Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2007

1 THE GROUP AND ITS OPERATIONS

Habib Bank Limited (the Bank) is incorporated in Pakistan and is engaged in commercial banking, modaraba management and asset management related services in Pakistan and overseas. The Bank's registered office is located at Habib Bank Tower, 4th Floor, Jinnah Avenue, Islamabad. The Bank's shares are listed on the stock exchanges in Pakistan with effect from September 24, 2007.

The Bank operates 1,449 branches (2006: 1,437) inside Pakistan and 40 branches (2006: 40) outside the country. The Group comprises of:

Holding company
Habib Bank Limited, Pakistan

Subsidiaries:
- Habib Allied International Bank Plc., United Kingdom – shareholding at 90.5%
- Habib Finance International Limited, Hong Kong – 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
- HBL Stock Fund - Share holding 74.12%

Habib Finance (Australia) Limited, Australia has been sold on net asset value as at June 29, 2007.

The subsidiary company of the Bank, Habib Bank Financial Services (Private) Limited exercises control over Habib Bank Modaraba as its management company and also has a direct economic interest in it. The Bank has consolidated the financial statements of the modaraba as the ultimate holding company.

The subsidiary HBL Asset Management Limited has floated three funds namely HBL Income Fund, HBL Stock Fund and HBL Multi Asset Fund during the year.

2 BASIS OF PRESENTATION

- In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade related modes of financing include purchase of goods by banks from their customers and immediate resale 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.

- The US Dollar amounts shown in the financial statements are stated solely for information convenience. For the purpose of translation to US Dollars, the rate of Rs. 62.00 per US Dollar has been used for both December 31, 2007 and 2006.

2.1 Basis of measurement

These financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts, trading and available for sale investments and derivative financial instruments are measured at fair value.

The consolidated financial statements are presented in Pakistan Rupees, which is Bank's functional currency. The amounts are rounded to nearest thousand.

2.2 Use of estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be

reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Group's financial statements or where judgment was exercised in application of accounting policies are as follows:

i) **Classification of investments**

- In classifying investments as "held-for-trading" the Group has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.
- In classifying investments as "held-to-maturity" the Bank follows the guidance provided in SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.
- The investments which are not classified as held for trading or held to maturity are classified as available for sale.

ii) **Provision against non performing loans and advances**

The Bank reviews its loan portfolio to assess amount of Non-Performing loans and advances and provision required there-against. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, the forced sale value of the securities and requirement of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances, the Group follows, the general provision requirement set out in Prudential Regulations. These provisions change due to changes in requirements and the effect is disclosed in note 9.

iii) **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 judgment. 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.

iv) **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. In making the provision for deferred taxes, estimates of the Bank's future taxable profits are taken into account.

During the year, a new schedule has been introduced for taxation of banks in Pakistan. According to the provisions of this schedule, provision for doubtful loans and advances falling under the category of "doubtful" or "loss" will be allowed as a deduction in the year in which the provision is made. The schedule is applicable for the financial year ending 31 December 2008. Currently, provisions for loans and advances are allowed as a deduction when they are written off. The schedule does not contain transitory provisions with respect to provisions made before the applicability of the new schedule. The matter of introduction of such transitory provisions has been taken up with Federal Board of Revenue by Pakistan Banks Association and based on discussions to date the Bank's management is confident that such provisions will be made in the new schedule. Accordingly, the deferred tax calculations assume that such transitory rules will be made and the Bank would be able to get the benefit of the asset so recognised.

v) **Fair value of derivatives**

The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates in effect at the balance sheet date and the rates contracted.

vi) **Fixed assets, depreciation and amortisation**

The Bank carries its land and buildings at their respective fair values. The fair values are determined by independent valuation experts and such valuations are carried out with sufficient regularity that the valuation at year end is close to their fair values.

In making estimates of the depreciation / amortisation method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards issued by the International Accounting Standards Board as are notified under the Companies Ordinance,1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by State Bank of Pakistan (SBP). In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP shall prevail.

The State Bank of Pakistan, vide its BSD Circular No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments Recognition and Measurement and International Accounting Standard 40, Investment Property for banking companies till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

In addition, Securities and Exchange Commission of Pakistan has notified the Islamic Financial Accounting Standard (IFAS) 1 - Murabaha and IFAS 2 - Ijara issued by the Institute of Chartered Accountants of Pakistan.IFAS 1 was effective for financial period beginning on or after January 1, 2006 and IFAS 2 was effective for leases entered into after July 1, 2007. These standard have 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. Pakistan Banks Association and Modaraba Association of Pakistan have taken up the issue with SBP and Securities and Exchange Commission of Pakistan.

During the year, amendments to IAS 1, Presentation of Financial Statements relating to capital disclosures became effective and have resulted in certain additional disclosures. International Financial Reporting Standard (IFRS) 2 - Share Based Payment. IFRS 3 - Business Combinations, IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, IFRS 6 - Exploration for and Extraction of Mineral Resources, IFRIC 8 - Scope of IFRS 2 Share Based Payment and IFRIC 10 - Interim Financial Reporting and impairment became effective during the year. The application of these standards and interpretations did not have any material effect on the bank's financial statements.

3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective.

The following standards, amendments and interpretations of approved accounting standards will

be effective for accounting periods beginning on or after January 01, 2008:

- Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics. The changes affect the presentation of owner changes in equity and of comprehensive income. It introduces a requirement to include in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

- Revised IAS 23-Borrowing costs (effective from 1 January 2009). Revised IAS 23 removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have an effect on Group's financial statements.

- IFRIC 9 - Reassessment of embedded derivatives - The IFRIC is effective during the year and will be applied together with application of IAS 39.

- IFRIC 11 – IFRS 2-Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). IFRIC 11 requires that a share based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as equity settled share based payment regardless of how the equity instruments are obtained. IFRIC 11 is not expected to have any material impact on the Group's financial statements.

- IFRIC 12 – Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private concession arrangements. IFRIC 12 is not relevant to the Group's operations.

- IFRIC 13- Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 addresses the accounting by entities that operates, or otherwise participate in, customer loyalty programmes for their customers.

- IFRIC 14 IAS 19- The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after 1 January 2008). IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on minimum funding requirements (MFR) for such asset.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Revenue recognition

Advances and investments

Income on loans and advances and debt security investments are recognised on a time proportion basis that takes into account effective yield on the asset. Where debt securities are purchased at a premium or discount, those premiums / discounts are amortized through the profit and loss account over the remaining maturity, using the effective yield method.

