

DIRECTORS' REVIEW

On behalf of the Board of Directors, I am pleased to present the accounts for the half-year ended June 30, 2006

FINANCIAL PERFORMANCE

The financial results of Group are summarized as below:

	<u>(Rs '000)</u>	
Profit after tax	3,967,819	
Share of (profit)/loss attributable to Minority interest	<u>(24,421)</u>	
Profit attributable to shareholders	3,943,398	
Appropriation relating to Statutory Reserves	<table border="1"><tr><td style="text-align: center;">395,782</td></tr></table>	395,782
395,782		
Earning per share Annualized (Basic)	11.43	

The Bank achieved a Pre-Tax Profit of Rs 6.0 billion for the half year 2006, reflecting an increase of Rs 1.1 billion and growth of 23% over the corresponding period last year. Net interest income increased by Rs. 3.7 billion from the half year 2005, due to effective spread management in an increasing interest rate environment. Administrative cost increased by only 4.2%, well below the inflation rate of around 9%.

The growth and strengthening of balance sheet continued, resulting in a 4.5% increase in Total Assets which grew by Rs 23.7 billion over December 2005. The emphasis on building a sustainable long-term deposit base continued in period under review adding Rs10 billion to the Deposit base since December 2005.

OUT LOOK

The Bank is poised for an accelerated growth in future, as its state-of-the-art technology package puts it at the forefront of delivery channels, enhancing the ability to deliver superior innovative products and improve customer service. We now feel better positioned to pursue our drive for diversification of revenue base through growth in Consumer Loan portfolio, enhanced focus on corporate financing and emerging overseas markets.

We are confident that our continuing investment in Human Resource development will strengthen our performance culture, enabling us to leverage the technology power to deliver quality service to our customers.

President & Chief Executive Officer

July 26, 2006

**HABIB BANK LIMITED AND SUBSIDIARY COMPANIES
CONDENSED INTERIM CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2006**

	Note	(Unaudited) June 30, 2006	(Audited) December 31, 2005 (Restated) (Rupees in '000)
ASSETS			
Cash and balances with treasury banks		35,179,736	33,051,049
Balances with other banks		35,412,753	31,813,513
Lendings to financial institutions		32,236,531	12,272,248
Investments - net	5	105,432,356	107,384,470
Advances - net	6	315,068,416	316,881,635
Other assets - net		15,593,622	14,481,818
Operating fixed assets		11,278,743	11,166,195
Deferred tax asset - net		2,446,226	1,842,977
		552,648,383	528,893,905
LIABILITIES			
Bills payable		4,091,771	5,776,325
Borrowings from financial institutions	7	39,975,155	34,904,352
Deposits and other accounts	8	442,589,635	432,545,165
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Other liabilities		20,763,800	14,490,213
Deferred tax liabilities - net		-	-
		507,420,361	487,716,055
NET ASSETS		45,228,022	41,177,850
REPRESENTED BY:			
Shareholders' equity			
Share capital		6,900,000	6,900,000
Capital reserves		2,400,027	2,051,371
Unappropriated profit and other reserves		27,733,519	23,769,826
		37,033,546	32,721,197
Minority Interest		885,280	846,801
		37,918,826	33,567,998
Surplus on revaluation of assets - net of tax	9	7,309,196	7,609,852
		45,228,022	41,177,850
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 AND SUBSIDIARY COMPANIES
CONDENSED INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT (Unaudited)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2006

