—
Stationery and stamps on hand		48,615	32,394
Receivable from SBP / Government of Pakistan		7,564	405,995
Non refundable deposits	13.2	128,836	137,687
Others	13.3	236,657	40,726
		2,238,362	1,972,544

13.1 This represents renovation costs incurred on bank premises before 31 December 2003, being accounted for as deferred cost and amortized over a period of five years. From 2004 renovation costs representing major renewals and improvements are capitalized as improvements to buildings and depreciated over the remaining useful lives of buildings.

13.2 This represents non refundable deposits paid in relation to acquisition of some Bank's properties. These are being written off over the periods ranging from 10 to 20 years (being estimated useful lives of related properties).

13.3 This includes proceeds receivable amounting to Rs. 111.176 million in respect of redemption of units of an open ended mutual fund.



	2006	2005
	(Rupees in '000)	
14. BILLS PAYABLE		
In Pakistan	<u>1,390,613</u>	<u>1,464,648</u>
15. BORROWINGS FROM FINANCIAL INSTITUTIONS		
In Pakistan	10,742,659	6,199,058
Outside Pakistan	45,895	76,810
	<u>10,788,554</u>	<u>6,275,868</u>
15.1 Particulars of borrowings with respect to currencies		
In local currency	10,742,659	6,199,058
In foreign currency	45,895	76,810
	<u>10,788,554</u>	<u>6,275,868</u>
15.2 Details of borrowings secured / unsecured		
Secured		
Borrowings from State Bank of Pakistan		
Under export refinance scheme 15.3	7,037,717	5,533,900
Under Long Term Financing for Export Oriented Projects 15.4	1,276,231	154,969
Repurchase agreement borrowings 15.5	2,428,711	510,189
	<u>10,742,659</u>	<u>6,199,058</u>
Unsecured		
Overdrawn Nostros	45,895	76,810
	<u>10,788,554</u>	<u>6,275,868</u>
15.3	These borrowings carry mark-up rates ranging from 6.50% to 7.50% per annum (2005: 3.50% to 7.50%) and are secured against promissory notes, undertakings in favour of the Bank and export documents, payable quarterly at the time of partial payment or upon maturity of loan, whichever is earlier.	
15.4	This represents Borrowings from State Bank of Pakistan under Long Term Finance for Export Oriented Products at rates ranging from 4.00% to 5.00% per annum (2005: 5.00%) having maturity period of upto seven years and six months.	
15.5	This represents repurchase agreement borrowings from other banks at rates ranging from 8.75% to 9.00% per annum (2005: 6.00% to 7.50%) having a maturity period of upto one month.	



	2006	2005
	(Rupees in '000)	
16. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	33,823,942	17,670,702
Savings deposits	16,733,604	16,603,476
Current accounts - Remunerative	11,311,994	15,951,090
Current accounts - Non-remunerative	27,856,243	24,112,559
	<u>89,725,783</u>	<u>74,337,827</u>
Financial Institutions		
Remunerative deposits	1,530,182	1,171,981
Non-remunerative deposits	115,984	218,881
	<u>1,646,166</u>	<u>1,390,862</u>
	<u>91,371,949</u>	<u>75,728,689</u>
16.1 Particulars of deposits		
In local currency	80,772,379	68,734,250
In foreign currencies	10,599,570	6,994,439
	<u>91,371,949</u>	<u>75,728,689</u>
17. SUB-ORDINATED LOANS		
Term Finance Certificates (TFCs) - I - Quoted, Unsecured	17.1 1,348,920	1,349,460
Term Finance Certificates (TFCs) - II - Unsecured	17.2 739,000	-
	<u>2,087,920</u>	<u>1,349,460</u>
17.1 Term Finance Certificates (TFCs) - I - Quoted, Unsecured		
Total issue	Rupees 1,350 million	
Rating	AA-	
Rate	Payable six monthly at average six months KIBOR plus 150 bps	
Floor	3.50% p.a.	
Cap	10.00% p.a.	
Redemption	6-78th month: 0.25% 84th, 90th and 96th month: 33.25% each	
Tenor	8 years	



17.2 Term Finance Certificates (TFCs) - II - Unsecured

Total issue	Rupees 1,500 million
Pre-initial public offer (Pre-IPO)	Rupees 1,125 million
Rating	AA-
Rate	Payable six monthly at average six months KIBOR plus 1.95% without any floor and cap
Redemption	6-84th month: 0.28% 90th and 96th month: 49.86% each
Tenor	8 years

During the year, the Bank obtained appropriate approvals from SBP and SECP for issuance of rated, listed and un-secured subordinated TFC-II. Out of total pre-IPO funds of Rs. 1,125 million, Rs. 739 million have been received by 31 December 2006.

18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2006			2005		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
Not later than one year	332,523	67,466	265,057	142,926	30,470	112,456
Later than one year but not later than five years	504,690	56,772	447,918	264,057	28,507	235,550
	837,213	124,238	712,975	406,983	58,977	348,006

(Rupees in '000)

18.1 The Bank has entered into various lease agreements for computers, office equipments and vehicles. Lease rentals include financial charges at the rate of 10.25% to 12.25% per annum (2005: 10.00%-10.25%) which have been used as discounting factor and are payable monthly. The Bank has the option to purchase the assets upon completion of lease period and has intention to exercise it.



	2006	2005
	(Rupees in '000)	
19. DEFERRED TAX ASSETS / (LIABILITIES)		
Deferred tax debits / deductible temporary differences arising in respect of:		
– Provision for general loan losses	9,474	9,474
– Provision for compensated absences	9,764	6,264
– Provision for diminution in the value of investments	987	6,806
– Difference between accounting book value of leased assets and lease liabilities	–	5,220
	20,225	27,764
Deferred tax credits / taxable temporary differences arising in respect of :		
– Assets on Ijara Financing	(3,972)	–
– Difference between accounting book value of owned fixed assets and tax base	(232,513)	(104,597)
– Surplus on revaluation of fixed assets	(121,015)	(124,982)
– Surplus on revaluation of securities	(28,308)	(50,182)
– Difference between accounting book value of leased assets lease liabilities	(6,277)	–
	(392,085)	(279,761)
	(371,860)	(251,997)
20. OTHER LIABILITIES		
Mark-up /return/interest payable in local currency	552,876	437,512
Mark-up/return/interest payable in foreign currencies	47,033	5,704
Accrued expenses	25,488	27,882
Provision for compensated absences	27,898	17,898
Advance payments	58,409	7,242
Taxation (Provision less payments)	771,068	85,399
Unclaimed dividends	12,674	6,592
Unrealized loss on forward foreign exchange contracts	–	7,078
Branch adjustment account	48,706	47,620
Special exporters accounts in foreign currencies	24,490	69,090
Others	348,253	76,533
	1,916,895	788,550



		2006	2005
		(Rupees in '000)	
21. SHARE CAPITAL			
	2006	2005	
	(Number of shares)		
Authorised Capital			
	<u>500,000,000</u>	<u>300,000,000</u>	Ordinary shares of Rs.10 each
			<u>5,000,000</u>
			<u>3,000,000</u>
Issued, subscribed and paid up capital			
	2006	2005	
	(Number of shares)		
			Ordinary shares of Rs. 10 each
	<u>30,000,000</u>	30,000,000	fully paid in cash
	<u>232,933,387</u>	189,111,156	Issued as bonus shares
			<u>300,000</u>
			<u>2,329,334</u>
	<u>262,933,387</u>	<u>219,111,156</u>	<u>2,629,334</u>
			<u>2,191,112</u>
21.1	Issued, subscribed and paid-up capital at year-end includes 4,373,455 ordinary shares of Rs. 10 each (2005: 3,644,546 shares) held by the associated undertaking.		
21.2	After 31 December 2006, the following dividends were proposed by the Board of directors in respect of year 2006. The dividends have not been provided for.		
			(Rupees in '000)
	Bonus issue at 4 shares for 10 shares held		1,051,734
	Cash dividend @ Rs. 1.5 per share		394,400
	The above bonus issue would increase the paid up capital of the Bank to Rs. 3,681 million in compliance with the BSD circular no. 12 datd 25 August 2004 of the State Bank of Pakistan. The State Bank of Pakistan has granted extension to increase the paid up capital by 31 March 2007.		
21.3	Exchange translation reserve		
	This comprises all foreign currency differences arising from translation of financial statements of foreign operations.		
21.4	Statutory reserves		
	The holding company is required to transfer 20% of its profits to a statutory reserve until the reserve equals share capital. This reserve is not available for distribution.		
		2006	2005
		(Rupees in '000)	
22. SURPLUS ON REVALUATION OF ASSETS - NET			
	Surplus on revaluation of securities - net of tax	22.1	<u>49,798</u>
	Surplus on revaluation of fixed assets - net of tax	22.2	<u>286,258</u>
			<u>336,056</u>
			<u>206,674</u>
			<u>293,625</u>
			<u>500,299</u>



	2006	2005
	(Rupees in '000)	
22.1 Federal Government securities	80,558	144,219
Quoted shares	(56,283)	51,088
Other securities	52,338	61,549
Related deferred tax liability	(26,815)	(50,182)
	49,798	206,674
22.2 Surplus on revaluation of fixed assets	418,607	429,978
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax	(7,367)	(7,391)
Related deferred tax liability	(3,967)	(3,980)
	(11,334)	(11,371)
	407,273	418,607
Less: Related deferred tax liability on:		
Revaluation of fixed assets	124,982	128,962
Incremental depreciation charged during the year transferred to profit and loss account	(3,967)	(3,980)
	121,015	124,982
	286,258	293,625
23. CONTINGENCIES AND COMMITMENTS		
23.1 Direct Credit Substitutes		
Acceptances	4,180,208	5,673,637
23.2 Transaction-related Contingent Liabilities		
Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credit related to particular transactions issued in favour of:		
– Government	2,977,965	2,398,648
– Financial Institutions	198,103	85,787
– Others	1,486,431	1,429,259
23.3 Trade-related Contingent Liabilities		
Letters of credit	19,965,016	16,227,514
23.4 Other contingencies		

The income tax authorities have finalised the income tax assessment of the Bank upto tax year 2004 (accounting year ended 31 December 2003). For tax year 2005 and 2006 the Bank has filed returns under self assessment scheme as envisaged in the section 120 of the Income Tax Ordinance, 2001. The Income Tax Department has filed appeals against the appellate order relating to the assessment years 1995-1996, 2000-2001, 2001-2002, 2002-2003 and tax years 2003 and 2004 before the Income Tax Appellate Tribunal (ITAT) on which the tax liability, if any, of Rs. 40 million may arise. The Bank, based on the earlier decisions at ITAT level in previous years and the tax advisor's opinion is confident of a favourable outcome and expects that no additional liability would arise.