Interest or mark-up recoverable on classified loans and advances and investments is recognised on receipt basis. Interest / mark-up on rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of State Bank of Pakistan or overseas regulatory authorities of countries where the branches / companies operate, except where in the opinion of the management it would not be

prudent to do so.

Dividend income from investments (other than those which are accounted for under the equity method) is recognized when the right to receive it is established.

Lease Financing

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.

Unrealised lease income is suspensed on classified leases, in accordance with the requirements of the Prudential Regulations of the State Bank of Pakistan. Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognised as income on receipt basis.

Letters of Credit and Guarantees

Commission on letters of credit and guarantees etc. is recognised on time proportion basis.

4.2 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current

Current taxation is the tax payable on taxable income earned from local as well as foreign operations for the year using tax rates enacted at the balance sheet date and, any adjustments to tax payable relating to prior years.

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts attributed to the assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognised on differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

4.3 Investments

The Group classifies its investment portfolio into the following categories:

Held-for-Trading

These are securities, which are either acquired for generating a profit from short-term fluctuation in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term trading exists.

Held-to-Maturity

These are securities with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold till maturity.

Available-for-Sale

These are investments that do not fall under the held-for-trading or held-to-maturity categories.

Investments, including those referred to in para above, are accounted for as follows:

- Quoted securities are carried at fair value.

- Unquoted equity securities are valued at lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

- Securities 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 value. Provision for diminution in the value of debt securities is made as per the Prudential Regulation issued by the State Bank of Pakistan.

  Any unrealised surplus / deficit arising on revaluation of investment classified as 'held-for-trading' are taken to the profit and loss account and unrealised surplus/ deficit arising on revaluation of investment classified as 'available-for-sale' is taken directly to "surplus/ deficit on revaluation of securities" in the balance sheet.

  Associates as defined under local statutes but not under IAS are accounted for as ordinary investments.

4.4 Basis of consolidation

- Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, so as to obtain economic benefits from its activities.

- The consolidated financial statements incorporate the financial statements of Habib Bank Limited and the financial statements of subsidiary companies from the date that control commences until the date that control ceases. The financial statements of such subsidiary companies are incorporated on a line-by-line basis and the investments held by the Bank is eliminated against the corresponding share capital of subsidiaries in the consolidated financial statements.

- Material intra-group balances and transactions have been eliminated.

- Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control established by contractual agreement. Associates and joint ventures are accounted for using the equity method. The consolidated financial statements include Groups' share of the results of the associates and joint venture.

4.5 Lendings to / borrowings from financial institutions

Where securities are sold subject to a commitment to re-purchase them at a pre-determined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received in "borrowings from financial institutions." Conversely, securities purchased under analogous commitments to resell are not recognised on the balance sheet and the consideration paid is recorded in "lendings to financial institutions" or "loans and advances" as appropriate. The difference between the sale and purchase price is recognised as mark-up / return expensed or earned on time proportion basis as the case may be.

4.6 Advances

Loans and advances

Loans and advances and net investment in finance lease are stated net of provision for loan losses. Provision for loan losses of Pakistan operations including general provision is made in accordance with the requirements of the prudential regulations issued by the State Bank of Pakistan. Provision for loan losses of overseas branches and subsidiary companies are made as per the requirements of the respective central banks. Advances are written off when there are no realistic prospects of recovery.

Finance lease receivables

Leases where the Group transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable is recognised 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.

4.7 Operating fixed assets and depreciation

4.7.1 Tangible

Fixed assets and capital work-in-progress, are stated at cost, except for land and building which are carried at revalued amount less accumulated depreciation, where applicable, and accumulated impairment losses (if any).

Cost of fixed assets of foreign branches and subsidiary companies include exchange differences arising on translation at year-end rates. Land and buildings are revalued by independent professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. Surplus arising on revaluation is credited to 'the surplus on revaluation of fixed assets' account (net of deferred tax). Under the provision of the Companies Ordinance, 1984, deficit arising on revaluation of fixed assets is adjusted against the balance in the above surplus account.

Surplus on revaluation of fixed assets to the extent of the incremental depreciation charged on the related assets is transferred by the Group to un-appropriated profits (net of deferred tax).

All operating assets are being depreciated over their expected economic lives using the straight-line method from the date the assets are available for use.

Depreciation is calculated so as to write-off the assets over their expected economic lives at the rates specified in note 11.3 to these financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on addition and deletion of tangible assets during the year is charged in proportion to the period of use.

Normal repairs and maintenance are charged to the profit and loss account as and when incurred. However, renewals are capitalised.

Gain or loss arising on the disposal of fixed assets are included in income currently. Surplus on revaluation of fixed assets (net of deferred tax) realised during the year is transferred directly to un-appropriated profit.

4.7.2 Intangible

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Such intangible assets are amortised using the straight-line method over their estimated useful lives. Amortisation is charged at the rate stated in note 11.2. Amortisation on additions and deletions of intangible asset during the year is charged in proportion to the period of use. The useful lives and amortisation method are reviewed and adjusted, if appropriate at each balance sheet date. Intangible assets having an indefinite useful life are stated at acquisition cost.

4.8 Employee benefits

The Bank operates the following post retirement schemes for its employees:

i) For those who did not opt for the pension scheme of 1977 and for new employees, the Bank operates:

- Approved funded provident fund (defined

contribution scheme)

- Approved funded gratuity scheme (defined benefit scheme)

  Liability under the gratuity scheme is determined on the basis of actuarial advice under the Projected Unit Credit method.

ii) For those who opted for the pension scheme introduced in 1977, HBL operates:

- Approved funded pension scheme (defined benefit scheme) for services up to March 31, 2005

- Contributory gratuity and provident fund schemes in lieu of pension fund, for services subsequent to March 31, 2005 (defined contribution schemes)

  Liability under the pension scheme is determined on the basis of actuarial advice using the Projected Unit Credit method.

Post Retirement Medical Benefits

The Bank also provides post retirement medical benefits to its clerical employees and pensioners retiring before December 31, 2005. Provision is made in the financial statements for this benefit based on actuarial advice using the Projected Unit Credit method.

Other Post Retirement Benefits

The Group provide cash benefit on retirement which are estimated as per the actuarial advice.

Employees' Compensated Absences

The Bank also makes provision in the financial statements for its liabilities towards compensated absences. This liability is estimated on the basis of actuarial advice under the Projected Unit Credit method.

Benevolent Fund

The Bank operates funded benevolent schemes for its executives / officers and clerical / non-clerical employees. Under this scheme, the employees of the Bank are entitled to receive defined grants during their service and after retirement. The benevolent fund plan covers all the employees of the Bank.

