

Review Report to the Members

We have reviewed the annexed unconsolidated condensed interim balance sheet of **Habib Bank Limited** as at 30 June 2006 and the related unconsolidated condensed interim profit and loss account, unconsolidated condensed interim cash flow statement and unconsolidated condensed interim statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the “condensed interim financial statements”) for the six months period then ended. These condensed interim financial statements are the responsibility of the Bank’s management. Our responsibility is to issue a report on these condensed interim financial statements based on our review.

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

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

The corresponding figures presented are based on financial statements of the bank as of December 31, 2005 and for the six months period ended June 30, 2005, which were audited/ reviewed by another auditor whose report dated March 28, 2006 and July 19, 2005 expressed an unqualified opinion on those statements.

The figures for the quarter ended June 30, 2006 in the condensed interim profit and loss account have not been reviewed and we do not express an opinion on them.

Date:

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

HABIB BANK LIMITED
CONDENSED INTERIM BALANCE SHEET
AS AT JUNE 30, 2006

	(Unaudited) June 30, 2006	(Audited) December 31, 2005 (Restated)
	Note	(Rupees in '000)
ASSETS		
Cash and balances with treasury banks	35,137,064	33,014,694
Balances with other banks	26,438,421	23,304,315
Lendings to financial institutions	32,236,531	12,272,248
Investments - net	5 102,577,052	102,984,482
Advances - net	6 304,212,805	307,602,748
Other assets - net	15,356,585	14,265,234
Operating fixed assets	11,157,966	11,046,166
Deferred tax asset - net	2,205,622	1,577,875
	<u>529,322,046</u>	<u>506,067,762</u>
LIABILITIES		
Bills payable	3,274,932	5,694,018
Borrowings from financial institutions	7 35,761,374	30,160,501
Deposits and other accounts	8 425,987,718	416,603,030
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Other liabilities	20,769,920	13,879,346
Deferred tax liabilities - net	-	-
	<u>485,793,944</u>	<u>466,336,895</u>
NET ASSETS	<u><u>43,528,102</u></u>	<u><u>39,730,867</u></u>
REPRESENTED BY:		
Shareholders' equity		
Share capital	6,900,000	6,900,000
Capital reserves	1,660,359	1,539,181
Unappropriated profit and other reserves	27,665,996	23,683,236
	<u>36,226,355</u>	<u>32,122,417</u>
Surplus on revaluation of assets - net of tax	9 7,301,747	7,608,450
	<u><u>43,528,102</u></u>	<u><u>39,730,867</u></u>
CONTINGENCIES AND COMMITMENTS	10	

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

R. Zakir Mahmood
President and Chief Executive Officer

Director

Director

Director

HABIB BANK LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (Unaudited)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2006

	Six months ended		Quarter ended	
	January 01 to June 30, 2006	January 01 to June 30, 2005 (Restated)	April 01 to June 30, 2006	April 01 to June 30, 2005 (Restated)
Note	----- (Rupees in '000) -----			
Mark-up / return / interest earned	19,663,676	12,781,100	9,944,628	7,225,965
Mark-up / return / interest expensed	5,934,512	2,787,998	2,809,901	1,558,113
Net mark-up / interest income	13,729,164	9,993,102	7,134,727	5,667,852
Provision against non-performing loans and advances - net	1,872,042	382,450	1,311,006	238,020
Provision against off-balance sheet obligations and others	-	128,851	-	128,851
(Reversal) against diminution in value of investments	(33,120)	(6,022)	(3,818)	(2,089)
Bad debts written off directly	-	-	-	-
	1,838,922	505,279	1,307,188	364,782
Net mark-up / interest income after provisions	11,890,242	9,487,823	5,827,539	5,303,070
Non mark-up / interest income				
Fee, commission and brokerage income	1,456,303	1,186,430	752,532	626,499
Income / gain on investments	32,787	754,979	(44,126)	482,903
Dividend income	209,299	93,332	168,246	37,346
Income from dealing in foreign currencies	484,219	504,911	242,862	281,999
Other income	904,290	871,476	466,210	485,565
Total non-mark-up / interest income	3,086,898	3,411,128	1,585,724	1,914,312
	14,977,140	12,898,951	7,413,263	7,217,382
Non mark-up / interest expense				
Administrative expenses	7,111,205	6,794,050	3,391,487	3,019,679
Other provisions - net	147,512	(21,111)	131,287	2,759
Other charges	17,342	41,707	1,993	41,584
Total non mark-up / interest expenses	7,276,059	6,814,646	3,524,767	3,064,022
	7,701,081	6,084,305	3,888,496	4,153,360
Staff retrenchment cost	12	1,718,674	1,500,000	-
Profit before taxation	5,982,407	4,584,305	3,888,496	4,153,360
Taxation - current	2,665,615	119,479	1,745,227	19,193
Taxation - prior periods	-	(50,581)	-	(50,581)
Taxation - deferred	(641,028)	1,407,905	(573,064)	1,391,040
	2,024,587	1,476,803	1,172,163	1,359,652
Profit after taxation	3,957,820	3,107,502	2,716,333	2,793,708
Basic and diluted earnings per share	11.47	9.01	3.94	4.05
	(----- annualised -----)		(----- for the quarter -----)	