	2006	2005
	(Rupees in '000)	
23.5 Commitments in respect of forward lending		
Commitments to extend credit	1,265,167	345,000
23.6 Commitments in respect of forward exchange contracts		
Purchase	4,020,798	3,445,614
Sale	7,513,967	5,884,600
The maturities of above contracts are spread over a period upto one year.		
23.7 Commitments for the acquisition of operating fixed assets	706,825	158,039
23.8 Commitments in respect of operating leases		
Not later than one year	1,836	60,608
Later than one year and not later than five years	718	3,519
	2,554	64,127
The Bank has entered into operating lease arrangements whereby vehicles are acquired on operating lease. The lease rentals are payable over a period upto 24 months.		
23.9 Other commitments		
Investment towards capital of Habib Asset Management Limited	–	10,500
Commitment for donation to Habib Education Trust for construction of Habib Public School building	9,000	–
Commitment in respect of resale transactions of listed equity securities	80,398	65,526
Commitment in respect of future transactions of listed equity securities at market value sale	17,375	–
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to:		
– Customers	5,300,188	3,378,651
– Financial institutions	116,962	54,785
On investments	2,136,746	1,264,619
On deposits with financial institutions	98,906	60,590
On securities purchased under resale agreements	142,334	154,810
On call money lendings	68,381	22,509
	7,863,517	4,935,964



	2006	2005
	(Rupees in '000)	
25. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	3,317,868	1,604,579
Securities sold under repurchase agreements	138,132	52,515
Sub-ordinated loan - TFCs	134,907	115,433
Borrowing from State Bank of Pakistan:		
– under Export Refinance Scheme	422,994	323,001
– under Long-Term Financing for Export Oriented Projects	30,407	270
Other short term borrowings	35,299	47,369
	4,079,607	2,143,167
26. GAIN ON SALE OF SECURITIES		
Pakistan Investment Bonds	–	76
Shares - Listed	69,511	10,577
Mutual Funds - Open ended	35,428	16,911
	104,939	27,564
27. OTHER INCOME		
Gain on disposal of operating fixed assets	17,727	5,203
Miscellaneous income (rent of lockers, recovery of fax, telephone, telex, courier charges, etc.)	177,271	125,635
	194,998	130,838
28. ADMINISTRATIVE EXPENSES		
Salaries, allowances, etc.	979,630	646,292
Charge for defined benefit plan 34.7	30,050	14,713
Contribution to defined contribution plan	38,923	25,960
Charge for compensated absences	10,000	10,398
Non-executive directors' fees, allowances and other expenses	660	65
Rent, taxes, insurance, electricity, etc.	314,722	219,503
Legal and professional charges	18,370	22,460
Communications	96,390	72,052
Repairs and maintenance	94,724	67,036
Rentals of operating leases	60,765	144,566
Financial charges on leased assets	50,954	18,193
Security charges	62,190	41,680
Stationery and printing	77,296	50,163
Advertisement and publicity	48,042	15,706
Donations 28.1	14,776	25,350
Auditors' remuneration 28.2	1,515	1,213
Depreciation 12.2	203,630	106,321
Amortisation	69,297	73,298
Vehicle running expenses	84,782	55,158
Commission and brokerage	65,124	28,098
Subscriptions and publications	17,542	14,507
Clearing charges (NIFT)	21,359	15,552
Others	105,257	68,852
	2,465,998	1,737,136



	2006	2005
	(Rupees in '000)	
28.1 The details of donations in excess of Rupees One hundred thousand are given below:		
Agha Khan Hospital and Medical College Foundation	200	650
Al-Sayyeda Benevolent Trust	925	925
Bait-ul-Sukoon Trust	–	500
Beautification of I.I. Chundrigar Road - a social welfare project	–	7,500
Habib Education Trust	9,900	900
Habib Medical Trust	925	925
Habib Poor Fund	900	900
Jinnah Foundation (Memorial) Trust	–	200
Layton Rehmatullah Benevolent Trust	–	100
President Relief Fund for Earthquake Victims-2005	–	10,500
Rahmatbai Habib Food & Clothing Trust	900	900
Rahmatbai Habib Widows & Orphans Trust	900	900
Shaukat Khanum Memorial Hospital and Research Centre	–	125
Society for Children in need of Special Attention	100	–
The Society for the Prevention and Cure of Blindness	–	125
None of the directors or their spouse had any interest in the above donees.		
	2006	2005
	(Rupees in '000)	
28.2 Auditors' remuneration		
Audit fee	800	650
Fee for half yearly review, audit of provident and gratuity fund, special certifications and sundry advisory services	605	525
Out of pocket expenses	110	38
	1,515	1,213
29. OTHER CHARGES		
Penalties imposed by the State Bank of Pakistan	54	2,453
30. TAXATION		
For the year		
– Current	785,610	685,514
– Deferred	143,231	13,542
	928,841	699,056
30.1	928,841	699,056
For prior year	4,840	(143,857)
	933,681	555,199



	2006	2005
	(Rupees in '000)	
30.1 Relationship between tax expense and accounting profit		
Profit before taxation	<u>2,706,385</u>	<u>1,994,959</u>
Tax at the applicable rate of 35% (2005: 38%)	947,235	758,084
Tax effect of:		
– Expenses that are not deductible in determining taxable Income	19,623	8,812
– Dividend income taxed at reduced rate	(12,515)	(12,811)
– Capital gain on sale of quoted shares being exempt from tax	(31,544)	(10,445)
– Income subject to final taxation	(5,011)	–
– Others	11,053	(44,584)
	<u>928,841</u>	<u>699,056</u>
31. EARNINGS PER SHARE - BASIC AND DILUTED		
Profit for the year attributable to the shareholders of Holding Company	<u>1,771,565</u>	<u>1,441,790</u>
Weighted average number of ordinary shares (Numbers)	<u>262,933,387</u>	<u>262,933,387</u>
Basic and diluted earnings per share (Rupees)	<u>6.74</u>	<u>5.48</u>
	2006	2005
	(Rupees in '000)	
32. CASH AND CASH EQUIVALENTS		
Cash and balance with treasury bank	9,346,444	7,582,667
Balances with other banks	1,233,948	1,088,891
	<u>10,580,392</u>	<u>8,671,558</u>
	2006	2005
	(Numbers)	
33. STAFF STRENGTH		
Permanent	2,355	1,818
Temporary / on contractual basis	87	–
Daily wages	–	–
Others	–	–
Bank's own staff at end of the year	<u>2,442</u>	<u>1,818</u>
Outsourced	488	373
Total staff strength	<u>2,930</u>	<u>2,191</u>



34. DEFINED BENEFIT PENSION PLAN - EMPLOYEES' GRATUITY FUND

General description

The Bank operates an approved gratuity fund for all its confirmed employees, which is administered by the Board of Trustees. The Bank's costs and contributions determined based on an actuarial valuation carried out at each year end by using Projected Unit Credit Method. The benefits under the gratuity scheme are payable on retirement at the age of 60 or on earlier cessation of service as under:

34.1 <i>Number of years of eligible service completed:</i>	<i>Amount of gratuity payable:</i>
– Less than 5 years	Nil
– 5 years or more but less than 10 years	1/3rd of basic salary for each year served
– 10 years or more but less than 15 years	2/3rd of basic salary for each year served
– 15 years or more	Full basic salary for each year served

34.2 Principal actuarial assumptions

The last actuarial valuation of the scheme was carried out as on 31 December 2006 and the key assumptions used for actuarial valuation were as follows:

	2006	2005
Discount rate	10.00% p.a.	9.00% p.a.
Expected rate of increase in salary in future years	9.00% p.a.	8.00% p.a.
Expected rate of return on plan assets	10.00% p.a.	9.00% p.a.

	2006	2005
	(Rupees in '000)	
34.3 Reconciliation of payable to defined benefit plan		
Present value of defined benefit obligations	158,620	108,992
Fair value of plan assets	(96,453)	(63,902)
Net actuarial losses not recognized	(62,167)	(45,090)
	<u>–</u>	<u>–</u>
34.4 Movement in defined benefit obligation:		
Obligation as at 1 January	108,992	80,524
Current service cost	23,830	11,462
Interest cost	9,998	6,589
Benefits paid	(3,399)	(8,240)
Actuarial loss / (gain) on obligation	19,199	18,657
Obligation as at 31 December	158,620	108,992



	2006	2005
	(Rupees in '000)	
34.5 Movement in fair value of plan assets		
Fair value as at 1 January	63,902	54,399
Expected return on plan assets	6,220	4,629
Contribution by the Bank	30,050	14,713
Benefits paid	(3,399)	(8,240)
Actuarial (loss) / gain on plan assets	(320)	(1,599)
Fair value as at 31 December	<u>96,453</u>	<u>63,902</u>
34.6 Movement in (receivable) / payable to defined benefit		
Balance as at 1 January	–	–
Charge for the year	30,050	14,713
Contribution to the fund during the year		
– Bank's Contribution	(30,050)	(14,713)
Balance as at 31 December	<u>–</u>	<u>–</u>
34.7 Charge for defined benefit plan		
Current service cost	23,830	11,462
Interest cost	9,998	6,589
Expected return on plan assets	(6,220)	(4,629)
Amortisation of actuarial losses	2,442	1,291
	<u>30,050</u>	<u>14,713</u>
34.8 Actual return on plan assets		
– Expected return on plan assets	6,220	4,629
– Actuarial (loss) / gain on plan assets	(320)	(1,599)
	<u>5,900</u>	<u>3,030</u>

34.9 Five year data on surplus / (deficit) of the plans & experience adjustments

	2006	2005	2004	2003	2002
	(Rupees in '000)				
– Present value of defined benefit obligation	(158,620)	(108,992)	(80,524)	(54,719)	(36,016)
– Fair value of plan assets	96,453	63,902	54,399	43,616	34,614
– (Deficit) / Surplus	<u>(62,167)</u>	<u>(45,090)</u>	<u>(26,125)</u>	<u>(11,103)</u>	<u>(1,402)</u>
– Experience adjustments on plan liabilities (loss) / gain	19,199	18,657	15,308	9,441	3,241
– Experience adjustments on plan assets - (loss) / gain	<u>(320)</u>	<u>(1,599)</u>	<u>(88)</u>	<u>(290)</u>	<u>1,452</u>



	2006	2005
34.10 Components of plan assets as a percentage of total plan assets		
– Term finance certificate	27.36%	40.00%
– Others (including bank balances)	72.64%	60.00%
	100.00%	100.00%

34.11 Expected contribution to be paid to the funds in the next financial year 2007
(Rupees in '000)

The bank contributes to the gratuity fund according to the actuary's advice. Based on actuarial advice the management estimates that the charge in respect of defined benefit plans for the year ending 31 December 2007 would be as follows:

Expected charge for the year 2007	<u><u>33,772</u></u>
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35. COMPENSATION OF CHIEF EXECUTIVES, EXECUTIVE DIRECTOR AND EXECUTIVES

	(Rupees in '000)					
	Chief Executives		Executive Director		*Executives	
	2006	2005	2006	2005	2006	2005
Managerial remuneration	7,400	5,066	2,400	2,400	171,984	91,243
Contribution to provident fund	740	480	240	240	13,090	7,274
Charge for defined benefit plan	333	210	200	117	4,119	4,412
Rent and house maintenance	2,960	2,026	960	960	68,793	36,497
Utilities	1,081	936	240	242	17,198	8,934
Bonus	1,000	1,000	600	600	40,519	21,979
Medical	83	81	25	23	4,567	2,418
Others	–	–	–	–	2,616	532
	<u><u>13,597</u></u>	<u><u>9,799</u></u>	<u><u>4,665</u></u>	<u><u>4,582</u></u>	<u><u>322,886</u></u>	<u><u>173,289</u></u>
Number of person(s)	2	2	1	1	185	112

The Chief Executives, Executive Director and Executives are also provided with the Bank maintained cars in accordance with the terms of employment.

* Executives mean employees, other than the Chief Executive and Executive Director whose basic salary exceeds five hundred thousand rupees in a financial year.



36. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2006		2005	
	Book value	Fair value	Book value	Fair value
	(Rupees in '000)			
36.1 On-balance sheet financial instruments				
Assets				
Cash and balances with treasury bank	9,346,444	9,346,444	7,582,667	7,582,667
Balances with other banks	1,233,948	1,233,948	1,088,891	1,088,891
Lendings to financial institutions	6,578,800	6,578,800	3,352,747	3,352,747
Investments	21,008,556	21,073,178	19,636,711	19,668,302
Advances	70,875,727	70,875,727	55,368,841	55,368,841
Other assets	1,791,566	1,791,566	1,513,253	1,513,253
	<u>110,835,041</u>	<u>110,899,663</u>	<u>88,543,110</u>	<u>88,574,701</u>
Liabilities				
Bills payable	1,390,613	1,390,613	1,464,648	1,464,648
Borrowings	10,788,554	10,788,554	6,275,868	6,275,868
Deposits and other accounts	91,371,949	91,371,949	75,728,689	75,728,689
Sub-ordinated loan - TFCs	2,087,920	2,087,920	1,349,460	1,349,460
Liabilities against assets subject to finance lease	712,975	712,975	348,008	348,008
Other liabilities	1,069,278	1,069,278	581,885	581,885
	<u>107,421,289</u>	<u>107,421,289</u>	<u>85,748,558</u>	<u>85,748,558</u>
36.2 Off-balance sheet financial instruments				
Forward purchase of foreign exchange contracts	<u>4,020,798</u>	<u>4,020,798</u>	<u>3,445,614</u>	<u>3,445,614</u>
Forward sale of foreign exchange contracts	<u>7,513,967</u>	<u>7,513,967</u>	<u>5,884,600</u>	<u>5,884,600</u>

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

The fair value of quoted investments is based on quoted market price. Fair value of unquoted equity investments is determined on the basis of break-up value of these investments as per the latest available audited financial statements. In the opinion of management, the fair value of remaining financial assets and liabilities are not significantly different from their book value since assets and liabilities are either short term in nature or frequently re-priced, except for fixed term advances of over one year, staff loans and fixed term deposits of over one year.

In the opinion of management, the fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities.



37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Retail Banking	Commercial Banking	Retail Brokerage	Inter Segment Elimination	Total
	(Rupees in '000)				
	2006				
Total income	5,231,660	6,943,677	18,688	(2,921,022)	9,273,003
Total expenses	(3,588,398)	(5,869,085)	(30,157)	2,921,022	(6,566,618)
Net income (loss)	1,643,262	1,074,592	(11,469)	–	2,706,385
Segment Assets (Gross)	64,160,748	100,099,022	509,379	(49,508,833)	115,260,316
Segment Non Performing Loans	67,474	320,789	–	–	388,263
Segment Provision Required	59,229	181,015	–	–	240,244
Segment Liabilities	63,321,420	94,428,637	399,542	(49,508,833)	108,640,766
Segment Return on net assets (ROA) (%)	2.56%	1.07%	(2.25%)	–	–
Segment Cost of funds (%)	5.90%	6.49%	9.81%	–	–
	2005				
Total income	3,112,031	4,357,565	(92)	(1,516,459)	5,953,045
Total expenses	(1,932,724)	(3,525,179)	(16,642)	1,516,459	(3,958,086)
Net income (loss)	1,179,307	832,386	(16,734)	–	1,994,959
Segment Assets (Gross)	49,680,198	78,893,740	316,040	(37,351,220)	91,538,758
Segment Non Performing Loans	82,456	300,937	–	–	383,393
Segment Provision Required	119,728	102,493	–	–	222,221
Segment Liabilities	48,980,992	74,360,850	216,596	(37,351,220)	86,207,218
Segment Return on net assets (ROA) (%)	2.37%	1.06%	(5.29%)	–	–
Segment Cost of funds (%)	4.06%	4.92%	5.46%	–	–

For the purpose of presentation of results of each segment, the inter-segment lending has been remunerated at an average cost to that segment.

38. TRUST ACTIVITIES

The Bank provides services as a trustee to Dawood Money Market Fund. The market value of shares held by the Bank in safe custody on behalf of the fund amounted to Rs. 338.947 million (2005: Rs. 312.553 million)

39. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include major shareholders, associated companies with or without common directors, retirement benefit funds, directors and key management personnel and their close family members.

The Bank continues to have a policy whereby all transactions with related parties are entered into an arm's length prices using the comparable uncontrolled price method except dividends which have been approved in the Annual General Meeting.

The lending policy in case of related parties has been consistent with that of the bank's overall credit policy and in line with the SBP's Prudential Regulations.

Transactions with related parties, other than those under the terms of employment, are summarized as follows:



2006

	Associates	Non Executive Directors	Key Management Personnel	Total
(Rupees in '000)				
Deposits				
At beginning of the year	126,643	17,447	24,401	168,491
Received during the year	8,084,156	93,559	89,294	8,267,009
Repaid during the year	(8,045,316)	(105,579)	(99,124)	(8,250,019)
At end of the year	165,483	5,427	14,571	185,481
Advances				
At beginning of the year	260,000	–	11,989	271,989
Given during the year	262,730	–	1,175	263,905
Repaid during the year	(275,115)	–	(2,258)	(272,857)
At end of the year	247,615	–	10,906	263,037
Mark-up earned	21,910	2	763	22,675
Mark-up expensed	7,102	271	361	7,734
Salaries and allowances	–	–	56,207	56,207
Bonus	–	–	9,251	9,251
Compensated absences	–	–	57	57
Contribution to defined contribution plan	–	–	2,573	2,573
Contribution to defined benefit plan	–	–	1,222	1,222
Staff Provident fund	–	–	36,350	36,350
Directors' fee	–	660	–	660
Insurance claim received	5,617	–	–	5,617
Insurance premium paid	57,292	–	–	57,292
Dividend income	2,004	–	–	2,004
Dividend paid	5,467	–	–	5,467



2005

	Associates	Non Executive Directors	Key Management Personnel	Total
(Rupees in '000)				
Deposits				
At beginning of the year	132,461	–	2,759	135,220
Received during the year	14,447,937	187,018	220,887	14,855,842
Repaid during the year	(14,453,755)	(169,571)	(199,245)	(14,822,571)
At end of the year	<u>126,643</u>	<u>17,447</u>	<u>24,401</u>	<u>168,491</u>
Advances				
At beginning of the year	260,000	–	6,313	266,313
Given during the year	17,227	–	9,397	26,624
Repaid during the year	(17,227)	–	(3,721)	(20,948)
At end of the year	<u>260,000</u>	<u>–</u>	<u>11,989</u>	<u>271,989</u>
Mark-up earned	196	14,711	410	15,317
Mark-up expensed	805	23	26	854
Salaries and allowances	–	–	46,728	46,728
Bonus	–	–	7,741	7,741
Compensated absences	–	–	3,633	3,633
Contribution to defined contribution plan	–	–	2,300	2,300
Contribution to defined benefit plan	–	–	848	848
Staff Provident fund	–	–	23,659	23,659
Directors' fee	–	65	–	65
Insurance claim received	6,585	–	–	6,585
Insurance premium paid	43,165	–	–	43,165
Dividend income	4,008	–	–	4,008
Dividend paid	–	–	–	–



40. CAPITAL ADEQUACY

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

	2006	2005
	(Rupees in '000)	
Regulatory Capital Base		
<i>Tier I Capital</i>		
Shareholders Capital	2,629,334	2,191,112
Reserves	2,082,561	2,167,736
Minority Interest	99,109	97,970
Unappropriated profits	1,472,490	45,756
Total Tier I Capital	6,283,494	4,502,574
<i>Tier II Capital</i>		
Subordinated Debt (upto 50% of total Tier I Capital)	2,087,920	1,349,460
General Provisions subject to 1.25% of Total Risk Weighted Assets	27,069	-
Revaluation Reserve (upto 50%)	143,130	172,356
Total Tier II Capital	2,258,119	1,521,816
Eligible Tier III Capital	-	-
Total Regulatory Capital (a)	8,541,613	6,024,390

Risk-Weighted Exposures

	2006		2005	
	Book value	Risk Adjusted Value	Book value	Risk Adjusted Value
	(Rupees in '000)			
Credit Risk				
Balance sheet items:				
Cash and other liquid assets	10,580,392	312,050	8,671,558	264,666
Money at call	6,578,800	2,550,000	3,352,747	1,800,000
Investments	21,008,556	1,626,190	19,636,711	1,319,876
Loans and advances	70,875,727	60,507,978	55,368,841	47,141,936
Fixed assets	3,978,479	3,978,479	2,536,357	2,536,357
Other assets	2,238,362	2,148,682	1,972,544	1,483,587
	115,260,316	71,123,379	91,538,758	54,546,422



Risk-Weighted Exposures

	2006		2005	
	Book value	Risk Adjusted Value (Rupees in '000)	Book value	Risk Adjusted Value
Off balance sheet items				
Loan repayment guarantees	4,180,208	4,143,606	–	3,875,229
Purchase and resale agreements	97,772	–	65,256	–
Performance bonds etc	4,662,499	1,586,463	–	1,299,005
Revolving underwriting commitments	–	–	–	–
Stand by letters of credit	19,965,016	8,633,180	–	6,526,780
Outstanding foreign exchange contracts				
– Purchase	4,020,798	48,246	3,445,614	25,270
– Sale	7,513,967	66,193	5,884,600	44,340
	<u>40,440,260</u>	<u>14,477,688</u>	<u>9,395,470</u>	<u>11,770,624</u>
Credit Risk-weighted exposures		<u>85,601,067</u>		<u>66,317,046</u>
Market Risk				
General market risk	63,023	63,023	59,263	59,263
Specific market risk	341,343	341,343	323,225	323,225
Market risk-weighted exposures		<u>404,366</u>		<u>382,488</u>
Total Risk-weighted exposures (b)		<u>86,005,433</u>		<u>66,699,534</u>
Capital adequacy ratio [(a) / (b) x 100]		<u>9.93%</u>		<u>9.03%</u>

41. RISK MANAGEMENT

This section presents information about the Bank's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments.

41.1 Credit Risk

Credit risk is the risk of loss arising from failure by a client or counterparty to meet its contractual obligation. It emanates from loans and advances, commitments to lend, contingent liabilities such as letters of credit and guarantees, and other similar transactions both on and off balance sheet.

Credit risk of the Bank is managed through the credit policies approved by the Board; a well defined credit approval mechanism; prescribed documentation requirement; post disbursement administration, review and monitoring of all credit facilities; and continuous assessment of all credit worthiness of counterparties. Decisions regarding the credit portfolio are taken mainly by the Central Credit Committee. Credit Risk Management Committee of the Board provides overall guidance in managing the Bank's Credit risk.

Counterparty exposure limits are approved in line with State Bank of Pakistan's regulations and the Bank's own policies, by taking into account both qualitative and quantitative criteria. All credit exposures are adequately collateralised, except when specially exempted by SBP as in the case of personal loans and credit cards. There is an established system for continuous monitoring of credit exposures and follow-up of any past due loans with the respective business units. All past due loans, including trade bills, are reviewed on fortnightly basis and pursued for recovery. Any non-performing loans are classified and provided for as per SBP regulations.

Credit facilities, both fund based and non-fund based, extended to large customer groups and industrial sectors are regularly monitored. The Bank has concentration of credit in textile which is the largest sector of Pakistan's economy. Concentration risk is managed by diversification within sub-sectors like spinning, weaving, and composite; credit worthiness of counterparties and adequate collateralisation of exposures.