Surplus / Deficit on Retirement Funds / Schemes

Any surplus / deficit arising on actuarial valuation of these schemes (including actuarial gains / losses) available to / payable by the Group is recognised in the year in which it arises.

Other Schemes

Employee benefits offered by subsidiary companies are as follows:

Habib Allied International Bank Plc. United Kingdom:
Defined Contribution Pension scheme

Habib Finance International Limited, Hong Kong:
Provident fund and long service payment scheme

4.9 Foreign currency

Foreign Currency Transactions

Transactions in foreign currencies are translated to Pakistani rupees at the exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on 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. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

Foreign Operations

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.

Translation Gains and Losses

Translation gains and losses are included in the profit and loss account, except those arising on the translation of net investment in foreign operations (foreign branches, subsidiaries, joint ventures or associates) which are taken to equity under "Exchange Translation Reserve" and on disposal are recognised in profit and loss account.

Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date.

4.10 Cash and cash equivalents

Cash and cash equivalents include cash and balances with banks in current and deposit accounts.

4.11 Off setting

Financial assets and financial liabilities are set-off and the net amount is reported in the financial statements when there is a legally enforceable right to set-off and the Group intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.

4.12 Impairment

The carrying amount of the Group's assets (other than deferred tax asset) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant 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. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

4.13 Provision for guarantee claim

Provision for guarantee claim is recognised when intimated and reasonable certainty exists that the Group will settle the obligation. Expected recoveries are recognised by debiting customer's account. Charge to profit and loss account is stated net of expected recoveries.

4.14 Other provisions

Other provisions are recognised when the Group has a legal or constructive obligation as a result of past events and it is probable that 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.

4.15 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 recognised in profit and loss account.

4.16 Dividend distribution

Declarations of dividend to holders of the equity instruments of the Group are recognised as liability in the period in which it is declared.

4.17 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 risks and rewards that are different from those of other segments. The Bank's primary format of reporting is based on business segments.

Business Segments

- ***Retail banking***

  Consist of retail lending, deposits and banking services to private individuals and small businesses.

- ***Corporate / commercial banking***

  Consists of Corporate customers and investment banking, includes advices and placements to corporate mergers and acquisitions, underwriting, privatisations and securitisation.

- ***Treasury***
  Involves the businesses of proprietary trading, fixed income, equity and foreign exchanges.

- ***International Banking Group***
  It represents Group's operations at 25 countries and is considered a separate segment for monitoring purposes.

- ***Head Office***

  This includes balances held at Head Office level for regulatory requirements or other operational reasons and includes some non performing loans (not managed by other business segments), statutory liquidity and shareholders equity related balances and their associated cost / income.

Geographical segments

The group operates in five geographic regions, being:

- Pakistan
- Asia Pacific (including South Asia)
- Europe
- North America
- Middle East
- Others

	Note	2007	2006
		(Rupees in '000)	
5. CASH AND BALANCES WITH TREASURY BANKS			
In hand including National Prize Bonds			
Local currency		6,957,481	5,402,660
Foreign currency		1,448,749	1,264,265
		8,406,230	6,666,925
With State Bank of Pakistan in			
Local currency current account		27,099,656	25,597,743
Foreign currency deposit account		3,274,440	4,526,763
		30,374,096	30,124,506
With other Central Banks in	5.1		
Foreign currency current account		7,489,037	3,993,679
Foreign currency deposit account		6,075,877	3,599,553
		13,564,914	7,593,232
With National Bank of Pakistan in			
Local currency current account		3,142,424	1,925,815
		55,487,664	46,310,478

The above balances include remunerative accounts amounting to Rs 10,285.341 million (2006: Rs 8,294.267 million).

5.1 This includes balances held with the Central Banks of the respective countries in accordance with the requirements of the local statutory / Central Bank regulations.

	Note	2007	2006
		(Rupees in '000)	
6. BALANCES WITH OTHER BANKS			
In Pakistan			
On current account		385,765	301,209
Outside Pakistan			
On current account	6.1	3,769,629	6,362,454
On deposit account		22,865,310	29,301,385
		26,634,939	35,663,839
		27,020,704	35,965,048

6.1 This includes remunerative current account balance amounting to Rs 117.541 million (2006: Rs 340.884 million).

	Note	2007	2006
		(Rupees in '000)	

7. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings		700,000	600,000
Repurchase agreement lendings (reverse repo)	7.2	928,130	5,950,128
		1,628,130	6,550,128

7.1 Particulars of lending

In local currency	1,628,130	6,550,128

7.2 Securities held as collateral against lendings to financial institutions

	2007			2006		
	Held by Group	Further given as collateral	Total	Held by Group	Further given as collateral	Total
	(Rupees in '000)					
Market treasury bills	928,130	-	928,130	3,900,128	-	3,900,128
Pakistan investment bonds	-	-	-	2,050,000	-	2,050,000
	928,130	-	928,130	5,950,128	-	5,950,128

Market value of securities held as collateral against lendings to financial institutions as at December 31, 2007 amounted to Rs. 938.552 million (2006: Rs. 5,891.147 million).

8. INVESTMENTS

8.1 Investments by type

	Note	2007			2006		
		Held by Group	Given as collateral	Total	Held by Group	Given as collateral	Total
		(Rupees in '000)					
Held-to-Maturity Securities (HTM)	8.3						
Federal Government Securities							
- Market treasury bills	8.9 / 8.11	-	-	-	86,392	-	86,392
- Pakistan investment bonds	8.9 / 8.11	12,164,051	-	12,164,051	14,782,250	-	14,782,250
Overseas Government Securities		58,951	-	58,951	224,382	-	224,382
Debentures and Corporate Debt Instruments		-	-	-	166,996	-	166,996
		12,223,002	-	12,223,002	15,260,020	-	15,260,020
Available-for-sale Securities (AFS)							
Federal Government Securities							
- Market treasury bills	8.9 / 8.11	72,497,871	28,556,867	101,054,738	35,891,929	21,337,072	57,229,001
- Pakistan investment bonds	8.9 / 8.11	9,823,565	-	9,823,565	987,349	-	987,349
- Government of Pakistan Guaranteed bonds		12,011,364	-	12,011,364	20,653,643	-	20,653,643
- Government of Pakistan bonds (US Dollar/Euro)		2,789,968	-	2,789,968	864,805	-	864,805
Overseas Government Securities		9,496,982	-	9,496,982	6,163,192	-	6,163,192
Fully paid-up ordinary shares							
- Listed companies		1,543,170	-	1,543,170	1,679,827	-	1,679,827
- Unlisted companies		416,456	-	416,456	455,613	-	455,613
Debentures and Corporate Debt Instruments							
- Listed securities		1,044,923	-	1,044,923	510,926	-	510,926
- Unlisted securities		18,749,125	-	18,749,125	12,117,227	-	12,117,227
NIT Units	8.12	44,338	-	44,338	32,134	-	32,134
Preference Shares		200,000	-	200,000	171,667	-	171,667
Other Investments		1,126,508	-	1,126,508	183,414	-	183,414
		129,744,270	28,556,867	158,301,137	79,711,726	21,337,072	101,048,798
Investment in associates and Joint Venture Companies	8.4	7,418,112	-	7,418,112	3,278,658	-	3,278,658
		149,385,384	28,556,867	177,942,251	98,250,404	21,337,072	119,587,476