Note	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) -----				
Mark-up / return / interest earned	20,318,726	13,358,585	10,266,026	7,513,358
Mark-up / return / interest expensed	6,237,689	3,016,511	2,965,143	1,668,406
Net mark-up / interest income	14,081,037	10,342,074	7,300,883	5,844,952
Provision against non-performing loans and advances - net	1,859,608	377,933	1,301,702	235,779
Provision against off-balance sheet obligations	-	128,851	-	128,851
Reversal of provision against diminution in value of investments	(33,120)	(6,022)	(3,818)	(2,089)
Bad debts written off directly	-	-	-	-
Net mark-up / interest income after provisions	1,826,488	500,762	1,297,884	362,541
	12,254,549	9,841,312	6,002,999	5,482,411
Non mark-up / interest income				
Fee, commission and brokerage income	1,553,494	1,300,408	804,480	681,110
Income / gain on sale of investments	32,787	779,584	32,787	562,495
Dividend income including share of profit of joint ventures	83,538	220,043	30,405	102,073
Income from dealing in foreign currencies	521,944	544,326	262,793	300,585
Other income	936,427	913,807	491,743	510,476
Total non-mark-up / interest income	3,128,190	3,758,168	1,622,208	2,156,739
	15,382,739	13,599,480	7,625,207	7,639,150
Non mark-up / interest expense				
Administrative expenses	7,463,624	7,163,571	3,568,660	3,210,360
Other provisions / write offs - 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	7,628,478	7,184,167	3,701,940	3,254,703
	7,754,261	6,415,313	3,923,267	4,384,447
Staff retrenchment cost	1,718,674	1,500,000	-	-
	9,472,935	7,915,313	3,923,267	4,384,447
Profit before taxation	6,035,587	4,915,313	3,923,267	4,384,447
Taxation - current	2,676,239	150,028	1,750,904	34,884
Taxation - prior periods	8,058	(44,428)	8,058	(44,428)
Taxation - deferred	(616,529)	1,416,517	(525,933)	1,418,897
	2,067,768	1,522,117	1,233,029	1,409,353
Profit after taxation	3,967,819	3,393,196	2,690,238	2,975,094
Share of profit attributable to minority interest	(24,421)	(42,551)	(6,939)	(20,879)
Profit attributable to shareholders	3,943,398	3,350,645	2,683,299	2,954,215
Basic and diluted earnings per share	11.43	9.71	3.89	4.28
	(----- 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 AND SUBSIDIARY COMPANIES
CONDENSED INTERIM CONSOLIDATED 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	April 01 to June 30, 2006	April 01 to June 30, 2005
	----- (Rupees in '000) -----			
Profit attributable to shareholders	3,943,398	3,350,645	2,683,299	2,954,215
Unappropriated profit brought forward	9,908,920	1,826,417	11,054,755	2,163,009
	13,852,318	5,177,062	13,738,054	5,117,224
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	-	-	-	-
Reserves set aside as per regulatory requirements of overseas joint ventures and subsidiary	(4,645)	(7,223)	(2,992)	(3,910)
Cash dividend Re. 0.50 per share	-	(345,000)	-	(345,000)
	(400,427)	(1,007,849)	(274,625)	(925,578)
Unappropriated profit carried forward	13,476,831	4,212,022	13,476,831	4,212,022

3

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 AND SUBSIDIARY COMPANIES
CONDENSED INTERIM CONSOLIDATED 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	6,035,587	4,915,313
Less: Dividend income including share of profit of joint ventures	(83,538)	(220,043)
Gain on sale of investments - net	(32,787)	(779,584)
	<u>(116,325)</u>	<u>(999,627)</u>
	5,919,262	3,915,686
Adjustment for non-cash charges		
Depreciation / amortization / adjustments	421,087	408,031
Reversal against diminution in the value of investments	(33,120)	(6,022)
Provision against non-performing loans and advances - net of reversals	1,859,608	377,933
Amortization of premium on investments	183,566	206,883
Gain on sale of property and equipment - net	(41,968)	(7,014)
Miscellaneous provisions	(110,403)	(367,593)
	<u>2,278,770</u>	<u>612,218</u>
	8,198,032	4,527,904
(Increase) / decrease in operating assets		
Government securities	627,458	28,672
Lendings to financial institutions	(19,964,283)	580,454
Loans and advances	(46,389)	(30,358,352)
Other assets - net	(277,830)	(2,560,410)
	<u>(19,661,044)</u>	<u>(32,309,636)</u>
Increase / (decrease) in operating liabilities		
Deposits and other accounts	10,044,470	23,311,482
Borrowings from financial institutions	5,070,803	3,558,728
Bills payable	(1,684,554)	(629,789)
Other liabilities - net	6,398,048	1,949,163
	<u>19,828,767</u>	<u>28,189,584</u>
	8,365,755	407,852
Income tax paid - net	(3,492,837)	(1,048,119)
Net cash flows from / (used in) operating activities	<u>4,872,918</u>	<u>(640,267)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in held to maturity and available-for-sale securities and joint ventures	987,185	600,641
Dividend income received	24,795	96,674
Fixed capital expenditure	(422,651)	(377,483)
Proceeds from sale of fixed assets	(78,331)	13,118
Net cash flows from investing activities	<u>510,998</u>	<u>332,950</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	-	(345,000)
Net cash flows from financing activities	<u>-</u>	<u>(345,000)</u>
Exchange adjustment on translation of balances in foreign branches, subsidiaries and joint ventures	344,011	(375,244)
Increase / (decrease) in cash and cash equivalents during the period	<u>5,727,927</u>	<u>(1,027,561)</u>
Cash and cash equivalents at beginning of the period	64,864,562	66,829,250
Effects of exchange rate changes on cash and cash equivalents	-	(1,439,828)
	<u>64,864,562</u>	<u>65,389,422</u>
Cash and cash equivalents at end of the period	<u><u>70,592,489</u></u>	<u><u>64,361,861</u></u>