Stress testing for credit risk is carried regularly to estimate the impact of increase in NPLs, downward shift in NPL categories, and decline in forced sale values of mortgaged collaterals.

41.1.1 Segment by class of business

	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	%	Rupees in '000	%	Rupees in '000	%
Agriculture / Agri business	690,506	0.97	506,574	0.55	216,277	0.75
Automobiles and Transportation						
Equipment	832,219	1.17	3,973,941	4.35	2,136,455	7.42
Cement	1,158,677	1.63	9,079	0.01	677,923	2.35
Chemicals / Pharmaceuticals	1,229,620	1.73	307,328	0.34	998,275	3.47
Commerce and Trade	7,320,531	10.33	3,119,757	3.41	4,995,178	17.34
Electronics and Electrical appliances	654,670	0.92	36,756	0.04	139,718	0.49
Fertilizers	897,838	1.27	704,535	0.77	115,269	0.40
Food and Allied	2,920,000	4.12	316,857	0.35	1,166,479	4.05
Ghee and Edible Oil	344,985	0.49	83,199	0.09	311,786	1.08
Hotels and Restaurants	207,326	0.29	122,036	0.13	3,514	0.01
Individuals	1,366,127	1.93	54,409,869	59.55	90,651	0.31
Insurance	–	–	615,399	0.67	–	–
Investment Banks / Scheduled Banks	911,752	1.29	1,175,227	1.29	–	–
Iron and Steel	1,626,015	2.29	155,196	0.17	1,832,119	6.36
Manufacturing	1,163,229	1.64	618,808	0.68	732,183	2.54
Modarabas	734,648	1.04	14,864	0.02	–	–
Oil Refinery	521,654	0.74	370,281	0.41	1,967,095	6.83
Paper and Board	156,980	0.22	40,768	0.04	123,611	0.43
Plastic products	277,883	0.39	70,541	0.08	335,447	1.16
Production and Transmission of Energy	361,282	0.51	25,015	0.03	103,525	0.36
Ready-made garments	1,416,331	2.00	77,571	0.08	451,703	1.57
Real estate/Construction	1,780,444	2.51	1,071,435	1.17	671,118	2.33
Rice processing and trading	152,380	0.21	2,476	0.00	125	0.00
Services (other than financial, hotelling and travelling)	601,487	0.85	2,026,856	2.22	604,380	2.10
Shoes and Leather garments	852,437	1.20	90,022	0.10	116,179	0.40
Sugar	2,021,675	2.85	59,159	0.06	292,551	1.02
Surgical Equipments	163,333	0.23	24,222	0.03	23,954	0.08
Metal Products	490,885	0.69	29,098	0.03	88,378	0.31
Synthetic and Rayon	1,031,559	1.46	58,453	0.06	265,202	0.92
Textile	30,509,311	43.05	1,617,066	1.77	5,473,893	19.00
Spinning	15,958,013	22.52	948,692	1.04	3,401,919	11.81
Weaving	5,742,995	8.10	209,088	0.23	666,571	2.31
Composite	8,808,303	12.43	459,286	0.50	1,405,403	4.88
Telecommunication	597,876	0.84	61,770	0.07	24,517	0.09
Woolen	27,015	0.04	36,724	0.04	243,004	0.84
Public/Government	3,039,741	4.29	13,270,027	14.52	3,160,776	10.97
Others	4,815,311	6.79	6,271,040	6.87	1,446,438	5.02
	<u>70,875,727</u>	<u>100.00</u>	<u>91,371,949</u>	<u>100.00</u>	<u>28,807,723</u>	<u>100.00</u>



2005

	Advances		Deposits		Contingencies and Commitments	
	Rupees in'000	%	Rupees in '000	%	Rupees in '000	%
Agriculture / Agri business	245,766	0.44	359,807	0.48	25,973	0.10
Automobiles and Transportation						
Equipment	1,781,089	3.22	4,178,277	5.52	1,454,171	5.63
Cement	121,654	0.22	13,832	0.02	161,362	0.63
Chemicals / Pharmaceuticals	936,398	1.69	367,612	0.49	506,504	1.96
Commerce and Trade	5,415,752	9.78	2,814,155	3.72	5,199,537	20.14
Electronics and Electrical appliances	866,565	1.57	92,822	0.12	51,990	0.20
Fertilizers	23,828	0.04	614,150	0.81	43,363	0.17
Food and Allied	1,720,485	3.11	134,287	0.18	1,037,533	4.02
Individuals	916,767	1.66	43,087,744	56.90	-	-
Investment Banks / Scheduled Banks	507,667	0.92	725,517	0.96	-	-
Iron and Steel	1,175,744	2.12	173,477	0.23	1,608,563	6.23
Manufacturing	2,912,522	5.26	510,198	0.67	-	-
Modarabas	416,042	0.75	128,719	0.17	-	-
Oil Refinery	641,858	1.16	276,322	0.36	19,123	0.07
Plastic products	263,709	0.46	32,715	0.04	287,302	1.11
Ready-made garments	1,064,747	1.92	37,839	0.05	168,409	0.65
Real estate/Construction	1,537,156	2.78	570,849	0.75	234,630	0.91
Rice processing and trading	646,022	1.17	4,107	0.01	38,470	0.15
Services (other than financial, hotelling and travelling)	697,709	1.26	1,786,814	2.36	543,396	2.10
Shoes and Leather garments	596,270	1.08	105,621	0.14	178,937	0.69
Sugar	946,911	1.71	93,714	0.12	330,242	1.28
Metal Products	841,590	1.52	20,943	0.03	228,353	0.90
Synthetic and Rayon	1,571,374	2.84	19,641	0.03	286,738	1.11
Textile	21,641,801	39.09	1,196,579	1.58	5,438,864	21.07
Spinning	10,605,159	19.15	570,652	0.75	2,754,018	10.67
Weaving	3,592,262	6.49	131,191	0.17	785,884	3.04
Composite	7,444,380	13.45	494,736	0.65	1,898,962	7.36
Telecommunication	225,430	0.41	104,793	0.14	20,278	0.08
Woolen	21,027	0.04	39,459	0.05	217,813	0.84
Public/Government	2,244,325	4.05	11,714,066	15.47	4,822,367	18.68
Others	5,388,633	9.73	6,524,630	8.60	2,910,927	11.28
	<u>55,368,841</u>	<u>100.00</u>	<u>75,728,689</u>	<u>100.00</u>	<u>25,814,845</u>	<u>100.00</u>



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

	2006		2005	
	Classified Advances	Specific Provision held	Classified Advances	Specific Provision held
	(Rupees in '000)			
Chemicals/Pharmaceuticals	826	826	3,323	3,199
Food and Allied	8,800	3,700	–	–
Hotels and Restaurants	1,275	1,036	975	98
Individuals	2,201	1,623	804	804
Ready-made garments	81,281	39,766	85,054	46,672
Real estate/Construction	1,054	1,054	–	–
Hotelling and travelling	3,727	1,152	1,956	979
Shoes and Leather garments	206,326	122,888	206,083	110,725
Surgical Equipments	1,000	250	–	–
Textile	81,773	40,880	84,813	32,344
Weaving	1,065	266	–	–
Composite	80,708	40,614	84,813	32,344
Others	–	–	385	331
	388,263	213,175	383,393	195,152

41.1.3 Segment by sector

	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in'000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	3,039,741	4.29	13,270,027	14.52	3,160,776	10.97
Private	67,835,986	95.71	78,101,922	85.48	25,646,947	89.03
	70,875,727	100.00	91,371,949	100.00	28,807,723	100.00
	2005					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in'000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	2,244,325	4.05	11,714,066	15.47	4,822,367	18.68
Private	53,124,516	95.95	64,014,623	84.53	20,992,478	81.32
	55,368,841	100.00	75,728,689	100.00	25,814,845	100.00



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

	2006		2005	
	Classified Advances	Specific Provision held (Rupees in '000)	Classified Advances	Specific Provision held
Public / Government	—	—	—	—
Private	388,263	213,175	383,393	195,152
	<u>388,263</u>	<u>213,175</u>	<u>383,393</u>	<u>195,152</u>

41.1.5 GEOGRAPHICAL SEGMENT ANALYSIS

	2006			
	Profit before taxation	Total assets employed (Rupees in '000)	Net Assets employed	Contingencies and Commitments
Pakistan	2,734,217	114,522,431	6,647,382	28,580,741
Middle East	(27,832)	737,885	(27,832)	226,982
	<u>2,706,385</u>	<u>115,260,316</u>	<u>6,619,550</u>	<u>28,807,723</u>

In year 2005 all of the branches of the Bank were located in Pakistan only.

41.2 Market Risk

Market risk is the risk of loss arising from movements in market rates or prices, such as interest rates, foreign exchange rates, and equity prices.

Market risk is managed through the market risk management policy approved by the Board; approval of counterparty and dealer limits; specific senior management approval for each investment; and regular review and monitoring of the investment portfolio by the Asset Liability Management Committee (ALCO). A key element of market risk management is separation of functions and reporting lines for the Treasury Division which undertakes dealing activities within the limits and parameters set by ALCO; the Settlements Department which confirms and settles the aforesaid deals; and the Middle Office which independently monitors and analyses the risks inherent in Treasury operations. Risk Management Committee of the Board provides supervision and guidance in managing the Bank's market risk.

Dealing activities of the Bank include investment in government securities, term finance certificates, and shares and mutual funds; money market transactions; and foreign exchange transactions catering to the needs of its customers. All such activities are carried out within the prescribed limits. Any excess over limits noted by the Settlements Department and /or the Middle Office is reported to senior management and ALCO.



41.3 Foreign Exchange Risk

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	100,531,660	97,672,344	3,662,047	6,521,363
United States Dollar	13,928,150	9,090,193	(4,743,646)	94,311
Great Britain Pound	234,319	1,063,552	829,529	296
Japanese Yen	20	7,515	7,495	-
Euro	523,255	793,122	273,324	3,457
Other currencies	42,912	14,040	(28,749)	123
	115,260,316	108,640,766	-	6,619,550

Foreign exchange risk is the risk of loss from adverse changes in currency exchange rates. The Bank's foreign exchange exposure comprises forward contracts, purchase of foreign bills, foreign currency cash in hand, balances with banks abroad, foreign currency deposits, and foreign currency placements with the State Bank of Pakistan and other banks. Focus of the Bank's foreign exchange activities is on catering to the needs of its customers, both in spot and forward markets.

Foreign exchange risk exposures of the Bank are controlled through dealer limits, open foreign exchange position limits, counterparty exposure limits, and country limits. The Bank manages its foreign exchange exposure by matching foreign currency assets and liabilities within strict limits. The net open position in any single currency and the overall foreign exchange exposure are both managed within the statutory limits as prescribed by the State Bank of Pakistan as well as the internal limits set by the Bank itself. Stress testing for foreign exchange risk is carried out regularly to estimate the impact of adverse changes in foreign exchange rates.

41.4 Equity Price Risk

Equity price risk is the risk of loss from adverse movements in equity prices. The Bank's policy is to acquire shares for investment purposes and not to run a trading book for buying and selling of shares.

Equity price risk of the Bank is controlled through equity desk/dealer limits, broker limits, equity portfolio limits, future contracts limits, and Continuous Funding System (CFS) limits. Direct investment in equities and mutual funds is managed within the statutory limits as prescribed by the State Bank of Pakistan as well as the internal limits set by the Bank itself. Stress testing for equity price risk is carried out regularly to estimate the impact of decline in stock prices.