	Note	2007	2006
		- - - - -(Rupees in '000)- - - - -	
8.2 Investments by segments			
Federal Government Securities			
- Market treasury bills		101,297,420	57,408,115
- Pakistan investment bonds		22,166,836	15,912,056
- Government of Pakistan Guaranteed bonds		12,011,364	20,653,643
- Government of Pakistan bonds (US Dollar / Euro)		2,789,968	864,805
Overseas Government Securities		9,555,933	6,387,574
Fully paid-up ordinary shares			
- Listed Companies		1,415,700	1,642,811
- Unlisted Companies		449,633	485,828
Debentures and Corporate Debt Instruments			
- Listed Securities		1,038,270	519,093
- Unlisted Securities		19,092,187	12,650,570
Preference Shares		200,000	175,547
NIT Units		11,528	11,528
Other Investments		1,016,793	86,792
Investment in associates and joint venture companies	8.4	7,418,112	3,278,658
		178,463,744	120,077,020
Less: Provision for diminution in the value of investments	8.8	(421,729)	(518,932)
Investment at cost (net of provision)		178,042,015	119,558,088
(Deficit) / Surplus on revaluation of available for sale securities	19.2	(99,764)	29,388
		177,942,251	119,587,476

8.3 The market value of securities classified as "held-to-maturity" as at December 31, 2007 amounted to Rs 10,573.095 million (2006: Rs 12,624.734 million).

	Note	2007	2006
		- - - - -(Rupees in '000)- - - - -	
8.4 Investment in associates and joint venture companies			
Platinum Habib Bank Plc. - Holding 15.29% (2006: 15.29%)			
Opening balance		2,682,640	2,426,182
Share of profit for the year - net of tax		1,126,709	256,458
Exchange translation reserve for the year		236,096	-
Dividend received during the year		(90,902)	-
		3,954,543	2,682,640

	Note	2007	2006
		- - - -(Rupees in '000)- - - -	
Kyrgyz Investment and Credit Bank, Kyrgyz Republic, Holding 18% (2006: NIL)	8.5		
Opening balance		-	-
Investment during the year		139,995	-
		139,995	-
Diamond Trust Bank Limited, Kenya, Holding 9.72% (2006: 3.82%)	8.5		
Opening balance		227,568	-
Investment during the year		752,567	227,568
Share of profit for the year - net of tax		16,951	-
Exchange translation reserve for the year		9,349	-
Dividend received during the year		(4,653)	-
		1,001,782	227,568
Himalayan Bank Limited, Nepal, Holding 20% (2006: 20%)			
Opening balance		368,450	299,867
Share of profit for the year - net of tax		119,509	67,162
Exchange translation reserve for the year		41,035	13,909
Dividend received during the year		(40,244)	(12,488)
		488,750	368,450
New Jubilee Insurance Co. Limited, Holding 9.64%(2006: NIL)	8.5		
Opening balance		-	-
Investment during the year		1,092,225	-
Share of profit for the year - net of tax		9,625	-
Dividend received during the year		(4,764)	-
		1,097,086	-
New Jubilee Life Insurance Co. Limited, Holding 8.91%(2006: NIL)	8.5		
Opening balance		-	-
Investment during the year		213,633	-
Share of profit for the year - net of tax		3,026	-
		216,659	-
HBL Income Fund, Holding 4.39% (2006:Nil)			
Opening balance		-	-
Investment during the year		250,000	-
Share of profit for the year		18,322	-
		268,322	-
HBL Multi Asset Fund, Holding 39.03%(2006: NIL)			
Opening balance		-	-
Investment during the year		250,000	-
Share of profit for the year		975	-
		250,975	-
		7,418,112	3,278,658

8.4.1 The market value of shares of above investments in associates at December 31, 2007 amounted to Rs 18,203.223 million (2006: Rs 5,967.123 million).

8.4.2 Share of profit of the associates has been accounted for on the basis of financial results available with the Group. In case of Platinum Habib Bank PLC., Nigeria (PHB) share of profit has been based on the unaudited results declared by PHB to Nigerian Stock Exchange.

8.5 The Group has significant influence in Diamond Trust Bank Limited, Kyrgyz Investment and Credit Bank, New Jubliee Insurance Company Limited and New Jubliee Life Insurance Company Limited because of Aga Khan Fund for Economic Development's holding (Parent of Group)

8.6 Summary of financial information on associates and joint venture company

	Based on the financial statements as on	2007				
		Assets	Liabilities	Equity	Revenue	Profit / (loss)
		(Rupees '000)				
PlatinumHabib Bank Plc., Nigeria	June 30, 2007	198,758,913	179,810,015	18,948,898	18,666,556	7,370,667
Diamond Trust Bank Limited, Kenya	September 30, 2007	26,677,207	23,825,328	2,851,879	1,434,627	444,067
Himalayan Bank Limited, Nepal	December 31, 2007	33,851,739	31,678,073	2,173,666	1,377,398	522,350
Kyrgyz Investment and Credit Bank	September 30, 2007	4,395,885	3,695,619	700,266	383,052	113,971
New Jubilee Life Insurance Co.Ltd.	September 30, 2007	5,579,493	5,174,208	405,285	14,054	49,513
New Jubilee Insurance Co.Ltd.	September 30, 2007	5,575,939	3,337,525	2,238,414	1,747,660	415,205
HBL Income Fund	December 31, 2007	6,461,862	353,811	6,108,051	346,910	259,335
HBL Multi Asset Fund	December 31, 2007	644,742	1,746	642,996	4,042	3,450

	Based on the financial statements as on	2006				
		Assets	Liabilities	Equity	Revenue	Profit / (loss)
		(Rupees '000)				
PlatinumHabib Bank Plc., Nigeria	June 30, 2006	73,929,018	60,427,378	13,501,640	6,148,128	1,144,791
Diamond Trust Bank Limited, Kenya	September 30, 2006	16,885,905	15,241,985	1,643,920	1,477,722	286,963
Himalayan Bank Limited, Nepal	July 15, 2006	27,239,253	25,516,495	1,722,758	1,722,138	187,827

8.6.1 Platinum Habib Bank Plc, undertaken a Public Offer, closing on December 19, 2007 which was oversubscribed. Subsequent to offer, the shareholding of HBL is expected to be diluted below 8.60%.

