

## **DIRECTORS' REVIEW**

On behalf of the Board of Directors, I am pleased to present the accounts for the nine months period ended September 30, 2006.

### **FINANCIAL PERFORMANCE**

The financial results of the Group are summarized as below:

	<u>(Rs '000)</u>
Profit after tax	8,195,622
Share of (profit)/loss attributable to Minority interest	<u>(51,275)</u>
Profit attributable to shareholders	8,144,347
Appropriation relating to Statutory Reserves	799,451
Earning per share Annualized (Basic)	15.74

The Bank achieved a Pre-Tax Profit of Rs 12.5 billion for the nine months period, reflecting an increase of Rs 3.8 billion and growth of 45% over the corresponding period of last year. Net interest income increased by Rs. 5.7 billion from the corresponding period of last year; due to effective spread management in an increasing interest rate environment. Administrative cost increased by only 6.6%, well below the inflation rate of around 9%.

### **OUT LOOK**

The Bank is geared for an accelerated growth in future, capturing additional profit growth potential through comprehensive business initiatives. We now feel better positioned to pursue our drive for diversification of revenue base through growth in Consumer products, enhanced focus on corporate financing and emerging overseas markets, as we have the support of cutting edge technology.

Centralized Global processing, Strong process driven compliance culture, enhanced Risk management capacity and effective Corporate Governance are some of the Key objectives of the management, which would give a real turn around to our bank in future.

**President & Chief Executive Officer**

October 31, 2006

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

	Note	(Unaudited) September 30, 2006	(Audited) December 31, 2005 (Restated)
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with treasury banks		43,461,741	33,051,049
Balances with other banks		27,148,360	31,813,513
Lendings to financial institutions		19,844,216	12,272,248
Investments - net	5	94,080,819	107,384,470
Advances - net	6	319,803,480	316,881,635
Other assets - net		16,504,914	14,481,818
Operating fixed assets		11,343,402	11,166,195
Deferred tax asset - net		2,715,970	1,842,977
		534,902,902	528,893,905
<b>LIABILITIES</b>			
Bills payable		3,123,534	5,776,325
Borrowings from financial institutions	7	34,338,544	34,904,352
Deposits and other accounts	8	427,156,416	432,545,165
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Other liabilities		20,647,917	14,490,213
Deferred tax liabilities - net		-	-
		485,266,411	487,716,055
<b>NET ASSETS</b>		49,636,491	41,177,850
<b>REPRESENTED BY:</b>			
<b>Shareholders' equity</b>			
Share capital		6,900,000	6,900,000
Capital reserves		2,555,309	2,051,371
Unappropriated profit and other reserves		31,940,576	23,769,826
		41,395,885	32,721,197
Minority Interest		877,753	846,801
		42,273,638	33,567,998
Surplus on revaluation of assets - net of tax	9	7,362,853	7,609,852
		49,636,491	41,177,850
<b>CONTINGENCIES AND COMMITMENTS</b>	<b>10</b>		

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 NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2006**