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 AND SUBSIDIARY COMPANIES
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2006

	Attributable to shareholders of the Group						Sub Total	Minority interest	Total
	RESERVES								
	Share Capital	Capital		Other Reserves					
	Exchange Translation Reserve	Joint Ventures and Subsidiaries	Statutory	General	Unappropriated profit				
----- (Rupees in '000) -----									
Balance as at December 31, 2004 as previously stated	6,900,000	1,927,344	718,386	6,003,860	6,073,812	1,481,417	23,104,819	835,390	23,940,209
Effect of change in accounting policy with respect to dividend	-	-	-	-	-	345,000	345,000	-	345,000
Balance as at December 31, 2004 as restated	6,900,000	1,927,344	718,386	6,003,860	6,073,812	1,826,417	23,449,819	835,390	24,285,209
Profit for the period ended June 30, 2005	-	-	-	-	-	3,393,196	3,393,196	-	3,393,196
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	42,809	42,809	-	42,809
Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies	-	(375,244)	-	-	-	-	(375,244)	(19,871)	(395,115)
Total recognized income and expense for the period	-	(375,244)	-	-	-	3,436,005	3,060,761	-	3,436,005
Share of profit attributable to minority interest	-	-	-	-	-	(42,551)	(42,551)	42,551	-
Share of statutory reserves of joint ventures and subsidiary	-	-	7,223	-	-	(7,223)	-	-	-
Transferred to statutory reserves	-	-	-	655,626	-	(655,626)	-	-	-
Transferred to general reserves	-	-	-	-	-	-	-	-	-
Final cash dividend	-	-	-	-	-	(345,000)	(345,000)	-	(345,000)
Minority share of surplus on revaluation of securities of modaraba	-	-	-	-	-	-	-	3,742	3,742
Balance as at June 30, 2005 as restated	6,900,000	1,552,100	725,609	6,659,486	6,073,812	4,212,022	26,123,029	861,812	26,984,841
Profit for the period from July to December 2005	-	-	-	-	-	6,253,353	6,253,353	-	6,253,353
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	5,400	5,400	-	5,400
Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies	-	(304,548)	-	-	-	-	(304,548)	(8,992)	(313,540)
Total recognized income and expense for the period	-	(304,548)	-	-	-	6,258,753	5,954,205	-	6,258,753
Share of profit attributable to minority interest	-	-	-	-	-	(40,695)	(40,695)	40,695	-
Share of statutory reserves of joint ventures and subsidiary	-	-	7,218	-	-	(7,218)	-	-	-
Transferred to statutory reserves	-	-	-	1,127,608	-	(1,127,608)	-	-	-
Transferred to general reserves	-	-	-	-	-	-	-	-	-
Cash dividend	-	-	-	-	-	(690,000)	(690,000)	-	(690,000)
Profit distributed to minority shareholders	-	-	-	-	-	-	-	(46,454)	(46,454)
Minority share of deficit on revaluation of securities of modaraba	-	-	-	-	-	-	-	(260)	(260)
Exchange translation / statutory reserves released on disposal of investment	-	684,658	(613,666)	-	-	613,666	684,658	-	684,658
Balance as at December 31, 2005 as previously stated	6,900,000	1,932,210	119,161	7,787,094	6,073,812	9,218,920	32,031,197	846,801	32,877,998
Effect of change in accounting policy with respect to dividend (later deferred by the shareholders)	-	-	-	-	-	690,000	690,000	-	690,000
Balance as at December 31, 2005 as restated	6,900,000	1,932,210	119,161	7,787,094	6,073,812	9,908,920	32,721,197	846,801	33,567,998
Profit for the period ended June 30, 2006	-	-	-	-	-	3,967,819	3,967,819	-	3,967,819
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	24,940	24,940	-	24,940
Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies	-	344,011	-	-	-	-	344,011	19,975	363,986
Total recognized income and expense for the period	-	344,011	-	-	-	3,992,759	4,336,770	-	3,992,759
Share of profit attributable to minority interest	-	-	-	-	-	(24,421)	(24,421)	24,421	-
Share of statutory reserves of joint ventures and subsidiary	-	-	4,645	-	-	(4,645)	-	-	-
Transferred to statutory reserves	-	-	-	395,782	-	(395,782)	-	-	-
Transferred to general reserves	-	-	-	-	-	-	-	-	-
Profit distributed to minority shareholders	-	-	-	-	-	-	-	-	-
Minority share of deficit on revaluation of securities of modaraba	-	-	-	-	-	-	-	(5,917)	(5,917)
Balance as at June 30, 2006	6,900,000	2,276,221	123,806	8,182,876	6,073,812	13,476,831	37,033,546	885,280	37,918,826