8.7 Investment In Associated Undertakings - As Per Statute

	2007		2006	
	Fair value / cost (Rupees in '000)	Holding %	Fair value / cost (Rupees in '000)	Holding %
First Women Bank Limited	63,300	26.78%	63,300	26.78%
Khushhali Bank	300,000	17.60%	300,000	17.60%
	363,300		363,300	

8.7.1 The Group does not have significant influence over these entities either due to insignificant holdings or influence of the Government / major shareholders. Accordingly these investments are accounted for as normal investments.

8.8 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:

	2007	2006
	(Rupees in '000)	
Opening balance	518,932	562,065
Reversed during the year	(84,310)	(13,697)
Amount written off	(12,893)	(29,436)
Closing balance	421,729	518,932

8.8.1 Particulars of provision in respect of type and segment

Available-for-sale securities (AFS)		
Fully paid-up ordinary shares		
- Listed companies	71,868	118,490
- Unlisted companies	33,177	30,215
Debentures and Corporate Debt Instruments	316,684	366,347
Preference shares	-	3,880
	421,729	518,932

8.9 Investments held for maintaining the liquidity requirements of the State Bank of Pakistan amounted to Rs 80,221 million as at December 31, 2007 (2006: Rs 72,304 million).

8.10 Investments include Rs 543.500 million as at December 31, 2007 (2006: Rs 543.500 million) pledged with the State Bank of Pakistan and National Bank of Pakistan against TT / DD discounting facilities and demand loan facilities.

8.11 Investments include Rs 10 million as at December 31, 2007 (2006: Rs 10 million) pledged with the Controller of Military Accounts in lieu of Regimental Fund Accounts being maintained at various branches of the Bank.

8.12 NIT units of Rs 3.537 million as at December 31, 2007 (2006: Rs 3.537 million) are pledged with Multan High Court.

8.13 Information relating to investments including credit ratings in shares of listed and unlisted companies, redeemable capital and bonds, required to be disclosed as part of the financial statements by the State Bank of Pakistan, is given in Annexure "I" and is an integral part of these financial statements.

	Note	2007	2006
		(Rupees in '000)	
9. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		310,370,832	291,209,502
Outside Pakistan		55,501,503	38,068,479
		365,872,335	329,277,981
Net investment in finance lease - in Pakistan	9.2	8,719,113	11,827,390
- outside Pakistan		-	-
		8,719,113	11,827,390
Bills discounted and purchased (excluding Government treasury bills)			
Payable in Pakistan		6,387,872	9,843,365
Payable outside Pakistan		22,499,580	20,415,802
		28,887,452	30,259,167
Provision against Non-Performing advances	9.6	(21,306,166)	(21,931,853)
		382,172,734	349,432,685
Fully provided Non-Performing advances classified as loss for more than five years			
In Pakistan		11,909,930	6,622,757
Outside Pakistan		-	493,578
		11,909,930	7,116,335
Provision	9.6.1	(11,909,930)	(7,116,335)
		-	-

9.1 Particulars of advances

9.1.1	In local currency	306,416,866	289,781,368
	In foreign currency including foreign currency financing by domestic branches amounting to Rs 15,158 million (2006: Rs 18,858 million)	75,755,868	59,651,317
		382,172,734	349,432,685
9.1.2	Short term (for up to one year)	266,849,580	225,226,690
	Long term (for over one year)	115,323,154	124,205,995
		382,172,734	349,432,685

9.2 Net Investment in Finance Lease

	2007			2006		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	(Rupees in '000)					
Lease rentals receivable	868,731	6,937,838	7,806,569	784,695	10,776,534	11,561,229
Residual value	145,371	1,829,306	1,974,677	145,145	2,043,223	2,188,368
Gross investment in finance lease	1,014,102	8,767,144	9,781,246	929,840	12,819,757	13,749,597
Unearned finance income	43,907	1,018,226	1,062,133	51,143	1,871,064	1,922,207
Net investment in finance lease	970,195	7,748,918	8,719,113	878,697	10,948,693	11,827,390

9.3 Advances include Rs 27,692.769 million (2006: Rs 30,032.988 million) which have been placed under Non-Performing status, other than those accounts classified as loss and fully provided for more than five years which have been placed in a separate category as referred to in note 9.4, as detailed below:

Category of Classification	2007								
	Non-Performing advances			Provision required and held			Net Non-Performing loans		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Specific Provision									
Other assets especially mentioned	799,714	-	799,714	-	-	-	799,714	-	799,714
Substandard	6,630,170	607,870	7,238,040	1,635,158	89,387	1,724,545	4,995,012	518,483	5,513,495
Doubtful	2,157,113	92,555	2,249,668	1,078,557	57,088	1,135,645	1,078,556	35,467	1,114,023
Loss	9,029,355	8,375,992	17,405,347	9,029,355	8,365,987	17,395,342	-	10,005	10,005
	18,616,352	9,076,417	27,692,769	11,743,070	8,512,462	20,255,532	6,873,282	563,955	7,437,237
General Provision	-	-	-	771,668	278,966	1,050,634	-	-	-
	18,616,352	9,076,417	27,692,769	12,514,738	8,791,428	21,306,166	6,873,282	563,955	7,437,237

9.3.1 Classification of overseas Non-Performing advances and provision thereagainst has been made in accordance with the accounting policy as referred in note 4.6.

9.4 The Group moniters Non-Performing loans classified as loss for more than five years and fully provided as a separate category as shown in note 9.6.1. This category is not included in note 9.3 and in analytical break-up of other notes.

9.5 The State Bank of Pakistan vide BSD Circular 7 dated October 12, 2007 has completely withdrawn the benefit relating to security held,other than certain specific liquid securities in respect of Non-Performing loans and advances which were applicable previously to loans and advances over Rs. 10 million.

Had the provision against Non-Performing loans and advances been determined in accordance with the previous requirements of the State Bank of Pakistan by considering the benefit of FSV, the specific provision against Non-Performing loans and advances would have been lower and consequently profit before taxation would have been higher by Rs.5,773.623 million.