Note	Nine months ended		Quarter ended	
	January 01 to September 30, 2006	January 01 to September 30, 2005 (Restated)	July 01 to September 30, 2006	July 01 to September 30, 2005 (Restated)
----- (Rupees in '000) -----				
Mark-up / return / interest earned	32,128,159	22,120,196	11,809,433	8,761,611
Mark-up / return / interest expensed	9,543,263	5,284,617	3,305,574	2,268,106
Net mark-up / interest income	22,584,896	16,835,579	8,503,859	6,493,505
Provision against non-performing loans and advances - net	1,916,716	1,224,627	57,108	846,694
Provision against off-balance sheet obligations	-	128,851	-	-
Reversal of provision against diminution in value of investments	(36,677)	(16,554)	(3,557)	(10,532)
Bad debts written off directly	-	-	-	-
	1,880,039	1,336,924	53,551	836,162
Net mark-up / interest income after provisions	20,704,857	15,498,655	8,450,308	5,657,343
<b>Non mark-up / interest income</b>				
Fee, commission and brokerage income	2,333,648	2,089,245	780,154	788,837
Income / gain on sale of investments	32,384	753,660	(403)	(25,924)
Dividend income including share of profit of joint ventures	267,757	333,140	184,219	113,097
Income from dealing in foreign currencies	977,390	884,625	455,446	340,299
Other income	1,507,508	1,347,800	571,081	433,993
Total non-mark-up / interest income	5,118,687	5,408,470	1,990,497	1,650,302
	25,823,544	20,907,125	10,440,805	7,307,645
<b>Non mark-up / interest expense</b>				
Administrative expenses	11,421,911	10,717,690	3,958,287	3,554,119
Other provisions / write offs - net	156,160	(9,572)	8,648	11,539
Other charges	17,438	42,356	96	649
Total non mark-up / interest expenses	11,595,509	10,750,474	3,967,031	3,566,307
	14,228,035	10,156,651	6,473,774	3,741,338
Staff retrenchment cost	12 1,718,674	1,500,000	-	-
<b>Profit before taxation</b>	12,509,361	8,656,651	6,473,774	3,741,338
Taxation - current	5,121,850	1,652,645	2,445,611	1,502,617
Taxation - prior periods	22,671	(44,387)	14,613	41
Taxation - deferred	(830,782)	1,047,695	(214,253)	(368,822)
	4,313,739	2,655,953	2,245,971	1,133,836
<b>Profit after taxation</b>	8,195,622	6,000,698	4,227,803	2,607,502
Share of profit attributable to minority interest	(51,275)	(60,318)	(26,854)	(17,767)
<b>Profit attributable to shareholders</b>	8,144,347	5,940,380	4,200,949	2,589,735
Basic and Diluted earnings per share	15.74	11.48	6.09	3.75
	( ----- 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 NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2006**

	Nine months ended		Quarter ended	
	January 01 to September 30, 2006	January 01 to September 30, 2005	July 01 to September 30, 2006	July 01 to September 30, 2005
----- (Rupees in '000) -----				
<b>Profit attributable to shareholders</b>	8,144,347	5,940,380	4,200,949	2,589,735
Unappropriated profit brought forward	9,908,920	1,826,417	13,476,831	4,212,022
	<u>18,053,267</u>	<u>7,766,797</u>	<u>17,677,780</u>	<u>6,801,757</u>
<b>Appropriations and transfers:</b>				
Transferred from :				
Surplus on revaluation of fixed assets current period - net of tax	36,195	63,185	11,255	20,376
Transferred to:				
Statutory reserve	(799,451)	(1,040,541)	(403,669)	(384,915)
Capital reserve	-	-	-	-
General reserve	-	-	-	-
Reserves set aside as per regulatory requirements of overseas joint ventures and subsidiary	(9,792)	(10,449)	(5,147)	(3,226)
Cash dividend Re. 0.50 per share	-	(345,000)	-	-
	<u>(809,243)</u>	<u>(1,395,990)</u>	<u>(408,816)</u>	<u>(388,141)</u>
Unappropriated profit carried forward	<u>17,280,219</u>	<u>6,433,992</u>	<u>17,280,219</u>	<u>6,433,992</u>

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

**R. Zakir Mahmood**  
**President and Chief Executive Officer**

**Director**

**Director**

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**HABIB BANK LIMITED AND SUBSIDIARY COMPANIES**  
**CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (Unaudited)**  
**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2006**