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

R. Zakir Mahmood
President and Chief Executive Officer

Director **Director**

Director

HABIB BANK LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (continued)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2006

	Six months ended		Quarter ended	
	January 01 to June 30, 2006	January 01 to June 30, 2005 (Restated)	April 01 to June 30, 2006	April 01 to June 30, 2005 (Restated)
----- (Rupees in '000) -----				
Profit attributable to shareholders	3,957,820	3,107,502	2,716,333	2,793,708
Unappropriated profit brought forward	9,822,330	2,986,184	10,951,206	3,243,453
	13,780,150	6,093,686	13,667,539	6,037,161
Appropriations and transfers:				
Transferred from :				
Surplus on revaluation of fixed assets current period - net of tax	24,940	42,809	13,402	20,376
Transferred to:				
Statutory reserve	(395,782)	(655,626)	(271,633)	(576,668)
Capital reserve	-	-	-	-
General reserve	-	-	-	-
Cash dividend Re. 0.50 per share	-	(345,000)	-	(345,000)
	(395,782)	(1,000,626)	(271,633)	(921,668)
Unappropriated profit carried forward	13,409,308	5,135,869	13,409,308	5,135,869

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

R. Zakir Mahmood
President and Chief Executive Officer

Director

Director

Director

HABIB BANK LIMITED
CONDENSED INTERIM CASH FLOW STATEMENT (Unaudited)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2006

	June 30, 2006	June 30, 2005 (Restated)
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	5,982,407	4,584,305
Less: Dividend income and fair value adjustments of joint ventures	(209,299)	2,269
Gain on sale of investments - net	(32,787)	(754,979)
	(242,086)	(752,710)
	5,740,321	3,831,595
Adjustment for non-cash charges		
Depreciation / amortization / adjustments	402,003	389,264
Reversal of provision against diminution in the value of investments	(33,120)	(6,022)
Provision against non-performing loans and advances - net of reversals	1,872,042	382,450
Amortization of premium on investments	183,566	206,883
Gain on sale of property and equipment - net	(42,566)	(7,014)
Miscellaneous provisions	(110,403)	(367,593)
	2,271,522	597,968
	8,011,843	4,429,563
(Increase) / decrease in operating assets		
Government securities	318,767	(279,306)
Lendings to financial institutions	(19,964,283)	580,454
Loans and advances	1,517,899	(29,527,612)
Other assets - net	(237,295)	(2,592,205)
	(18,364,912)	(31,818,669)
Increase / (decrease) in operating liabilities		
Deposits and other accounts	9,384,688	25,950,989
Borrowings from financial institutions	5,600,873	2,860,545
Bills payable	(2,419,086)	(1,153,405)
Other liabilities - net	7,000,977	2,162,010
	19,567,452	29,820,139
	9,214,383	2,431,033
Income tax paid - net	(3,494,235)	(1,045,685)
Net cash flows from operating activities	5,720,148	1,385,348
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities and joint ventures	(188,163)	1,372,494
Investment in subsidiary companies	(100,000)	-
Dividend income received	183,865	96,674
Fixed capital expenditure	(410,192)	(329,202)
Proceeds from sale of fixed assets	(70,360)	13,118
Net cash flows from investing activities	(584,850)	1,153,084
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend Paid	-	(345,000)
Net cash flows from financing activities	-	(345,000)
Exchange adjustment on translation of balances in foreign branches	121,178	(375,244)
Increase in cash and cash equivalents during the period	5,256,476	1,818,188
Cash and cash equivalents at beginning of the period	56,319,009	56,611,711
Effects of exchange rate changes on cash and cash equivalents	-	(671,994)
	56,319,009	55,939,717
Cash and cash equivalents at end of the period	61,575,485	57,757,905