9.6 Particulars of provision against Non-Performing advances

	Note	2007			2006		
		Specific	General	Total	Specific	General	Total
		(Rupees in '000)					
Opening balance		20,518,688	1,413,165	21,931,853	32,011,517	1,531,749	33,543,266
Exchange adjustment		308,226	(6,899)	301,327	1,160,608	(10,388)	1,150,220
Charge for the year		9,205,663	81,096	9,286,759	3,089,217	50,219	3,139,436
Reversals		(185,137)	(436,728)	(621,865)	(117,814)	(158,415)	(276,229)
		9,020,526	(355,632)	8,664,894	2,971,403	(108,196)	2,863,207
Amounts written off	9.7	(3,614,928)	-	(3,614,928)	(8,508,505)	-	(8,508,505)
Transferred to / from over 5 years category	9.6.1	(5,976,980)	-	(5,976,980)	(7,116,335)	-	(7,116,335)
Closing balance		20,255,532	1,050,634	21,306,166	20,518,688	1,413,165	21,931,853
In local currency		11,743,070	771,668	12,514,738	12,081,789	1,173,890	13,255,679
In foreign currency		8,512,462	278,966	8,791,428	8,436,899	239,275	8,676,174
		20,255,532	1,050,634	21,306,166	20,518,688	1,413,165	21,931,853

9.6.1 Particulars of provision against fully provided Non-Performing advances classified as loss for more than five years

	Notes	2007	2006
		(Rupees in '000)	
Opening balance		7,116,335	-
Reversals		(426,667)	-
Transferred from / to during the year	9.6	5,976,980	7,116,335
Write off	9.7	(756,718)	-
		11,909,930	7,116,335

9.7 Particulars of write-offs

9.7.1	Against provisions	4,371,646	8,508,505

9.7.2 Analysis of write-offs

Rs 500,000 and above in Pakistan (Note 9.8)	1,133,635	2,754,149
Below Rs 500,000 in Pakistan and overseas	3,238,011	5,754,356
	4,371,646	8,508,505

9.8 Details of loan write-off of Rs 500,000 and above

The statement required under sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 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 December 31, 2007 is given in Annexure II.

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

	2007				2006			
	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the year	Loan repaid during the year	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the year	Loan repaid during the year
	(Rupees in '000)							
					(Restated)			
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 *	697,812	731,164	477,300	33,352	253,864	333,004	196,000	148,877
- in respect of key management personnel	311,104	326,962	142,535	15,858	184,427	184,427	106,400	47,337
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	1,333,333	1,533,333	-	200,000	1,533,333	1,892,000	1,600,000	358,667
Debts due by:								
- Joint venture companies	-	-	-	-	-	-	-	-
- Retirement benefit funds	1,033,720	1,389,612	-	355,892	1,389,612	2,520,733	-	-

The disclosure of the year-end balance, limit / amount sanctioned and the highest amount outstanding during the year is considered the most meaningful information to represent the amount of the transactions and the amount of outstanding balances during the year.

* (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)

10. OTHER ASSETS

	Note	2007	2006
		(Rupees in '000)	
Income / mark-up accrued in local currency		8,235,567	8,179,779
Income / mark-up accrued in foreign currency		990,054	955,595
Advances, deposits, advance rent and other prepayments		1,271,674	688,323
Advance taxation (payments less provisions)		-	1,673,474
Receivable from defined benefit plans	31.2.3	5,193,448	4,835,017
Stationery and stamps on hand		216,513	164,568
Accrued fee income		187,500	129,600
Due from Government of Pakistan	10.2	295,356	295,353
Unrealised gain on forward foreign exchange contract		49,043	92,415
Non-banking assets accquired in satisfaction of claims		30,000	30,000
Receivable from National Savings Centre / Clearing in transit		7,796,273	3,883,671
Assets held for sale	10.3	1,574,696	-
Others		1,505,987	607,676
		27,346,111	21,535,471

10.1 Provision against other assets

	2007	2006
	(Rupees in '000)	
Opening balance	754,477	895,954
(Reversal) / charge for the year - net	(399,983)	(141,477)
Closing balance	354,494	754,477

10.2 This represents residual amount recoverable from the Government of Pakistan on account of payments made to retrenched employees under the Voluntary Separation Scheme (VSS) offered by Habib Bank Limited (HBL) during 2001. All payments made under this scheme are recoverable from the Government of Pakistan as grant to HBL.

10.3 During the year the Group subscribed for units of HBL Stock Fund and due to its initial investment the holding is higher than 50%. With sale of units this will go down below 50% and the fund would cease to be a subsidiary. Accordingly its assets and liabilities are classified as held for sale.

10.4 During the year 2006 the clearing in transit account was classified in bills payable which has now been reclassified to other assets.

11. OPERATING FIXED ASSETS

	Note	2007	2006
		(Rupees in '000)	
Capital work-in-progress	11.1	539,449	395,444
Intangible assets	11.2	651,315	435,217
Operating fixed assets	11.3	12,589,791	11,124,215
		13,780,555	11,954,876

11.1 Capital work-in-progress

Civil works	410,717	268,244
Equipment	1,421	1,332
Others	127,311	125,868
	539,449	395,444

11.2 Intangible assets

2007

Description	COST				AMORTISATION				Book value	
	As at January 1, 2007	Additions / (deletions) during the year	Adjustments	As at December 31, 2007	As at January 1, 2007	Charge for the year / (Amortisation on deletions)	Adjustments	As at December 31, 2007	As at December 31, 2007	Rate of amortisation
	(Rupees in '000)									%
Computer software	788,517	450,978	1,783	1,240,392	353,300	234,900	1,763	589,077	651,315	
		(886)				(886)				33.33

2006

Description	COST				AMORTISATION				Book value	
	As at January 1, 2006	Additions / (deletions) during the year	Adjustments	As at December 31, 2006	As at January 1, 2006	Charge for the year / (Amortisation on deletions)	Adjustments	As at December 31, 2006	As at December 31, 2006	Rate of amortisation
	(Rupees in '000)									%
Computer software	330,017	273,368	187,212	788,517	27,720	172,004	155,637	353,300	435,217	
		(2,080)				(2,061)				33.33