	September 30, 2006	September 30, 2005 (Restated)
<b>(Rupees in '000)</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	12,509,361	8,656,651
Less: Dividend income including share of profit of joint ventures	(267,757)	(333,140)
Gain on sale of investments - net	(32,384)	(753,660)
	(300,141)	(1,086,800)
	12,209,220	7,569,851
<b>Adjustment for non-cash charges</b>		
Depreciation / amortization / adjustments	719,939	604,300
Reversal against diminution in the value of investments	(36,677)	(16,554)
Provision against non-performing loans and advances - net of reversals	1,916,716	1,234,864
Amortisation of premium on investments	274,103	315,211
Gain on sale of property and equipment - net	(65,360)	(10,952)
Miscellaneous provisions	(30,545)	(263,054)
	2,778,176	1,863,815
	14,987,396	9,433,666
<b>(Increase) / decrease in operating assets</b>		
Government securities	11,867,705	3,023,469
Lendings to financial institutions	(7,571,968)	617,684
Loans and advances	(4,838,560)	(22,332,305)
Other assets - net	892,969	(3,638,103)
	350,146	(22,329,255)
<b>Increase / (decrease) in operating liabilities</b>		
Deposits and other accounts	(5,388,749)	11,706,608
Borrowings from financial institutions	(565,808)	(4,839,861)
Bills payable	(2,652,791)	(163,715)
Other liabilities - net	6,168,012	6,741,672
	(2,439,336)	13,444,704
	12,898,206	549,115
Income tax paid - net	(7,888,450)	(1,053,476)
<b>Net cash flows from / (used in) operating activities</b>	5,009,756	(504,361)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investments in held to maturity and available-for-sale securities and joint ventures	1,075,880	1,842,951
Dividend income received	6,944	103,640
Fixed capital expenditure	(930,361)	(548,966)
Proceeds from sale of fixed assets	89,260	21,145
<b>Net cash flows from investing activities</b>	241,723	1,418,770
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(86)	(345,000)
<b>Net cash flows from financing activities</b>	(86)	(345,000)
Exchange adjustment on translation of balances in foreign branches, subsidiaries and joint ventures	494,146	(386,365)
Increase / (decrease) in cash and cash equivalents during the period	5,745,539	183,044
Cash and cash equivalents at beginning of the period	63,731,695	66,981,457
Effects of exchange rate changes on cash and cash equivalents	1,132,867	(1,592,035)
	64,864,562	65,389,422
Cash and cash equivalents at end of the period	70,610,101	65,572,466

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 NINE MONTHS PERIOD ENDED SEPTEMBER 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 September 30, 2005	-	-	-	-	-	6,000,698	6,000,698	-	6,000,698
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	63,185	63,185	-	63,185
Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies	-	(386,365)	-	-	-	-	(386,365)	(22,881)	(409,246)
Total recognized income and expense for the period	-	(386,365)	-	-	-	6,063,883	5,677,518	-	-
Share of profit attributable to minority interest	-	-	-	-	-	(60,318)	(60,318)	60,318	-
Share of statutory reserves of joint ventures and subsidiary	-	-	10,449	-	-	(10,449)	-	-	-
Transferred to statutory reserves	-	-	-	1,040,541	-	(1,040,541)	-	-	-
Transferred to general reserves	-	-	-	-	-	-	-	-	-
Final cash dividend	-	-	-	-	-	(345,000)	(345,000)	-	(345,000)
Profit distributed to minority shareholders	-	-	-	-	-	-	-	(46,454)	(46,454)
Minority share of surplus on revaluation of securities of modaraba	-	-	-	-	-	-	-	3,473	3,473
Balance as at September 30, 2005 restated	6,900,000	1,540,979	728,835	7,044,401	6,073,812	6,433,992	28,722,019	829,846	29,551,865
Profit for the period from October to December 2005	-	-	-	-	-	3,645,851	3,645,851	-	3,645,851
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	(14,976)	(14,976)	-	(14,976)
Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies	-	(293,427)	-	-	-	-	(293,427)	(5,982)	(299,409)
Total recognized income and expense for the period	-	(293,427)	-	-	-	3,630,875	3,337,448	-	-
Share of profit attributable to minority interest	-	-	-	-	-	(22,928)	(22,928)	22,928	-
Share of statutory reserves of joint ventures and subsidiary	-	-	3,992	-	-	(3,992)	-	-	-
Transferred to statutory reserves	-	-	-	742,693	-	(742,693)	-	-	-
Transferred to general reserves	-	-	-	-	-	-	-	-	-
Cash dividend	-	-	-	-	-	(690,000)	(690,000)	-	(690,000)
Minority share of surplus on revaluation of securities of modaraba	-	-	-	-	-	-	-	9	9
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 September 30, 2006	-	-	-	-	-	8,195,622	8,195,622	-	8,195,622
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	36,195	36,195	-	36,195
Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies	-	494,146	-	-	-	-	494,146	27,435	521,581
Total recognized income and expense for the period	-	494,146	-	-	-	8,231,817	8,725,963	-	-
Share of profit attributable to minority interest	-	-	-	-	-	(51,275)	(51,275)	51,275	-
Share of statutory reserves of joint ventures and subsidiary	-	-	9,792	-	-	(9,792)	-	-	-
Transferred to statutory reserves	-	-	-	799,451	-	(799,451)	-	-	-
Transferred to general reserves	-	-	-	-	-	-	-	-	-
Profit distributed to minority shareholders	-	-	-	-	-	-	-	(42,884)	(42,884)
Minority share of deficit on revaluation of securities of modaraba	-	-	-	-	-	-	-	(4,874)	(4,874)
Balance as at September 30, 2006	6,900,000	2,426,356	128,953	8,586,545	6,073,812	17,280,219	41,395,885	877,753	42,273,638