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

R. Zakir Mahmood
President and Chief Executive Officer

Director

Director

Director

HABIB BANK LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2006

	RESERVES					Total
	Share Capital	Capital Exchange Translation Reserve	Other Reserves			
			Statutory	General	Unappropriated profit	
----- (Rupees in '000) -----						
Balance as at December 31, 2004 as previously stated	6,900,000	1,746,285	6,003,860	6,073,812	2,641,184	23,365,141
Effect of change in accounting policy with respect to dividend	-	-	-	-	345,000	345,000
Balance as at December 31, 2004 as restated	6,900,000	1,746,285	6,003,860	6,073,812	2,986,184	23,710,141
Profit for the period ended June 30, 2005	-	-	-	-	3,107,502	3,107,502
Transferred from surplus on revaluation of fixed assets	-	-	-	-	42,809	42,809
Effect of translation of net investment in foreign branches	-	(375,244)	-	-	-	(375,244)
Total recognized income and expense for the period	-	(375,244)	-	-	3,150,311	2,775,067
Transferred to statutory reserves	-	-	655,626	-	(655,626)	-
Transferred to general reserves	-	-	-	-	-	-
Final cash dividend	-	-	-	-	(345,000)	(345,000)
Balance as at June 30, 2005 as restated	6,900,000	1,371,041	6,659,486	6,073,812	5,135,869	26,140,208
Profit for the period from July to December 2005	-	-	-	-	5,808,669	5,808,669
Transferred from surplus on revaluation of fixed assets	-	-	-	-	5,400	5,400
Effect of translation of net investment in foreign branches	-	168,140	-	-	-	168,140
Total recognized income and expense for the period	-	168,140	-	-	5,814,069	5,982,209
Transferred to statutory reserves	-	-	1,127,608	-	(1,127,608)	-
Transferred to general reserves	-	-	-	-	-	-
Cash Dividend	-	-	-	-	(690,000)	(690,000)
Exchange translation released on disposal of investment	-	-	-	-	-	-
Balance as at December 31, 2005 as previously stated	6,900,000	1,539,181	7,787,094	6,073,812	9,132,330	31,432,417
Effect of change in accounting policy with respect to dividend (later deferred by the shareholders)	-	-	-	-	690,000	690,000
Balance as at December 31, 2005 as restated	6,900,000	1,539,181	7,787,094	6,073,812	9,822,330	32,122,417
Profit for the period from June 30, 2006	-	-	-	-	3,957,820	3,957,820
Transferred from surplus on revaluation of fixed assets	-	-	-	-	24,940	24,940
Effect of translation of net investment in foreign branches	-	121,178	-	-	-	121,178
Total recognized income and expense for the period	-	121,178	-	-	3,982,760	4,103,938
Transferred to statutory reserves	-	-	395,782	-	(395,782)	-
Transferred to general reserves	-	-	-	-	-	-
Balance as at June 30, 2006	6,900,000	1,660,359	8,182,876	6,073,812	13,409,308	36,226,355

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

R. Zakir Mahmood
President and Chief Executive Officer

Director

Director

Director

Habib Bank Limited
Notes to the Financial Statements (Unaudited)
For the six months ended June 30, 2006

1 THE BANK AND ITS OPERATIONS

Habib Bank Limited is incorporated in Pakistan and is engaged in commercial banking, modaraba management and related services in Pakistan and overseas.

2 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. 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 the requirements of these standards, the requirement of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence. The disclosures made in these financial statements have, however, been limited based on the format prescribed by the State Bank of Pakistan vide BSD Circular letter No. 2 dated May 12, 2004 and the requirements of International Accounting Standard 34 'Interim Financial Reporting'.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the annual accounts of the bank for the year ended December 31, 2005 except for the following:

During the period the Institute of Chartered Accountants of Pakistan issued a circular number 06-2006 dated June 19, 2006 which requires that all declarations of dividends to holders of equity instrument 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 all declarations of dividend 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 following impact on these condensed interim financial statements:

	June 30, 2006	December 31, 2005
	---(Rupees in '000) ---	
Decrease in other liabilities	-	690,000
Increase in unappropriated profit	-	690,000