41.5 MISMATCH OF INTEREST RATE SENSITIVE ASSETS AND LIABILITIES

2006												
Effective Yield/Interest Rate	Total	Exposed to Yield / Interest rate risk									Non interest bearing financial instruments	
		Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years		
(Rupees in '000)												
On-balance sheet financial Instruments												
<i>Assets</i>												
Cash and balances with treasury banks	0.72%	9,346,444	1,491,027	-	-	-	-	-	-	-	-	7,855,417
Balances with other banks	5.50%	1,233,948	535,367	-	-	2,500	-	-	-	-	-	696,081
Lendings to financial institutions	9.31%	6,578,800	4,993,683	1,585,117	-	-	-	-	-	-	-	-
Investments	7.92%	21,008,556	3,391,237	4,038,212	6,284,169	2,200,435	1,310,357	91,876	1,597,786	1,033,865	24,180	1,036,439
Advances - Performing	8.84%	70,487,464	4,300,046	15,098,562	15,090,089	17,789,688	1,845,867	2,636,029	7,027,736	1,472,598	341,763	4,885,086
- Non-Performing	0.00%	388,263	-	-	-	-	-	-	-	-	-	388,263
Other assets	-	1,791,566	-	-	-	-	-	-	-	-	-	1,791,566
		110,835,041	14,711,360	20,721,891	21,374,258	19,992,623	3,156,224	2,727,905	8,625,522	2,506,463	365,943	16,652,852
<i>Liabilities</i>												
Bills payable	-	1,390,613	-	-	-	-	-	-	-	-	-	1,390,613
Borrowings	7.02%	10,788,554	2,970,779	3,691,902	2,712,218	100,210	183,062	189,064	242,902	652,522	-	45,895
Deposits and other accounts*	4.00%	91,371,949	39,060,348	8,440,231	2,804,970	7,453,231	454,705	1,810,488	1,845,488	76	-	29,502,412
Sub-ordinated loan - TFCs	10.00%	2,087,920	270	-	-	418	836	836	450,233	1,635,327	-	-
Liabilities against assets subject to finance lease	11.02%	712,975	27,296	54,463	61,014	125,998	245,328	149,495	49,381	-	-	-
Other Liabilities	-	1,069,278	-	-	-	-	-	-	-	-	-	1,069,278
		107,421,289	42,058,693	12,186,596	5,578,202	7,679,857	883,931	2,149,883	2,588,004	2,287,925	-	32,008,198
On-balance sheet gap		3,413,752	(27,347,333)	8,535,295	15,796,056	12,312,766	2,272,293	578,022	6,037,518	218,538	365,943	(15,335,346)
Total yield / interest risk sensitivity gap			(27,347,333)	8,535,295	15,796,056	12,312,766	2,272,293	578,022	6,037,518	218,538	365,943	
Cumulative yield / interest risk sensitivity gap				(18,812,038)	(3,015,982)	9,296,784	11,569,077	12,147,099	18,184,617	18,403,155	18,769,098	
Off-balance sheet financial Instruments												
Commitments to extend credit	6.70-13.40%	1,265,167	-	1,265,167	-	-	-	-	-	-	-	-

* Savings deposits, treasurers' call and current deposits have been reported under one month maturity. However, they are not expected to be payable within one month period.



41.6 Yield / Interest Rate Risk

Interest rate risk is the risk of loss from adverse movements in interest rates. The Asset Liability Management Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Bank arising from fluctuation in the market interest rates and mismatching or gaps in the amount of financial assets and financial liabilities in different maturity time bands.

The Bank's interest rate exposure is calculated by categorising its interest sensitive assets and liabilities into various time bands based on the earlier of their contractual repricing or maturity dates.

Interest rate risk exposures of the Bank are controlled through dealer limits, counter-party exposure limits and (when necessary) type-of-instrument limits. Duration and Modified Duration of various types of debt securities as well as their entire portfolio are also calculated, and the impact of adverse change in interest rates on the market value of the securities is estimated. In addition, stress testing for interest rate risk is carried out regularly to estimate the impact of adverse changes in interest rates.

41.7 Liquidity Risk

Liquidity risk is the risk of loss to a bank arising from its inability to meet obligations as they fall due or to fund growth in assets, without incurring unacceptable losses.

Liquidity risk is managed through the liquidity risk management policy approved by the Board; careful monitoring of daily liquidity position by the Treasury Division and the Middle Office; and regular review and monitoring of the liquidity position by the Asset and Liability Management Committee (ALCO). Risk Management Committee of the Board provides supervision and guidance in managing the Bank's liquidity risk.

Key elements of the Bank's liquidity risk management are as follows:

- To maintain a comfortable margin of excess liquidity in the form of cash and readily marketable assets to meet the Bank's funding requirements at any time.
- To keep a strong focus on mobilisation of low-cost core deposits from customers.
- To maintain a realistic balance between the behavioral maturity profiles of assets and liabilities.
- To maintain excellent credit rating, as borrowing costs and ability to raise funds are directly affected by credit rating.
- To have a written contingency funding plan to address any hypothetical situations when access to normal sources of funding is constrained.

In short, the Bank's liquidity risk management addresses the goal of protecting solvency and the ability to withstand stressful events in the marketplace. Stress testing for liquidity risk is carried out regularly to estimate the impact of decline in liquidity on the ratio of liquid assets to deposits plus borrowings.



41.8 **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks.

Operational risk is managed through the Audit Policy and the operational risk management policy approved by the Board, along with the policies on prevention of frauds and forgeries and compliance with "Know Your Customer" and Anti Money Laundering requirements; operational manuals and procedures issued from time to time; a system of internal controls and dual authorisation for important transactions and safe-keeping; and regular audit of the branches. Audit Committee of the Board provides overall guidance in managing the Bank's operational risk.

The Bank's operational risk management framework, as laid down in the Operational Risk Management Policy, is flexible enough to implement in stages and permits the overall risk management approach to evolve in the light of organisational learning and the future needs of the Bank.

The Bank places a high priority on conducting all business dealings with integrity and fairness, as laid down in the Statement of Ethics & Business Practices, which is required to be signed by all employees.

Internal controls are an essential feature of risk reduction in operational risk management. The Bank has sought the assistance of external consultants to further improve the effectiveness and efficiency of its internal controls.



42. MATURITIES OF ASSETS AND LIABILITIES

	2006									
	Total	Upto 1 month	Over 1 month 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
(Rupees in '000)										
<i>Assets</i>										
Cash and balances with treasury bank	9,346,444	9,346,444	-	-	-	-	-	-	-	-
Balances with other banks	1,233,948	1,231,448	-	-	2,500	-	-	-	-	-
Lendings to financial institutions	6,578,800	4,993,683	1,585,117	-	-	-	-	-	-	-
Investments	21,008,556	3,418,238	4,038,212	6,284,169	2,962,356	1,310,357	91,876	1,597,786	1,033,865	271,697
Advances - Performing	70,487,464	9,263,161	15,098,562	15,090,089	17,711,659	1,845,867	2,636,029	7,027,736	1,472,598	341,763
- Non Performing	388,263	-	-	-	-	-	-	-	-	388,263
Other assets	2,238,362	1,531,584	190,126	220,428	96,903	52,548	36,403	44,871	42,276	23,223
Operating fixed assets	3,978,479	23,937	340,645	96,737	225,390	291,889	276,403	406,223	472,185	1,845,070
	115,260,316	29,808,495	21,252,662	21,691,423	20,998,808	3,500,661	3,040,711	9,076,616	3,020,924	2,870,016
<i>Liabilities</i>										
Bills payable	1,390,613	1,390,613	-	-	-	-	-	-	-	-
Borrowings	10,788,554	3,016,674	3,691,902	2,712,218	100,210	183,062	189,064	242,902	652,522	-
Deposits and other accounts*	91,371,949	68,562,637	8,440,231	2,804,970	7,453,231	454,705	1,810,488	1,845,488	76	-
Sub-ordinated loan - TFCs	2,087,920	270	-	-	418	836	836	450,233	1,635,327	-
Liabilities against assets subject to finance lease	712,975	22,531	59,228	61,014	125,998	245,328	149,495	49,381	-	-
Other Liabilities	1,916,895	641,193	56,845	341,959	815,398	27,898	12,674	-	20,521	-
Deferred tax liabilities	371,860	-	-	-	-	-	-	371,860	-	-
	108,640,766	73,633,918	12,248,206	5,920,161	8,495,255	911,829	2,162,557	2,959,864	2,308,446	-
	6,619,550	(43,824,174)	9,004,456	15,771,262	12,503,553	2,588,832	878,154	6,116,752	712,478	2,870,016
<i>Net assets</i>										
Share capital	2,629,334									
Reserves	2,082,561									
Unappropriated profit	1,472,490									
Minority Interest	99,109									
Surplus/(deficit) on revaluation of assets	336,056									
	6,619,550									

* Savings deposits, treasurers' call and current deposits have been reported under one month maturity. However, they are not expected to be payable within one month period.



43. ISLAMIC BANKING BUSINESS

The Bank is operating with three Islamic Banking branches at the end of current year as compared to one Islamic Banking branch last year.

	2006	2005
	(Rupees in 000)	
ASSETS		
Cash and balance with treasury banks	117,143	9,063
Balances with and due from financial institution	110,000	–
Investments	25,000	–
Financing and receivables		
– Murabaha	454,865	674,879
– Ijara	402,819	–
Other assets	26,216	13,640
	1,136,043	697,582
LIABILITIES		
Bills payable	4,122	4,032
Deposits and other accounts		
– Current accounts	36,945	49,393
– Saving deposits	84,734	18,750
– Term deposits	808,950	–
– Deposits from financial institutions - remunerative	1,000	–
Due to Head Office	19,351	516,334
Other liabilities	51,937	180
	1,007,039	588,689
NET ASSETS	129,004	108,893
REPRESENTED BY		
Islamic Banking Fund	100,000	100,000
Reserves	–	–
Unappropriated / unremitted profit	29,004	8,893
	129,004	108,893
Surplus / (deficit) on revaluation of assets	–	–
	129,004	108,893
Remuneration to Shariah Advisor / Board	929	845
CHARITY FUND		
Opening balance	–	–
Additions during the period	121	–
Payments / utilisation during the period	(121)	–
Closing balance	–	–



44. ACCOUNTING ESTIMATES AND JUDGEMENTS

Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past.

Held to maturity investment

The Bank has classified certain investments as held to maturity. In this regard, judgement is involved in evaluating the intention and ability to hold these investments till their respective maturities.

Investment stated at fair value

Management has determined fair value of certain investments by using quotations from active market, and review of conditions and information about the financial instruments. These estimates are subjective in nature and involve some uncertainties and matters of judgement (e.g. valuation, interest rate, etc.) and therefore, cannot be determined with precision.

Property, plant and equipment

The Bank reviews the rate of depreciation, useful life, residual value and value of assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property plant and equipments with a corresponding effect on the depreciation charge and impairment. Land and building are carried at revalued amount and would be affected by the movement in market price.

Impairment of available for sale equity investments

The Bank determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Retirement benefits

The Bank contributes to the staff gratuity fund on the basis of actuarial valuation which takes into account certain assumptions regarding interest rate, increase in salary and inflation rate etc. Any change in these estimates in future years might affect the Bank's liability with corresponding effect on the charge for the retirement benefits plan.