11.3 Operating fixed assets

2007

Description	COST / REVALUATION				DEPRECIATION				Book value	
	As at January 1, 2007	Additions / (deletions) / Adjustment during the year	Surplus / (deficit) on revaluation during the year	As at December 31, 2007	As at January 1, 2007	Charge for the year / (depreciation on deletions) / adjustments	Surplus / (deficit) on revaluation reversed during the year	As at December 31, 2007	As at December 31, 2007	Rate of depreciation
	(Rupees in '000)									%
Land	6,682,994	387,244 (15,546) 3,874	-	7,058,566	-	-	-	-	7,058,566	-
Building including related machinery	3,583,565	288,722 (29,784) 31,328	-	3,873,831	747,266	183,504 (6,327) (958)	-	923,485	2,950,346	2.5-10
Furniture, fixture and office equipment	5,025,133	1,710,249 (257,384) 58,959	-	6,536,957	3,525,070	724,324 (251,769) 31,288	-	4,028,913	2,508,044	20-33
Vehicles	329,791	14,428 (76,966) 1,794	-	269,047	224,932	34,034 (62,644) (110)	-	196,212	72,835	20
	15,621,483	2,400,643 (379,680) 95,955	-	17,738,401	4,497,268	941,862 (320,740) 30,220	-	5,148,610	12,589,791	

2006

Description	COST / REVALUATION				DEPRECIATION				Book value	
	As at January 1, 2006	Additions / (deletions) during the year	Adjustments	As at December 31, 2006	As at January 1, 2006	Charge for the year / (depreciation on deletions)	Adjustments	As at December 31, 2006	As at December 31, 2006	Rate of depreciation
	(Rupees in '000)									%
Land	6,487,194	71,472 (5,175) 5,375	124,128	6,682,994	-	- - -	-	-	6,682,994	-
Building including related machinery	3,433,186	166,959 (26,944) 2,361	8,003	3,583,565	617,987	165,316 (26,944) (390)	(8,703)	747,266	2,836,299	2.5-10
Furniture, fixture and office equipment	4,743,872	772,748 (362,723) (128,764)	-	5,025,133	3,424,250	571,450 (357,324) (113,306)	-	3,525,070	1,500,063	20-33
Vehicles	573,214	55,509 (264,797) (34,135)	-	329,791	394,247	61,213 (199,049) (31,479)	-	224,932	104,859	20
	15,237,466	1,066,688 (659,639) (155,163)	132,131	15,621,483	4,436,484	797,979 (583,317) (145,175)	(8,703)	4,497,268	11,124,215	

11.4 Habib Bank Limited's (HBL) domestic properties were revalued by independent professional valuers as on December 31, 2004. These properties were revalued by Iqbal A. Nanjee & Co., professional valuers on the basis of market value. The revaluation has resulted in increasing the surplus on revaluation of fixed assets by Rs. 4,055.522 million. HBL properties of Sri Lanka and Singapore branches were revalued on August 10, 2005 and September 5, 2006 by A. Y. Daniel & Son and CB Richard Ellis (Pte) Ltd. respectively, licenced valuers, on market value basis. These revaluations have resulted in a surplus of Rs. 140.834 million and the same has been recorded in the books in 2006. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

	(Rupees in '000)
Land	3,026,318
Building including related machinery	1,642,695

The movement in surplus on revaluation of properties is given in note 19.1 to these financial statements.

11.5 Details of disposal of fixed assets

The information relating to disposal of fixed assets in aggregate having book value exceeding Rs 250,000 or cost exceeding Rs 1 million (whichever is lower), is required to be disclosed as part of the financial statements by the State Bank of Pakistan is given in Annexure III and is an integral part of these financial statements.

11.6 At December 31, 2007 carrying value of temporarily idle properties and equipment and those retired from active service and held for disposal purposes amounted to Rs 509.917 million (2006: Rs 121.573 million) and Rs 79.139 million (2006: Rs 99.945 million) respectively. Gross carrying amount of fully depreciated properties and equipment that are still in the Group's use, as at the above date, amounted to Rs 1.581 million (2006: Rs 1.605 million).

12. DEFERRED TAX ASSET

	Note	2007	2006
		(Rupees in '000)	
Deductible temporary differences on			
- recognised tax lossess	12.2	551,103	-
- provision against investments		110,504	127,886
- provision against doubtful debts		5,362,476	2,886,695
- provision against others		1,181,437	247,175
on revaluation of investments	19.2	38,612	(11,732)
		7,244,132	3,250,024
Taxable temporary differences on			
- fixed assets		(577,373)	(488,994)
- others		(53,387)	(35,544)
		(630,760)	(524,538)
Net deferred tax asset recognised by the Group		6,613,372	2,725,486

12.1 Movement in temporary differences during the year

	Balance As at January 1, 2006	Recognised in profit or loss	Recognised in equity	Balance As at December 31, 2006	Recognised in profit or loss	Recognised in equity	Balance As at December 31, 2007
	(Rupees in '000)						
	Restated						
Deductible temporary differences on							
- recognised tax losses	-	-	-	-	551,103	-	551,103
- provision against investments	153,341	(25,455)	-	127,886	(17,382)	-	110,504
- provision against doubtful debts	1,705,775	1,180,921	-	2,886,696	2,475,780	-	5,362,476
- provision against others	446,226	(199,051)	-	247,175	934,262	-	1,181,437
- revaluation of investments	65,518	-	(77,251)	(11,733)	-	50,345	38,612
Taxable temporary differences on							
- fixed assets	(502,632)	19,484	(5,847)	(488,995)	(97,220)	8,842	(577,373)
- others	(25,251)	(10,292)	-	(35,543)	(17,844)	-	(53,387)
	1,842,977	965,607	(83,098)	2,725,486	3,828,699	59,187	6,613,372

12.2 Movement in unrecognised deferred tax assets and liabilities during the year

	Balance As at January 1, 2006	Additions	Recognised	Balance As at December 31, 2006	Additions	Recognised	Balance As at December 31, 2007
	(Rupees in '000)						
Tax losses	4,177,253	-	-	4,177,253	-	551,103	3,626,150

13. BILLS PAYABLE

	2007	2006
	(Rupees in '000)	
In Pakistan	14,847,417	8,878,289
Outside Pakistan	570,813	629,348
	15,418,230	9,507,637

13.1 During the year 2006, the clearing in transit account was classified in bills payable which has now been reclassified to other assets.