4 ACCOUNTING ESTIMATES

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

5 INVESTMENTS	Note	June 30, 2006			December 31, 2005		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
----- (Rupees in '000) -----							
Held to Maturity securities (HTM)							
<i>Federal Government Securities</i>							
- Pakistan investment bonds	5.1	15,277,069	-	15,277,069	15,866,815	-	15,866,815
<i>Overseas Government securities</i>		1,975,448	-	1,975,448	2,212,674	-	2,212,674
<i>Debentures and Corporate Debt Instruments</i>		284,153	-	284,153	281,905	-	281,905
		17,536,670	-	17,536,670	18,361,394	-	18,361,394
Available-for-sale securities (AFS)							
<i>Federal Government Securities</i>							
- Market treasury bills		23,309,738	12,912,427	36,222,165	32,281,358	3,144,679	35,426,037
- Pakistan investment bonds		939,475	-	939,475	946,480	-	946,480
- Government of Pakistan Guaranteed Bonds	5.2	23,230,000	-	23,230,000	23,689,206	-	23,689,206
- WAPDA bonds		-	-	-	599,991	-	599,991
- Government of Pakistan bonds (US Dollar / Euro)		856,131	-	856,131	852,254	-	852,254
<i>Overseas Government securities</i>		8,434,963	-	8,434,963	7,844,127	-	7,844,127
<i>Fully paid-up ordinary shares:</i>							
- Listed companies		1,192,052	-	1,192,052	1,092,043	-	1,092,043
- Unlisted companies		385,751	-	385,751	385,755	-	385,755
<i>Debentures and Corporate Debt Instruments</i>		7,354,009	-	7,354,009	7,289,772	-	7,289,772
<i>Preference shares</i>		225,331	-	225,331	260,983	-	260,983
<i>Other investments</i>		90,329	-	90,329	90,329	-	90,329
<i>Investment (net of provision)</i>		66,017,779	12,912,427	78,930,206	75,332,298	3,144,679	78,476,977
<i>Surplus on revaluation of investments</i>	9.2	10,579	(2,730)	7,849	266,070	946	267,016
Investments (at revalued amount)		66,028,358	12,909,697	78,938,055	75,598,368	3,145,625	78,743,993
Investment in subsidiary companies		2,652,080	-	2,652,080	2,552,080	-	2,552,080
Investment in associates and joint venture companies		3,450,247	-	3,450,247	3,327,015	-	3,327,015
		89,667,355	12,909,697	102,577,052	99,838,857	3,145,625	102,984,482

5.1 The market value of Pakistan Investment Bonds classified as "held-to-maturity" amounted to Rs 13,314.749 million as at June 30, 2006.

5.2 This figure includes an amount of Rs 10,864.239 million in respect of which the Government of Pakistan (GOP) has committed to issue bonds against assessed tax refunds and in respect of certain non-performing advances, debentures and corporate debt instruments transferred to Corporate and Industrial Restructuring Corporation (CIRC). Subsequent to the period end bonds against assessed tax refunds amounting to Rs. 9,804.500 million have been received.

5.3 Particulars of provision held against diminution in value of investments

The balances above are stated net of specific provision held. The analysis of total provision held is as follows:

	June 30, 2006	December 31, 2005
	----- (Rupees in '000) -----	
Opening balance	562,065	655,870
Reversed during the period / year	(33,120)	(82,568)
Amount written off	(29,436)	(11,237)
Closing balance	<u>499,509</u>	<u>562,065</u>

6 ADVANCES

Loans, cash credits, running finances, etc.

In Pakistan	270,776,958	272,535,496
Outside Pakistan	29,174,102	28,216,747
	<u>299,951,060</u>	<u>300,752,243</u>
Net investment in finance lease - in Pakistan	11,757,782	11,498,509
Bills discounted and purchased (excluding Government treasury bills)		
Payable in Pakistan	9,979,872	12,352,640
Payable outside Pakistan	11,892,820	10,841,541
	<u>21,872,692</u>	<u>23,194,181</u>
Provision against non-performing advances		
- Specific	(27,934,283)	(26,395,473)
- General	(1,434,446)	(1,446,712)
	<u>304,212,805</u>	<u>307,602,748</u>

6.1 Advances include Rs. 37,630.520 million (2005: Rs 35,623.139 million) which have been placed under non-performing status as detailed below:

Category of Classification	June 30, 2006		
	Non-performing advances	Provision Required	Provision Held
	----- (Rupees in '000) -----		
Pakistan			
Other Assets Especially Mentioned	300,756	-	-
Substandard	3,383,673	800,692	800,692
Doubtful	3,240,832	1,378,964	1,378,964
Loss	22,737,210	18,657,117	18,657,117
	<u>29,662,471</u>	<u>20,836,773</u>	<u>20,836,773</u>
Overseas operations	7,968,049	7,097,510	7,097,510
General Provision - Domestic	-	1,278,346	1,278,346
General Provision - Overseas	-	156,100	156,100
Total	<u>37,630,520</u>	<u>29,368,729</u>	<u>29,368,729</u>

6.2 Particulars of loans and advances to directors, associated companies, etc.

	Balance as at June 30, 2006	Maximum total amount of loans and advances including temporary advances granted during the period
	(Rupees in '000) **	
Debts due by directors or executives of the Bank or any of them either severally or jointly with any other persons:		
- in respect of directors	-	-
- in respect of executives *	323,706	323,706
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	134,400	292,000
Debts due by controlled firms, managed modarabas and other related parties	-	-
* (These represent staff loans given by the Group to its executives as per their terms of employment)		
** (Maximum amount has been arrived at by reference to month end balance)		

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

7 BORROWINGS FROM FINANCIAL INSTITUTIONS

Secured

Borrowings from State Bank of Pakistan under

Export refinance scheme

13,815,792

14,525,086

Locally manufactured machinery refinance scheme

10,344

9,638

Long term finance - export oriented projects

1,537,514

276,327

Repurchase agreement borrowings

12,912,427

3,141,207

28,276,077

17,952,258

Unsecured

In Pakistan

Interbank call money borrowing

4,500,000

10,050,000

Outside Pakistan

Overdrawn nostro accounts

775,386

367,460

Borrowings of overseas branches

2,209,911

1,790,783

2,985,297

2,158,243

7,485,297

12,208,243

35,761,374

30,160,501

8 DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits

105,884,532

89,957,605

Savings deposits

226,673,876

218,552,757

Current accounts - non-remunerative

87,933,675

101,889,146

420,492,083

410,399,508

Financial institutions

Remunerative deposits

3,550,957

3,617,049

Non-remunerative deposits

1,944,678

2,586,473

5,495,635

6,203,522

425,987,718

416,603,030

9 SURPLUS ON REVALUATION OF ASSETS - net of tax	Note	June 30, 2006	December 31, 2005
		(Rupees in '000)	
Surplus arising on revaluation of:			
- fixed assets	9.1	7,241,660	7,275,915
- investments	9.2	60,087	332,535
Surplus on revaluation of assets - net of tax		<u>7,301,747</u>	<u>7,608,450</u>

9.1 Surplus on revaluation of fixed assets

Surplus on revaluation of fixed assets as at January 1	7,950,982	8,027,572
(Adjustment) on revaluation of bank's properties during the period / year	(9,315)	(95)
Surplus realised on disposal of revalued properties during the period / year	(2,430)	(2,057)
Transferred to unappropriated profit in respect of incremental depreciation charged during the period / year - net of deferred tax	(22,510)	(46,152)
Related deferred tax liability of incremental depreciation charged during the period / year	(12,121)	(28,286)
Surplus on revaluation of fixed assets as at period / year end	<u>7,904,606</u>	<u>7,950,982</u>
Less: related deferred tax liability on:		
revaluation as at January 1	675,067	703,687
revaluation of bank's properties (adjusted) during the period / year	-	(33)
incremental depreciation charged during the period / year transferred to profit and loss account	(12,121)	(28,286)
disposal of revalued properties reversed during the period / year	-	(301)
	<u>662,946</u>	<u>675,067</u>
	<u>7,241,660</u>	<u>7,275,915</u>

9.2 Surplus / (deficit) on revaluation of investments

Market treasury bills	(9,338)	(47,772)
Pakistan Investment Bonds	(139,757)	(136,744)
Listed securities	52,692	342,796
NIT units	19,788	23,643
Other investments	84,464	85,093
	7,849	267,016
Add: related deferred tax asset	52,238	65,519
	<u>60,087</u>	<u>332,535</u>

	June 30, 2006	December 31, 2005
	(Rupees in '000)	
10 CONTINGENCIES AND COMMITMENTS		
10.1 Direct credit substitutes	26,744,048	25,098,266
10.2 Transaction-related contingent liabilities		
Guarantees in favour of:		
Government	12,285,481	9,936,359
Financial institutions	543,810	374,609
Others	2,447,757	2,662,069
	<u>15,277,048</u>	<u>12,973,037</u>
10.3 Trade-related commitments		
Credit cash	86,225,935	78,061,343
Credit documentary acceptance	10,292,324	10,675,069
Credit acceptance	10,525,247	9,512,380
	<u>107,043,506</u>	<u>98,248,792</u>
10.4 Commitments in respect of forward lending		