45. GENERAL

45.1 Revised forms of annual Financial statements

These financial statements have been prepared using the revised format of financial statements prescribed in BSD Circular No.04 dated February 17, 2006 issued by the State Bank of Pakistan.



45.2 Amendments to published standards and new interpretations effective in 2006

IAS 19 (Amendment) - Employee Benefits, is mandatory for the bank's accounting period beginning on or after January 1, 2006. It introduces the option of an alternative recognition approach for recognition of actuarial gains and losses. It also adds new disclosure requirement. As the bank does not intend to change the accounting policy adopted for recognition of actuarial gains and losses, adoption of these amendments only impacts the format and extent of disclosure presentation in the financial statements.

Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2006 which are not considered relevant nor have any significant effect on the Bank's operations are not detailed in these financial statements .

46. DATE OF AUTHORIZATION

These financial statements were authorized for issue in the Board of Directors meeting held on 21 February 2007.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

ANWAR HAJI KARIM
Director

IMTIAZ ALAM HANFI
Director



Annexure-1

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

(Rupees in '000)

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's/ Husband's Name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written off	Other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Others	Total				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1.	United Exports Company F/16-J, Hub River Road, S.I.T.E. Karachi.	Mr. Shamim Ahmed (Sole Proprietor) (NIC No. 42201-8695701-7)	Mr. Jameel-ur-Rahman	43,052	2,797	-	45,849	-	2,591	-	2,591
2.	Jubilee Spinning & Weaving Mills B-28 Manghopir Road, S.I.T.E. Karachi.	Mr. Muhammad Rafi (Director) (NIC No. 517-37-040186)	Haji Muhammad Shafi	-	-	-	-	1,524	-	-	1,524
		Mr. Shaukat Shafi (Director) (NIC No. 270-38-173300)	Haji Muhammad Shafi								
		Mr. Salman Raif (Director) (NIC No. 517-90-040190)	Haji Muhammad Shafi								
		Mr. Tariq Shafi (Director) (NIC No. 244-86-023949)	Haji Muhammad Rafi								
			Total	43,052	2,797	-	45,849	1,524	2,591	-	4,115

Note 1: The amount of principal written off was against the specific provision held by the bank.

Note 2: Interest / mark-up written off was against suspended mark-up.



Branch Network

KARACHI

1 MAIN BRANCH

Mackinnons Building, I.I. Chundrigar Road.
Phones: (92-21) 2412986 & 111-786-110
Fax : (92-21) 2425423 & 2412028

2 CLOTH MARKET BRANCH

Ground Floor, Lotus Manzil, BR-2,
New Neham Road, Cloth Market.
Phones: (92-21) 2401301-4
Fax : (92-21) 2401300

3 JODIA BAZAR BRANCH

MR-1/16, Ram Bharti Street,
Market Quarter, Jodia Bazar.
Phones: (92-21) 2446451-5
Fax : (92-21) 2473390

4 NAPIER ROAD BRANCH

2-A, Ground Floor, Yousufi Manzil,
North Napier Road.
Phones: (92-21) 2731496, 2771321 & 2771218
Fax : (92-21) 2771187

5 NEW CHALLI BRANCH

Haji Adam Chambers,
Altat Hussain Road.
Phones: (92-21) 2410526, 2410876 & 2410917
Fax : (92-21) 2411048

6 PAKISTAN CHOWK BRANCH

Shop No. 1, Chandna Manzil,
Kutchery Road.
Phones: (92-21) 2212352-54
Fax : (92-21) 2212350

7 KEAMARI BRANCH

Plot No. 20, Locality No. II,
Group Jungle Shah.
Phones: (92-21) 2859723-26
Fax : (92-21) 2859727

8 KARACHI STOCK EXCHANGE BRANCH

Room No. 4-6, Stock Exchange Building,
Stock Exchange Road.
Phones: (92-21) 2401516-19
Fax : (92-21) 2401520

9 KHARADAR BRANCH

Shop No. 7 & 8 Hemani Centre,
Ghulam Hussain Kassim Quarters.
Phones: (92-21) 2205572-74
Fax : (92-21) 2205575

10 NAYABAD BRANCH

Plot No. 121, Nayabad, Lyari Quarter,
Shah Waliullah Road.
Phones: (92-21) 2514854-55, 2513953
Fax : (92-21) 2513445

11 LEA MARKET BRANCH

Shop No. 1, Plot No. N.P 6/30-31,
Zulikha Mansion, Napier Town Quarters.
Phones: (92-21) 2540846-47, 2520684
Fax : (92-21) 2540848

12 TIMBER MARKET BRANCH

Plot No. E-III-2, S-34, Siddiq Wahab Road,
Phones: (92-21) 2762776, 2762778 & 2762784
Fax : (92-21) 2762730

13 STEEL MARKET BRANCH

Plot No. 5, Shop No. 6 & 7,
Ranchore Quarters, Baba-e-Urdu Road.
Phones: (92-21) 2732061, 2737367-68
Fax : (92-21) 2731798

14 BOHRA PIR BRANCH

Plot No. 5/7,
Tota Ram Building,
Ranchore Quarters, Karachi.
Phones: (92-21) 2745713-14, 2745540-41
Fax : (92-21) 2745821

15 M. A. JINNAH ROAD BRANCH

Godrej Kandawalla Building,
M. A. Jinnah Road.
Phones: (92-21) 2228494, 2228458
Fax : (92-21) 2228450

16 EIDGAH BRANCH

Plot No. 57, Shop No. 18,
Jahangir Mansion M.A. Jinnah Road.
Phones: (92-21) 2771204, 2771235
Fax : (92-21) 2771195

17 SADDAR BRANCH

Saddar Bazar Shop No. 4-6, Bukhara
Centre, Raja Ghazanfar Ali Khan
Road, Saddar.
Phones: (92-21) 5658032-35
Fax : (92-21) 5658030

18 SOLDIER BAZAR BRANCH

Plot No. 17/I, Sol-B-2, Soldier Bazar.
Phones: (92-21) 2241711-5
Fax : (92-21) 2241716

19 GARDEN BRANCH

Nishtar Road, Plot No. 281
Shop No. 1, Green Garden, Garden West.
Phones: (92-21) 2241530-33
Fax : (92-21) 2241535

20 FATIMA JINNAH COLONY BRANCH

6, Ruby Appartments, Jamshed Quarters,
Phones: (92-21) 4854529, 4854548
Fax : (92-21) 4854542

21 P.I.B. COLONY BRANCH

Plot No. 286, P.I.B. Colony.
Phones: (92-21) 4134352, 4134356
Fax : (92-21) 4134349

22 ALLAMA IQBAL ROAD BRANCH

86-S, Block-2, Raja Terrace, P.E.C.H.S.
Phones: (92-21) 4384661-4
Fax : (92-21) 4384665

23 TARIQ ROAD BRANCH

Shop No. 1 & 2, Plot No. 277-278
Ahmed Chamber, Main Tariq Road,
P.E.C.H.S.
Phones: (92-21) 4397632-35
Fax : (92-21) 4397631

24 BAHADURABAD BRANCH

Central Commercial Area, B.C.H.S.,
Bahadurabad.
Phones: (92-21) 4915803-5
Fax : (92-21) 4915802

25 MUHAMMAD ALI HOUSING SOCIETY BRANCH

Block No. 7 & 8, Plot No. Z-130-131,
Kathiawar Co-Operative Housing Society,
Adamjee Nagar, Karachi.
Phones: (92-21) 4533620-22
Fax : (92-21) 4533618

26 DHORAJI COLONY BRANCH

Plot No. 35/354, Block 7 & 8,
C.P. & Berar Cop. Housing Society,
Phones: (92-21) 4860881-84
Fax : (92-21) 4860885

Registered Office and Head Office
126-C, Old Bahawalpur Road, Multan. Phones: (92-61) 580314-16, 544539 & 111-786-110
Fax: (92-61) 582471



Branch Network

27 SHAHRAH-E-FAISAL BRANCH

19-1-A, Block 6, P.E.C.H.S.,
Shahrah-e-Faisal.
Phones: (92-21) 4544383-87
Fax : (92-21) 4530143

28 BALOCH COLONY BRANCH

Plot No. SA/14, Block-3,
Karachi Administration Co. Housing Society.
Phones: (92-21) 4301202-05
Fax : (92-21) 4301206

29 SHAH FAISAL COLONY BRANCH

Plot No. H-6 & H-7, Block-4,
Shah Faisal Colony.
Phones: (92-21) 4604583-84-86-87
Fax : (92-21) 4604588

30 MALIR HALT BRANCH

Plot No. 157, Malir Halt, Opp. Malir Halt
Railway Station, Shahrah-e-Faisal,
Phones: (92-21) 4599591-3 & 4599611
Fax : (92-21) 4599613

31 SAUDABAD BRANCH

Plot No. LS-35, Sub Sector Street-32,
Sector No. 4, Liaquat Market, Malir Colony.
Phones: (92-21) 4117772-75
Fax : (92-21) 4117776

32 LANDHI BRANCH

Plot No. C-4/A, Scheme No. 3,
Landhi Town Ship.
Phones: (92-21) 5028991-95
Fax : (92-21) 5028996

33 GULSHAN-E-HADEED BRANCH

Plot No. C-29, Phase-I, Bin Qasim.
Phones: (92-21) 4717475, 4721502-04
Fax : (92-21) 4712604

34 PORT QASIM BRANCH

Plot No. CP-2/14, Commercial Area,
Port Qasim Authority.
Phones: (92-21) 4720273-78
Fax : (92-21) 4720275

35 PAKISTAN STEEL MILLS BRANCH

Pipri Bin Qasim.
Phones: (92-21) 4750617-4200666
Fax : (92-21) 4750618

36 CLIFTON BRANCH

Shaheen Centre, Block-7, K.D.A.
Scheme No. 5, Clifton.
Phones: (92-21) 5821882-4
Fax : (92-21) 5821885

37 ZAMZAMA BRANCH

16-C, Commercial Lane 3, Phase V,
Zamzama Boulevard, D.H.A.
Phones: (92-21) 5302230-37
Fax : (92-21) 5302223

38 KHAYABAN-E-SHAMSHEER BRANCH

Plot No. 2-C, Stadium Lane No. 4,
Phase V, Defence Housing Authority.
Phones: (92-21) 5846277-79
Fax : (92-21) 5846179

39 KHAYABAN-E-HAFIZ BRANCH

Plot No. 23-C, Shehbaz Lane No. 1,
Phase-VI, Pakistan
Defence Housing Authority.
Phones: (92-21) 5340513, 5340175
Fax : (92-21) 5341043

40 KHAYABAN-E-RAHAT BRANCH

Plot No. 14-C, Lane-3,
Phase VI, DHA.
Phones: (92-21) 5349787-89, 5349779
Fax : (92-21) 5349778

41 BILAWAL CHOWK BRANCH

Shop No. C1 & 2, Beach Blessing
Block-2, KDA Scheme No. 5, Clifton.
Phones: (92-21) 5877901-04
Fax : (92-21) 5877906

42 GIZRI BRANCH

Plot No. 1, Shop No. 10,
Mustafa Centre, Upper Gizri.
Phones: (92-21) 5831862-3, 5831866
Fax : (92-21) 5831941

43 DEHLI COLONY BRANCH

Plot No. A-20/5,
Shop No. 4 & 5, Bazar Area,
Dehli Colony Clifton.
Phones: (92-21) 5364993-6
Fax : (92-21) 5364997