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 nine months period ended September 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  
- HBL Asset Management Limited, Pakistan - wholly owned  
- First Habib Bank Modaraba, Pakistan

**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:

	September 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	September 30, 2006			December 31, 2005		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	----- (Rupees in '000) -----					
<b>Held to Maturity securities (HTM)</b>						
<b>Federal Government Securities</b>						
- Market Treasury bills	87,517	-	87,517	48,272	-	48,272
- Pakistan investment bonds	15,190,092	-	15,190,092	15,866,815	-	15,866,815
<b>Overseas Government securities</b>	1,899,823	-	1,899,823	2,212,674	-	2,212,674
<b>Debentures and Corporate Debt Instruments</b>	175,410	-	175,410	291,365	-	291,365
	<u>17,352,842</u>	<u>-</u>	<u>17,352,842</u>	<u>18,419,126</u>	<u>-</u>	<u>18,419,126</u>
<b>Available-for-sale securities (AFS)</b>						
<b>Federal Government Securities</b>						
- Market treasury bills	27,203,500	466,168	27,669,668	32,281,358	3,144,679	35,426,037
- Pakistan investment bonds	935,915	-	935,915	946,480	-	946,480
- Government of Pakistan Guaranteed Bonds	20,841,554	-	20,841,554	24,140,057	-	24,140,057
- WAPDA bonds	-	-	-	599,991	-	599,991
- Government of Pakistan US Dollar/Euro bonds	857,345	-	857,345	852,254	-	852,254
<b>Overseas Government securities</b>	8,611,837	-	8,611,837	8,142,980	-	8,142,980
<b>Fully paid-up ordinary shares:</b>						
- Listed companies	1,202,685	-	1,202,685	1,102,154	-	1,102,154
- Unlisted companies	385,753	-	385,753	385,755	-	385,755
<b>Debentures and Corporate Debt Instruments</b>	13,048,816	-	13,048,816	13,960,141	-	13,960,141
<b>Preference shares</b>	200,167	-	200,167	260,983	-	260,983
<b>Other investments</b>	90,745	-	90,745	90,745	-	90,745
<b>Investment (net of provision)</b>	73,378,317	466,168	73,844,485	82,762,898	3,144,679	85,907,577
<b>Surplus on revaluation of investments</b>	21,798	2,920	24,718	267,472	946	268,418
<b>Investments (at revalued amount)</b>	<u>73,400,115</u>	<u>469,088</u>	<u>73,869,203</u>	<u>83,030,370</u>	<u>3,145,625</u>	<u>86,175,995</u>
<b>Investment in associates and joint venture companies</b>	2,858,774	-	2,858,774	2,789,349	-	2,789,349
	<u>93,611,731</u>	<u>469,088</u>	<u>94,080,819</u>	<u>104,238,845</u>	<u>3,145,625</u>	<u>107,384,470</u>

5.1 The market value of Pakistan Investment Bonds and Market Treasury Bills classified as "held-to-maturity" amounted to Rs 13,204.918 million and Rs 87,4472 million respectively as at September 30, 2006.