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

President and Chief Executive Officer

Director

Director

Director

Habib Bank Limited and Subsidiary Companies
Notes to the Condensed Interim Financial Statements (Unaudited)

For the six months period ended June 30, 2006

1 THE GROUP 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. The bank as a group comprises of:

Holding company

- Habib Bank Limited, Pakistan

Subsidiary companies

- Habib Allied International Bank Plc., United Kingdom – shareholding at 90.5%
- Habib Finance International Limited, Hong Kong – wholly owned
- Habib Finance (Australia) Limited, Australia – wholly owned
- Habib Bank Financial Services (Private) Limited, Pakistan – wholly owned
- Habib Currency Exchange (Private) Limited, Pakistan – wholly owned
- First Habib Bank Modaraba, Pakistan
- HBL Asset Management Limited, Pakistan - wholly owned

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>							
- Market Treasury bills	5.1	39,704	-	39,704	48,272	-	48,272
- Pakistan investment bonds		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>		343,613	-	343,613	291,365	-	291,365
		<u>17,635,834</u>	<u>-</u>	<u>17,635,834</u>	<u>18,419,126</u>	<u>-</u>	<u>18,419,126</u>
Available-for-sale securities (AFS)							
<i>Federal Government Securities</i>							
- Market treasury bills	5.2	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		23,679,580	-	23,679,580	24,140,057	-	24,140,057
- WAPDA bonds		-	-	-	599,991	-	599,991
- Government of Pakistan US Dollar/Euro bonds		856,131	-	856,131	852,254	-	852,254
<i>Overseas Government securities</i>		8,434,963	-	8,434,963	8,142,980	-	8,142,980
Fully paid-up ordinary shares:							
- Listed companies		1,202,162	-	1,202,162	1,102,154	-	1,102,154
- Unlisted companies		385,751	-	385,751	385,755	-	385,755
<i>Debentures and Corporate Debt Instruments</i>		12,920,254	-	12,920,254	13,960,141	-	13,960,141
<i>Preference shares</i>		225,331	-	225,331	260,983	-	260,983
<i>Other investments</i>		90,745	-	90,745	90,745	-	90,745
<i>Investment (net of provision)</i>		72,044,130	12,912,427	84,956,557	82,762,898	3,144,679	85,907,577
Surplus on revaluation of investments	9.2	18,028	(2,730)	15,298	267,472	946	268,418
Investments (at revalued amount)		<u>72,062,158</u>	<u>12,909,697</u>	<u>84,971,855</u>	<u>83,030,370</u>	<u>3,145,625</u>	<u>86,175,995</u>
Investment in associates and joint venture companies		2,824,667	-	2,824,667	2,789,349	-	2,789,349
		<u><u>92,522,659</u></u>	<u><u>12,909,697</u></u>	<u><u>105,432,356</u></u>	<u><u>104,238,845</u></u>	<u><u>3,145,625</u></u>	<u><u>107,384,470</u></u>

- 5.1 The market value of Pakistan Investment Bonds and Market Treasury Bills classified as "held-to-maturity" amounted to Rs 13,314.749 million and Rs 39,676 million respectively 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	270,604,125	272,397,998
Outside Pakistan	<u>43,264,552</u>	<u>40,997,903</u>
	313,868,677	313,395,901
Net investment in finance lease - in Pakistan	12,875,506	12,636,997
Bills discounted and purchased (excluding Government treasury bills)		
Payable in Pakistan	<u>9,979,872</u>	<u>12,352,640</u>
Payable outside Pakistan	<u>13,608,448</u>	<u>12,039,363</u>
	23,588,320	24,392,003
Provision against non-performing advances		
- Specific	(33,741,660)	(32,011,517)
- General	(1,522,427)	(1,531,749)
	<u>315,068,416</u>	<u>316,881,635</u>