44 9TH COMMERCIAL STREET BRANCH

Plot No. 113, Phase IV,
9th Commercial Street,
Defence Housing Authority.
Phones: (92-21) 5397781-4
Fax : (92-21) 5397785

45 KORANGI ROAD BRANCH

Speedy Towers Plot No. 131/1
Phase-I, Defence Housing Authority.
Phones: (92-21) 5386797-99
Fax : (92-21) 5386796

46 KORANGI INDUSTRIAL AREA BRANCH

Plot No. ST 2/2, Sector-23,
Korangi Town Ship.
Phones: (92-21) 5114992-5
Fax : (92-21) 5114996

47 S.I.T.E., BRANCH

B/76, S. S. Chambers, S.I.T.E.,
Phones: (92-21) 2571710 -11 & 2571521
Fax : (92-21) 2571522

48 METROVILLE BRANCH

Plot No. E-8, Block-1,
S.I.T.E., Metroville-1.
Phones: (92-21) 6760370-73
Fax : (92-21) 6761215

49 ORANGI TOWN BRANCH

Plot No. 15 & 16,
Sector 6/E, Orangi Township.
Phones: (92-21) 6699291-6661309
Fax : (92-21) 6657854

50 SAEEDABAD BRANCH

Plot No. 602/1, Sector No. 5-J,
Saeedabad, Baldia Township.
Phones: (92-21) 2891687-88, 2891690-91
Fax : (92-21) 2890343



Branch Network

51 SHERSHAH BRANCH

Shop No. 27-30, Plot No. D-283,
Shershah, S.I.T.E. Area,
Phones : (92-21) 2586241-44
Fax : (92-21) 2586246

52 RIZVIA SOCIETY BRANCH

D-9, Ishrat Arcade, Rizvia Co-operative
Housing Society, Nazimabad.
Phones : (92-21) 6607992-95
Fax : (92-21) 6607996

53 GOLE MARKET BRANCH

Plot No. 1, Block-III, Mecca Tower,
Nazimabad.
Phones : (92-21) 6619814
Fax : (92-21) 6619815

54 PAPOSH NAGAR BRANCH

Plot No. 16,
Block-V, Nazimabad.
Phones : (92-21) 6708791-94
Fax : (92-21) 6708795

55 BARKAT-E-HYDARI BRANCH

Al-Burhan Arcade, Block-E,
North Nazimabad.
Phones : (92-21) 6670115, 6631793-94
Fax : (92-21) 6670116

56 NORTH NAZIMABAD BRANCH

Plot No. SD-6, Saima Flowers,
Block-G, Scheme No. 2,
North Nazimabad.
Phones : (92-21) 6706602-05
Fax : (92-21) 6706606

57 BLOCK-L NORTH NAZIMABAD BRANCH

Plot No. SC-4, Block-L, K.D.A.,
Scheme No. 2, North Nazimabad.
Phones : (92-21) 6706456-59
Fax : (92-21) 6706460

58 BUFFER ZONE BRANCH

Plot No. FL-5, Sector 15-A-1,
Haroon Shopping Emporium,
North Karachi Township.
Phones : (92-21) 6960243-44, 6960298-99
Fax : (92-21) 6960285

59 NORTH KARACHI INDUSTRIAL AREA BRANCH

Nimra Corner, ST-3, Sector 12-A,
North Karachi.
Phones : (92-21) 6954196-98
Fax : (92-21) 6954187

60 U.P. MORE BRANCH

Plot No. L-1, Sector No. 11-B,
North Karachi Town Ship.
Phone : (92-21) 6956534, 6956523
Fax : (92-21) 6956727

61 WATER PUMP BRANCH

C-21, Block-13, Federal "B" Area,
Shahrah-e-Pakistan.
Phones : (92-21) 6369125, 6369114-15
Fax : (92-21) 6369216

62 HUSSAINABAD BRANCH

Plot No. R-479, Shop No. 1 & 2,
Block-2, KDA Scheme No.16, F.B. Area.
Phone : (92-21) 6806791-93
Fax : (92-21) 6806794

63 FEDERAL 'B' AREA BRANCH

ST. 4/A-2, Block-20,
Al-Noor Society, F.B. Area.
Phones : (92-21) 6345611, 6345651
Fax : (92-21) 6349879

64 DASTAGIR COLONY BRANCH

Plot No. R-202, Block-15,
KDA Scheme No. 16, F.B. Area, Karachi.
Phones : (92-21) 6806382-85
Fax : (92-21) 6370715

65 LIAQUATABAD BRANCH

Plot No. 1 & 2, Shop No. 2 & 3
Block No. 3, Liaquatabad Township.
Phones : (92-21) 4132312, 4132434
Fax : (92-21) 4133479

66 HASSAN SQUARE BRANCH

Plot No. A-12, Shop No. A-1,
Rehman Square, Block 13-D,
Sir Shah M. Suleman Road,
Gulshan-e-Iqbal.
Phones : (92-21) 4827703-04
Fax : (92-21) 4827706

67 GULSHAN-E-IQBAL BRANCH

B-39, Al-Shams Centre, Block 13-A,
University Road, Gulshan-e-Iqbal.
Phones : (92-21) 4989162-63
Fax : (92-21) 4989164

68 GULSHAN CHOWRANGI BRANCH

Plot No. FL-3, Block No. 3,
KDA Scheme No. 24, Gulshan-e-Iqbal.
Phones : (92-21) 4811971-3
Fax : (92-21) 4985045

69 GULSHAN BLOCK-1 BRANCH

Plot No. SB-11, Jameel Arcade, Block 1,
Gulshan-e-Iqbal, K.D.A., Scheme 24.
Phones : (92-21) 4967753, 4800645-46
Fax : (92-21) 4968694

70 GULISTAN-E-JAUHAR BRANCH

Shahlimar Shopping Centre,
Block-17, Gulistan-e-Jauhar.
Phones : (92-21) 4010921-22
Fax : (92-21) 4010911

71 UNIVERSITY ROAD BRANCH

SB-13, Sobia Pride, Block-1,
Scheme 36, Gulistan-e-Johar,
Opp. N.E.D. University.
Phones : (92-21) 4029612-15
Fax : (92-21) 4029610

72 ABUL HASSAN ISPHAHANI ROAD BRANCH

Chapal Garden,
Abul Hassan Isphahani Road.
Phones : (92-21) 4657593-96
Fax : (92-21) 4657597

73 NEW SABZI MANDI BRANCH

Administration Block, New Sabzi Mandi
Super Highway.
Phones : (92-21) 6870841, 6870843
Fax : (92-21) 6870844

74 EXPORT PROCESSING ZONE BRANCH

W/1, & 2 Sector B-III, Export Processing
Zone, Landhi Industrial Area.
Phones : (92-21) 5084832
Fax : (92-21) 5084833

75 ISLAMIC BANKING BRANCH

20-A/1, Block-6, Shahrah-e-Faisal,
P.E.C.H.S.,
Phones : (92-21) 4392411-13
Fax : (92-21) 4392443



Branch Network

LAHORE

76 MAIN BRANCH

87, Shahrah-e-Quaid-e-Azam.
Phones : (92-42) 6305042-45 & 111-786-110
Fax : (92-42) 6368864 & 6305046

77 LAHORE STOCK EXCHANGE BRANCH

Room No. 112, 1st Floor,
Stock Exchange Building,
19, Khayaban-e-Iqbal.
Phones : (92-42) 6300125-27
Fax : (92-42) 6300128

78 NEW GARDEN TOWN BRANCH

Awami Complex, 1-4 Usman Block,
Front Block V, New Garden Town.
Phones : (92-42) 5869366-69
Fax : (92-42) 5869370

79 GULBERG BRANCH

23-A/K, Gulberg II.
Phones : (92-42) 5750469 & 5750147
Fax : (92-42) 5750145

80 PECO ROAD BRANCH

897-898, Block-D,
Maulana Shaukat Ali Road, Faisal Town.
Phones : (92-42) 5175169 & 5175430-31
Fax : (92-42) 5175427

81 CAVALRY GROUND BRANCH

85, Cavalry Ground Extension,
Commercial Area Cantt.
Phones : (92-42) 6671821
Fax : (92-42) 6671820

82 DEFENCE BRANCH

82-Y Commercial, Phase III, D.H.A.
Phones : (92-42) 5894113-5894116
Fax : (92-42) 5893303

83 G-BLOCK DHA BRANCH

7-G, Commercial Area, Main Road,
Phase-1, Defence, Lahore Cantt.
Phones : (92-42) 5910092-94
Fax : (92-42) 5910095

84 ALLAMA IQBAL TOWN BRANCH

7-Chenab Block, Main Boulevard,
Allama Iqbal Town.
Phones : (92-42) 5430918-20
Fax : (92-42) 5430921

85 SHAHALAM MARKET BRANCH

Hilal-e-Ahmar Health Complex
2, Queens Road, Shahalam Gate.
Phones : (92-42) 7670496 & 7670498
Fax : (92-42) 7670510

86 CIRCULAR ROAD BRANCH

51, S.E. Vohra Building, Outside Akbari Gate,
Circular Road, Lahore.
Phones : (92-42) 7670671-73
Fax : (92-42) 7670674

87 CHOWK SHAH ALAM GATE BRANCH

R-121, Circular Road.
Chowk Shah Alam Gate.
Phones : (92-42) 7671164-65
Fax : (92-42) 7671180

88 AZAM CLOTH MARKET BRANCH

1-Kamla Centre, Ittehad Bazar,
Punjab Block, Azam Cloth Market.
Phones : (92-42) 7672913-15
Fax : (92-42) 7672916

89 NEW ANARKALI BRANCH

1-A, New Anarkali, First Floor,
Tariq Trade Centre, Chowk Lohari Gate.
Phones : (92-42) 7674248-50
Fax : (92-42) 7674252

90 BRANDRETH ROAD BRANCH

52, Brandreth Road, Lahore.
Phones : (92-42) 7320253-5, 7311079
Fax : (92-42) 7117288

91 MCLEOD ROAD BRANCH

65-Mcleod Road.
Phones : (92-42) 6278934-35
Fax : (92-42) 6278820

92 ICCHRA BRANCH

144, Main Ferozepur Road, Icchra.
Phones : (92-42) 7569982-3, 7569923
Fax : (92-42) 7569924

93 BADAMI BAGH BRANCH

92-Grain Market, Badami Bagh.
Phones : (92-42) 7708002-4
Fax : (92-42) 7708005

94 BILAL GANJ BRANCH

Sheesh Mahal Park.
Phones : (92-42) 7110461-63
Fax : (92-42) 7110464

95 TIMBER MARKET BRANCH

Timber Market, Ravi Road.
Phones : (92-42) 7720900-7724609-11
Fax : (92-42) 7720901

96 GULSHAN-E-RAVI BRANCH

5-F, Main Boulevard, Gulshan-e-Ravi.
Phones : (92-42) 7467724, 7466624
Fax : (92-42) 7416272

97 WAPDA TOWN BRANCH

Mega Plaza, 191-F, Phase-I
PIA.C.H.S., Wapda Town Chowk.
Phones : (92-42) 5945671, 5945672
Fax : (92-42) 5945669

98 JOHAR TOWN BRANCH

13-G, Johar Town.
Phones : (92-42) 5314302-3-4
Fax : (92-42) 5311696

99 THOKAR NIAZ BAIG BRANCH

Jamal Plaza, 1-K.M.
Raiwind Road.
Phones : (92-42) 5314396 -97
Fax : (92-42) 5314398