## 5.2 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:

	September 30, 2006	December 31, 2005
	(Rupees in '000)	
Opening balance	562,065	655,870
Reversed during the period / year	(36,677)	(82,568)
Amount written off	(29,436)	(11,237)
Closing balance	<u>495,952</u>	<u>562,065</u>

## 6. ADVANCES

Loans, cash credits, running finances, etc.

In Pakistan	273,483,446	272,397,998
Outside Pakistan	45,322,959	40,997,903
	<u>318,806,405</u>	<u>313,395,901</u>

Net investment in finance lease - in Pakistan

12,458,001

12,636,997

Bills discounted and purchased

(excluding Government treasury bills)

Payable in Pakistan	10,986,935	12,352,640
Payable outside Pakistan	12,489,254	12,039,363
	23,476,189	24,392,003

Provision against non-performing advances

- Specific	(33,471,177)	(32,011,517)
- General	(1,465,938)	(1,531,749)
	<u>319,803,480</u>	<u>316,881,635</u>

6.1 Advances include Rs 42,371.051 million (2005: Rs 41,360.353 million) which have been placed under non-performing status as detailed below:

Category of Classification	Note	September 30, 2006		
		Non-performing advances	Provision Required	Provision Held
----- (Rupees in '000) -----				
<b>Pakistan</b>				
Other assets especially mentioned		343,250	-	-
Substandard		3,170,554	732,742	732,742
Doubtful		2,392,187	779,156	779,156
Loss		22,465,560	18,905,259	18,905,259
		<u>28,371,551</u>	<u>20,417,157</u>	<u>20,417,157</u>
<b>Overseas operations</b>		13,999,500	13,054,020	13,054,020
<b>General Provision - Domestic</b>		-	1,242,871	1,242,871
<b>General Provision - Overseas</b>		-	223,067	223,067
<b>Total</b>		<u>42,371,051</u>	<u>34,937,115</u>	<u>34,937,115</u>



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

	Balance as at September 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 *	333,004	333,004
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	-	-
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)		

**7. BORROWINGS FROM FINANCIAL INSTITUTIONS**

**Secured**

Borrowings from State Bank of Pakistan under

Export refinance scheme	13,227,124	14,525,086
Locally manufactured machinery refinance scheme	9,145	9,638
Long term finance - export oriented projects	1,669,482	276,327
Repurchase agreement borrowings	466,169	3,141,207
	15,371,920	17,952,258

**Unsecured**

In Pakistan

Interbank call money borrowing including borrowing by domestic subsidiaries

12,086,351

10,375,000

Outside Pakistan

Overdrawn nostro accounts

1,695,126

367,460

Borrowings of overseas branches and subsidiaries

5,185,147

6,209,634

6,880,273

6,577,094

18,966,624

16,952,094

34,338,544

34,904,352

**8. DEPOSITS AND OTHER ACCOUNTS**

**Customers**

Fixed deposits

115,432,937

100,469,938

Savings deposits

205,621,557

219,660,754

Current accounts - non-remunerative

95,435,118

104,878,310

416,489,612

425,009,002

**Financial institutions**

Remunerative deposits

7,913,685

3,581,694

Non-remunerative deposits

2,753,119

3,954,469

10,666,804

7,536,163

427,156,416

432,545,165

9. SURPLUS ON REVALUATION OF ASSETS - net of tax	Note	September 30, 2006	December 31, 2005
(Rupees in '000)			
Surplus arising on revaluation of:			
- fixed assets	9.1	7,230,405	7,275,915
- investments	9.2	132,448	333,937
Surplus on revaluation of assets - net of tax		<u>7,362,853</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	(33,765)	(46,152)
Related deferred tax liability of incremental depreciation charged during the period / year	(18,181)	(28,286)
Surplus on revaluation of fixed assets as at period / year end	<u>7,887,291</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	(18,181)	(28,286)
disposal of revalued properties reversed during the period / year	-	(301)
	<u>656,886</u>	<u>675,067</u>
	<u>7,230,405</u>	<u>7,275,915</u>