- 6.1 Advances include Rs 43,544.525 million (2005: Rs 41,360.353 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	<u>22,737,210</u>	<u>18,657,117</u>	<u>18,657,117</u>
	29,662,471	20,836,773	20,836,773
Overseas operations	13,882,054	12,904,887	12,904,887
General Provision - Domestic	-	1,278,346	1,278,346
General Provision - Overseas	-	244,081	244,081
Total	<u>43,544,525</u>	<u>35,264,087</u>	<u>35,264,087</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 Group 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 Group are interested as directors, partners or in the case of private companies as members	134,400	292,000
Debts due by subsidiary companies, 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	13,815,793	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
	28,276,078	17,952,258

Unsecured

In Pakistan

Interbank call money borrowing including borrowing by domestic subsidiaries

4,816,173

10,375,000

Outside Pakistan

Overdrawn nostro accounts
Borrowings of overseas branches

384,830

6,498,074

6,882,904

11,699,077

39,975,155

367,460

6,209,634

6,577,094

16,952,094

34,904,352

8 DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits	117,236,213	100,469,938
Savings deposits	227,869,689	219,660,754
Current accounts - non-remunerative	91,243,695	104,878,310
	436,349,597	425,009,002

Financial institutions

Remunerative deposits	3,550,957	3,581,694
Non-remunerative deposits	2,689,081	3,954,469
	6,240,038	7,536,163
	442,589,635	432,545,165

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	67,536	333,937
Surplus on revaluation of assets - net of tax		<u>7,309,196</u>	<u>7,609,852</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 accumulated 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 / recognised 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		58,482	342,415
NIT units		21,447	25,426
Other investments		84,464	85,093
		15,298	268,418
Add: related deferred tax asset		52,238	65,519
		<u>67,536</u>	<u>333,937</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	12,322,955	9,988,190
Financial institutions	688,858	558,487
Others	2,528,327	2,699,708
	<u>15,540,140</u>	<u>13,246,385</u>
10.3 Trade-related commitments		
Credit cash	87,268,097	78,902,540
Credit documentary acceptance	10,323,990	10,694,765
Credit acceptance	11,901,023	10,672,476
	<u>109,493,110</u>	<u>100,269,781</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 Group not acknowledged as debts	44,025,175	39,670,401
10.6 Commitments in respect of forward foreign exchange contracts		
Purchase	48,180,511	32,207,080
Sale	45,197,551	28,668,592
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% share of the Bank. The Group has related party relationship with its associated undertakings, joint venture companies, employee benefit plans of the group or of any related party, and members of the Key Management Personnel of the Group 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 Group, 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 benefit 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
- Retirement benefit funds	289,136	277,361
- Companies in which Directors are interested	91,425	144,289
- Advances to		
- Retirement benefit funds	1,091,033	1,877,816
- Companies in which Directors are interested	134,400	292,000
- Receivable from defined benefit plan - net	3,772,640	4,010,179
		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
- Retirement benefit funds	3,637	1,115
- Companies in which Directors are interested	238	-
- Interest income		
- Retirement benefit funds	20,359	21,440
- Companies in which Directors are interested	14,281	7,190
Share of profit of joint venture companies - net of tax	22,650	31,777

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 AND FIRST HABIB BANK MODARABA

Financial figures of the Islamic Banking Branch and First Habib Bank Modaraba are as follows:

	June 30, 2006	December 31, 2005
	(Rupees in '000)	
ASSETS		
Cash and balances with treasury banks	47,582	55,619
Investments - net	77,435	34,010
Advances - net of provision	1,138,203	1,153,207
Other assets	5,794	8,876
Operating fixed assets	680	570
	<u>1,269,694</u>	<u>1,252,282</u>
LIABILITIES		
Bills payable	6	7
Borrowings from financial institutions	489,006	462,500
Deposit and other accounts	5,673	11,358
Other liabilities	82,707	88,928
	<u>577,392</u>	<u>562,793</u>
NET ASSETS	<u><u>692,302</u></u>	<u><u>689,489</u></u>
REPRESENTED BY		
Islamic Banking Fund / Certificate Capital	447,072	447,072
Reserves	170,539	168,492
Unappropriated / Unremitted profit	67,242	59,902
	<u>684,853</u>	<u>675,466</u>
Surplus / (Deficit) on revaluation of assets	7,449	14,023
	<u><u>692,302</u></u>	<u><u>689,489</u></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