100 BAGHBANPURA BRANCH

268-B, GT Road, Baghbanpura.
Phones : (92-42) 6824837, 6824796
Fax : (92-42) 6824785

101 SHADBAGH BRANCH

Plot No. 2, 1-Tajpura Chowk,
Mouza Chan Miran.
Phones : (92-42) 7602466, 7602566
Fax : (92-42) 7607366

102 ISLAMIC BANKING BRANCH

3-E, Main Market, Gulberg.
Phones : (92-42) 5754901-02
Fax : (92-42) 5762501



Branch Network

MULTAN

103 MAIN BRANCH

126-C, Old Bahawalpur Road.
Phones : (92-61) 4544539 & 111-786-110
Fax : (92-61) 4582471

104 HUSSAIN AGAHI BRANCH

Lohari Gate Shopping Centre,
Hussain Agahi Road.
Phones : (92-61) 4513893 & 4513577
Fax : (92-61) 4513793

105 GHALLA MANDI BRANCH

135/C, Ghalla Mandi, Vehari Road.
Phones : (92-61) 4232627-28
Fax : (92-61) 4232629

106 GULGASHT BRANCH

Bosan Road, Multan.
Phones : (92-61) 6752701-03-05
Fax : (92-61) 6752704

107 KHAN BELA BRANCH

Koraja Plaza, KLP Road,
Distt. Rahim Yar Khan.
Phones : (92-68) 5580071, 5580072
Fax : (92-68) 5580073

108 ZAHIR PIR BRANCH

Charchran/KLP Road,
Distt. Rahim Yar Khan.
Phones : (92-68) 5563705, 5563706
Fax : (92-68) 5563707

109 TIBBA SULTANPUR BRANCH

Main Bazar, Saleem Minhas Road,
Distt. Vehari.
Phones : (92-67) 3701101, 3701143
Fax : (92-67) 3701144

110 ISLAMIC BANKING BRANCH

Plot No. 399/400-C, 1st Floor,
Gulgasht Colony, Bosan Road, Multan.
Phones : (92-61) 6511643, 6511641
Fax : (92-61) 6511644

111 QASBA GUJRAT BRANCH

Kot Addu Road, Qasba Gujrat,
Teh: Kot Addu Distt: Muzaffargarh.
Phones : (92-66) 2291905-6
Fax : (92-66) 2291907

SADIQABAD

112 Plot No. 24, Allama Iqbal Road.

Phones : (92-68) 5801101-3
Fax : (92-68) 5801104

RAHIM YAR KHAN

113 Shahi Road.

Phones : (92-68) 5884557 & 5884508-9
Fax : (92-68) 5884503

KHANPUR

114 Plot No. 8/9, Model Town Road,

Distt. Rahim Yar Khan.
Phones : (92-68) 5576702-3
Fax : (92-68) 5576704

D.G. KHAN

115 83-Block-10, New College Road,

Dera Ghazi Khan.
Phones : (92-64) 2468470, 2468471-3
Fax : (92-64) 2468474

BUREWALA

116 67/F Vehari Road, Burewala

Phones : (92-67) 3772531-33
Fax : (92-67) 3772534

FAISALABAD

117 MAIN BRANCH

Bank Square, Outside Kutchery Bazar.
Phones : (92-41) 2637301-3 & 111-786-110
Fax : (92-41) 2614266

118 MILLAT ROAD BRANCH

132-B, Gulistan Colony II,
Millat Road, Faisalabad.
Phones : (92-41) 8582115-6
Fax : (92-41) 8582118

KAMALIA SUGAR MILLS

119 Kot Khathran, Kamalia.

Phone : (92-46) 3432479, 3432487
Fax : (92-46) 3432491

SAHIWAL

120 271, Block-2, High Street (Jinnah Road).

Phones : (92-40) 4466021 & 4467021
Fax : (92-40) 4464031

OKARA

121 29, Block-A, Mandi Road, Okara.

Phones : (92-44) 2528175-2528241-2523823
Fax : (92-44) 2524789

KASUR

122 Railway Road,

Near Darbar Bullhaysah.
Phones : (92-49) 2764355, 2764366, 2722566
Fax : (92-49) 2765040

SHEIKHUPURA

123 B-IX-64-95/A, Sarghoda Road,

Near Sharif Plaza.
Phones : (92-56) 3612906 & 111-786-110
Fax : (92-56) 3612877

GUJRANWALA

124 Opp: Iqbal High School, G.T. Road,

Gujranwala.
Phones : (92-55) 3846220, 3847220
Fax : (92-55) 3734100

SIALKOT

125 Paris Road.

Phones : (92-52) 4597064 & 111-786-110
Fax : (92-52) 4592747

GUJRAT

126 Ground Floor, Soufi Hotel, G.T. Road.

Phones : (92-53) 3515803 & 111-786-110
Fax : (92-53) 3525628



Branch Network

DINGA (DISTT. GUJRAT)

127 Opp. Civil Hospital.
Phone : (92-53) 7401737
Fax : (92-53) 7402785

ISLAMABAD

128 MAIN BRANCH

90-91, Razia Sharif Plaza,
Jinnah Avenue, Blue Area.
Phones : (92-51) 2270883-4 & 111-786-110
Fax : (92-51) 2270885

129 F-10 MARKAZ BRANCH

F-10 Markaz.
Phones : (92-51) 2297758-2213482
Fax : (92-51) 2296895

130 I-8 MARKAZ BRANCH

Huzafia Centre.
Phones : (92-51) 4862257-9
Fax : (92-51) 4862261

RAWALPINDI

131 MAIN BRANCH

40/3, Jhanzeb Centre, Bank Road,
Rawalpindi Cantt.
Phones : (92-51) 5519936-38
Fax : (92-51) 5519939

132 CITY BRANCH

C/30, C/32, Iqbal Road, Trunk Bazar,
Rawalpindi City.
Phones : (92-51) 5553462, 5553664
Fax : (92-51) 5554493

133 MURREE ROAD BRANCH

B-128, Block No. B,
Satellite Town, Murree Road.
Phones : (92-51) 4570219-20
Fax : (92-51) 4570221

PESHAWAR

134 MAIN BRANCH

105-106, F.C. Trust Building,
Sonehri Masjid Road.
Phones : (92-91) 5279814 & 111-786-110
Fax : (92-91) 5279861

135 JAMRUD ROAD BRANCH

G.B. Plaza, Jamrud Road,
Hayatabad, Peshawar.
Phones : (92-91) 5815197, 5813294, 5814704
Fax : (92-91) 5814660

136 ASHRAF ROAD BRANCH

Pashtoon Plaza, Ashraf Road,
Peshawar City.
Phones : (92-91) 2580731, 2580732, 2580733
Fax : (92-91) 2580735

SALEH KHANA

137 Village & P.O. Saleh Khana,
Tehsil & Distt. Nowshera N.W.F.P.
Phone : (92-923) 651456
Fax : (92-923) 651676

MATHANICHANGAN SWABI

138 Village Mathanichangan,
Distt. Swabi. N.W.F.P.
Phones : (92-938) 537337-38
Fax : (92-938) 537339

MIRPUR (AZAD KASHMIR)

139 82-A/B, Allama Iqbal Road, Sector B-4.
Phone : (92-58610) 45064
Fax : (92-58610) 44766

NAWABSHAH

140 Masjid Road.
Phones : (92-244) 362738 & 362854
Fax : (92-244) 362737

SHAHPUR CHAKAR

141 Main Bazar, Chowk.
Phones : (92-235) 846131, 846164
Fax : (92-235) 846178

HYDERABAD

142 MAIN BRANCH

Qasre Fatima, 90/1-2 Saddar Bazar,
Cantonment Area.
Phones : (92-22) 2785803
Fax : (92-22) 2781955

143 QASIMABAD BRANCH

Suhrio House, Ground Floor, Main
Shahrah-e-Qasimabad, Hyderabad, Sindh.
Phones : (92-22) 2655551-4
Fax : (92-22) 2655557

144 MARKET ROAD BRANCH

Grain Market, Plot No. C.S. 2773/1
Ward 'A' Market Road.
Phones : (92-22) 2638113-4, 2634554
Fax : (92-22) 2631416

145 NEW SAEEDABAD BRANCH

Plot No. 53 / 236, Ward A-11/16,
Taluka Hala, District Maitari.
Phones : (92-22) 2767550-2
Fax : (92-22) 2767553

SUKKUR

146 B-2555, Shaheed Gunj.
Phone : (92-71) 5622287
Fax : (92-71) 5625749

LARKANA

147 Plot No. 1616/1, 1616/2, 1618, 1622
Pakistan Chowk, Bunder Road.
Phones : (92-74) 4043060, 4042599
Fax : (92-74) 4043199

MEHRABPUR

148 Zeeshan Shopping Center,
Thari Road, Mehrabpur.
Phones : (92-242) 430914, 431132
Fax : (92-242) 431538

DAHARKI

149 Daharki Distt. Ghotki
Phone : (92-723) 643822
Fax : (92-723) 643820

QUETTA

150 Mannan Chowk, M.A. Jinnah Road.
Phones : (92-81) 2844125 & 111-786-110
Fax : (92-81) 2842335

GAWADAR

151 Plot No. 32/32, Gawadar Palace Hotel,
Air Port Road.
Phone : (92-864) 212204
Fax : (92-864) 212203

OVERSEAS OPERATION □ BAHRAIN (OBU)

152 1302 Almoayyed Tower,
Al Seef District, P.O. Box 50786
Manama, Kingdom of Bahrain.
Phone : (973) 1756-4044
Fax : (973) 1756-4033

Principal Office
Mackinnons Building, I. I. Chundrigar Road, Karachi. Phones: (92-21) 2412421, 2412986 & 111-786-110
Fax: (92-21) 2419752

SWIFT CODE : BAHLPKKA

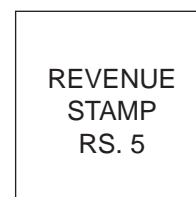
website : www.bankalhabib.com



Form of Proxy

The Company Secretary
Bank AL Habib Limited
126-C, Old Bahawalpur Road,
MULTAN.

I/We _____
of _____
a member(s) of Bank AL Habib Limited and holding _____
ordinary shares, as per Register Folio No./CDC Account and Participant's I.D. No. _____
hereby appoint _____ Folio No. _____
of _____
or failing him/her _____ Folio No. _____
of _____
another member of the Bank to vote for me/us and on my/our behalf at the Sixteenth Annual General Meeting
of the Bank to be held on Thursday, March 29, 2007 and at any adjournment thereof.
As witness my/our hand this _____ day of _____ 2007.



SIGNATURE OF MEMBER (S)

A member entitled to attend the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him/her. No person shall act as proxy (except for a corporation) unless he/she is entitled to be present and vote in his/her own right.

CDC account holder or sub-account holder appointing a proxy should furnish attested copies of his / her own as well as the proxy's NIC / Passport with the proxy form. The proxy shall also produce his / her original NIC or passport at the time of the meeting. In case of corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted alongwith proxy form.

The instrument appointing a proxy should be signed by the member or by his/her attorney duly authorised in writing. If the member is a corporation, its common seal (if any) should be affixed to the instrument.

The proxy forms shall be deposited at the Registered Office of the Bank not less than 48 hours before the time of the meeting.