### 9.2 Surplus / (deficit) on revaluation of investments

Market treasury bills	(151,996)	(47,772)
Pakistan Investment Bonds	(148,470)	(136,744)
Listed securities	203,318	342,415
NIT units	21,044	25,426
Other investments	100,822	85,093
	24,718	268,418
Add: related deferred tax asset	107,730	65,519
	<u>132,448</u>	<u>333,937</u>

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<b>(Rupees in '000)</b>	
<b>10. CONTINGENCIES AND COMMITMENTS</b>		
<b>10.1 Direct credit substitutes</b>	18,371,702	25,098,266
<b>10.2 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
Government	22,189,261	9,988,190
Financial institutions	440,454	558,487
Others	2,541,212	2,699,708
	<u>25,170,927</u>	<u>13,246,385</u>
<b>10.3 Trade-related commitments</b>		
Credit cash	97,197,238	78,902,540
Credit documentary acceptance	5,595,728	10,694,765
Credit acceptance	14,335,408	10,672,476
	<u>117,128,374</u>	<u>100,269,781</u>
<b>10.4 Commitments in respect of forward lending</b>		

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.

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<b>(Rupees in '000)</b>	
<b>10.5 Other contingencies</b>		
Claims against the Group not acknowledged as debts	43,942,395	39,670,401
<b>10.6 Commitments in respect of forward foreign exchange contracts</b>		
Purchase	45,296,907	32,207,080
Sale	37,526,636	28,668,592
<b>10.7 Commitments for acquisition of operating fixed assets</b>	298,949	46,657
<b>10.8 Other commitments</b>	155,309	202,395
<b>11. RELATED PARTY TRANSACTIONS</b>		

The Group has related party relationships with its parent, associated undertakings, joint venture companies, their employee benefit plans and their Key Management Personnel.

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).

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:

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<b>(Rupees in '000)</b>	
<b>Balances outstanding as at the period / year end</b>		
<b>- Borrowings / Deposits from</b>		
- Joint Venture and Associates	2,319,508	1,548,957
- Retirement benefit funds	169,132	277,361
- Companies in which Directors are interested	128,133	144,289
<b>- Advances to</b>		
- Retirement benefit funds	1,364,466	1,877,816
- Companies in which Directors are interested	-	292,000
- Receivable from defined benefit plan - net	4,327,967	4,010,179
		<b><u>Nine months ended</u></b>
	<b><u>September 30,</u></b>	<b><u>September 30,</u></b>
	<b>2006</b>	<b>2005</b>
	<b>(Rupees in '000)</b>	
<b>Profit / Expense for the period</b>		
<b>- Interest paid</b>		
- Joint Venture and Associates	67,580	88,478
- Retirement benefit funds	4,811	1,171
<b>- Interest income</b>		
- Retirement benefit funds	37,050	21,440
- Companies in which Directors are interested	17,707	14,352
Share of profit of joint venture companies - net of tax	49,721	48,121

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:

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<b>(Rupees in '000)</b>	
<b>ASSETS</b>		
Cash and balances with treasury banks	5,945	55,619
Investments - net	73,936	34,010
Advances - net of provision	1,131,891	1,153,207
Other assets	26,702	8,876
Operating fixed assets	630	570
	1,239,104	1,252,282
<b>LIABILITIES</b>		
Bills payable	47,690	7
Borrowings from financial institutions	444,325	462,500
Deposit and other accounts	5,928	11,358
Other liabilities	73,207	88,928
	571,150	562,793
<b>NET ASSETS</b>	667,954	689,489
<b>REPRESENTED BY</b>		
Islamic Banking Fund / Certificate Capital	447,072	447,072
Reserves	172,291	168,492
Unappropriated / Unremitted profit	39,982	59,902
	659,345	675,466
Surplus on revaluation of assets	8,609	14,023
	667,954	689,489

### 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**