The bank makes commitments to extend credit in the normal course of its business but none of these commitments are irrevocable and do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

	June 30, 2006	December 31, 2005
	(Rupees in '000)	
10.5 Other contingencies		
Claims against the Bank not acknowledged as debts	44,024,014	39,669,246
10.6 Commitments in respect of forward foreign exchange contracts		
Purchase	47,626,927	32,053,081
Sale	44,643,967	28,514,593
10.7 Commitments for acquisition of operating fixed assets	144,819	46,657
10.8 Other commitments	162,116	202,395
11 RELATED PARTY TRANSACTIONS		

Aga Khan Fund for Economic Development holds 51% of the Bank. The Bank has related party relationship with its subsidiaries, associated undertakings, joint venture companies, employee benefit plans of the Bank or of any related party, and members of the Key Management Personnel of the Bank or of any related party, including both executive and non-executive directors and executive officers.

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk (i.e. under the comparable uncontrolled price method). Details of loans and advances to the companies or firms in which the directors of the Bank are interested as directors, partners or in case of private companies as members are given in note 6.2 to these financial statements.

Contributions to and accruals in respect of staff retirement and other benefits plans are made in accordance with the actuarial valuation / terms of the contribution plan. There are no transactions with key management personnel other than under their terms of employment. Remuneration to the executives including key management personnel are determined in accordance with the terms of their appointment.

Details of transactions with related parties and balances with them as at the period-end were as follows:

	June 30, 2006	December 31, 2005
	(Rupees in '000)	
Balances outstanding as at the period / year end		
- Borrowings / Deposits from		
- Joint Venture and Associates	1,795,239	1,548,957
- Subsidiary companies	240,176	26,906
- Retirement benefit funds	289,136	277,361
- Companies in which Directors are interested	91,425	144,289
- Advances to		
- Subsidiary companies	172,833	137,500
- Retirement benefit fund	1,091,033	1,877,816
- Companies in which Directors are interested	134,400	292,000
- Placements with subsidiaries	4,152,483	1,177,080
- Receivable from defined benefit plan - net	3,772,640	4,010,179
- Acceptances during the period / year	10,053	23,998
- Other contingencies and commitments	6,195	3,756
	Six months ended	
	June 30, 2006	June 30, 2005
	(Rupees in '000)	
Profit / Expense for the period		
- Interest paid		
- Joint Venture and Associates	43,200	63,308
- Subsidiary companies	489	1,650
- Retirement benefit funds	3,637	1,115
- Companies in which Directors are interested	238	-
- Interest income		
- Subsidiary companies	16,643	33,191
- Retirement benefit funds	20,359	21,440
- Companies in which Directors are interested	14,281	7,190
- Modarba management fees	1,500	4,000
- Other expense - Subsidiaries and Joint ventures	6,850	16,521

Transactions entered into with directors / executive officers as per their terms of employment are excluded from related party transactions.

12 STAFF RETRENCHMENT COST

During the period 2,343 employees in the Non-clerical staff cadre were retrenched with effect from March 10, 2006. The bank has paid, in addition to payments under the staff retirement funds, an amount of Rs 1,718.674 million under the scheme.

13 ISLAMIC BANKING BRANCH

Financial figures of the Islamic Banking Branch, which are included in these financial statements, are as follows:

	June 30, 2006	December 31, 2005
	(Rupees in '000)	
ASSETS		
Cash and balances with treasury banks	37,521	37,807
Advances - net of provision	20,479	18,219
Other assets	497	6,677
	<u>58,497</u>	<u>62,703</u>
LIABILITIES		
Bills payable	6	7
Deposit and other accounts	5,673	11,358
Other liabilities	2,401	72
	8,080	11,437
NET ASSETS	<u>50,417</u>	<u>51,266</u>
REPRESENTED BY		
Islamic Banking Fund	50,000	50,000
Reserves	-	-
Unappropriated / Unremitted profit	417	1,266
	<u>50,417</u>	<u>51,266</u>
Surplus / (Deficit) on revaluation of assets	-	-
	<u>50,417</u>	<u>51,266</u>

14 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on

by the Board of Directors of the Bank.

R. Zakir Mahmood
President and Chief Executive Officer

Director

Director

Director