	Note	2007	2006
		(Rupees in '000)	

14. BORROWINGS FROM FINANCIAL INSTITUTIONS

In Pakistan		46,944,634	47,068,094
Outside Pakistan		12,049,975	9,324,176
		58,994,609	56,392,270

14.1 Particulars of borrowings from financial institutions

In local currency		46,944,634	47,068,094
In foreign currency		12,049,975	9,324,176
		58,994,609	56,392,270

14.2 Details of borrowings from financial institutions

Secured			
Borrowings from State Bank of Pakistan under:			
- Export refinance scheme	14.3	10,783,073	15,678,110
- Locally manufactured machinery refinance scheme	14.3	6,747	9,145
- Long term finance - export oriented projects	14.3	7,376,449	8,213,632
Repurchase agreement borrowings		28,370,002	21,285,463
		46,536,271	45,186,350
Unsecured			
In Pakistan			
- Interbank call money borrowing including borrowing by domestic subsidiaries		408,363	1,881,744
Outside Pakistan			
- Overdrawn nostro accounts		462,495	692,708
- Borrowings of overseas branches		11,587,480	8,631,468
		12,049,975	9,324,176
		12,458,338	11,205,920
		58,994,609	56,392,270

14.3 Borrowings from State Bank of Pakistan (SBP) under the export, locally manufactured machinery and export oriented projects refinance schemes of SBP are secured by the Bank's cash and security balances held by SBP.

15. DEPOSITS AND OTHER ACCOUNTS

	2007	2006
	(Rupees in '000)	
Customers		
Fixed deposits	142,718,688	135,098,044
Savings chequing account	194,299,616	168,057,000
Other savings account	70,074,713	52,325,375
Current accounts - non-remunerative	110,553,932	90,350,296
	517,646,949	445,830,715
Financial institutions		
Remunerative deposits	9,066,729	8,612,135
Non-remunerative deposits	4,584,449	4,697,348
	13,651,178	13,309,483
	531,298,127	459,140,198

15.1 Particulars of deposits

In local currency	414,109,941	359,114,072
In foreign currency {including foreign currency deposits of domestic branches of Rs 36,985.65 million (2006: Rs 33,147.443 million)}	117,188,186	100,026,126
	531,298,127	459,140,198

16 SUB-ORDINATED LOANS

The group has obtained loan from "International Finance Corporation" (IFC) amounting to US $ 50 million. The principal amount is repayable in four equal half yearly installments commencing from the year 2013 to 2014. Interest is payable on bi - annual basis commencing from December 2007 at market rates. The loan is unsecured and subordinated as to payment of principal and interest to all other indebtness of the group (including deposits). The loan may not be prepaid or repaid before maturity without the prior written approval of the State Bank of Pakistan.

	Note	2007	2006
		(Rupees in '000)	

17. OTHER LIABILITIES

Mark-up / return / interest payable in local currency		5,525,931	4,160,445
Mark-up / return / interest payable in foreign currency		779,996	503,115
Security deposits against leases		1,974,677	2,188,368
Accrued expenses		1,647,064	1,324,845
Unclaimed dividends		15,280	10,022
Provision for employees' compensated absences	31.3	1,261,152	1,297,901
Provision for post retirement medical benefits	31.2.3	1,517,413	1,675,852
Provision against off-balance sheet obligations	17.1	419,831	474,457
Provision for contingencies	17.2	740,834	807,754
Branch adjustment account		2,655,502	1,848,537
Provision for staff retirement benefits		554,921	311,985
Payable to defined benefit plan		-	15,769
Provision for taxation - net of payments		453,336	-
Liabilities held for sale	10.3	147,451	-
Amounts due to investors in funds consolidated by HBL	10.3	471,959	-
Others		1,777,779	959,127
		19,943,126	15,578,177

	2007	2006
	(Rupees in '000)	

17.1 Provision against off-balance sheet obligations

Opening balance	474,457	519,895
(Reversals) for the year	(54,626)	(45,438)
Closing balance	419,831	474,457

17.2 Provision for contingencies	2007	2006
	(Rupees in '000)	
Opening balance	807,754	839,702
(Reversal) / charge for the year	(69,934)	(36,193)
Exchange adjustment	3,014	4,245
Closing balance	740,834	807,754

18. SHARE CAPITAL

18.1 Authorised capital

2007	2006		2007	2006
Number of shares in '000			(Rupees in '000)	
1,380,000	1,380,000	**Ordinary shares of Rs. 10 each**	13,800,000	13,800,000

18.2 Issued, subscribed and paid-up capital

2007	2006	Ordinary shares of Rs. 10 each	2007	2006
Number of shares in '000			(Rupees in '000)	
690,000	690,000	**Fully paid in cash**	6,900,000	6,900,000
690,000	690,000		6,900,000	6,900,000

18.3 Exchange translation reserve

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

18.4 Statutory reserves

Every Banking company incorporated in Pakistan is required to transfer 20% of there profits to a statutory reserve untill the reserve equals shares capital, thereafter 10% of the profits of the holding company are to transferred to this reserve.

18.5 Dividends	2007	2006
	(Rupees in '000)	
The following dividends were declared and paid by the Group:		
Rs. 2 per share (2006: Rs. 1 per share) in cash.	1,380,000	690,000

After December 31, 2007 the following dividends were proposed by the Directors for 2007.
The dividends have not been provided for and there are no income tax consequences.

Cash dividend: Rs. 4 per share	2,760,000
Bonus shares: 1 share for every 10 shares held	690,000

19. SURPLUS ON REVALUATION OF ASSETS - net of deferred tax

	Note	2007	2006
		(Rupees in '000)	
Surplus arising on revaluation of:			
- fixed assets	19.1	7,269,814	7,334,729
- investments	19.2	(61,152)	17,656
Surplus on revaluation of assets - net of deferred tax		7,208,662	7,352,385

19.1 Surplus on revaluation of fixed assets

Surplus on revaluation of fixed assets as at January 1	7,989,613	7,950,982
Surplus / (adjustment) on revaluation during the year	-	131,519
Surplus realised on disposal of revalued properties during the year	(25,288)	(18,517)
Transferred to accumulated profit in respect of incremental depreciation charged during the year - net of deferred tax	(48,478)	(48,341)
Related deferred tax liability of incremental depreciation charged during the year	(26,103)	(26,030)
Surplus on revaluation of fixed assets as at December 31	7,889,744	7,989,613
Less: related deferred tax liability on		
- revaluation as at January 1	654,884	675,067
- revaluation of Bank's properties recognised / adjusted during the year	-	5,847
- surplus realised on disposal of revalued properties during the year	(8,851)	-
- incremental depreciation charged during the year transferred to profit and loss account	(26,103)	(26,030)
	619,930	654,884
	7,269,814	7,334,729

19.2 Surplus / (Deficit) on revaluation of investments

Market treasury bills	(242,682)	(92,722)
Pakistan Investment Bonds	(179,220)	(142,457)
Listed securities	205,991	155,506
NIT units	32,809	20,605
Other investments	83,338	88,456
	(99,764)	29,388
Add / (Less) related deferred tax asset / (liability)	38,612	(11,732)
	(61,152)	17,656

		2007	2006
		(Rupees in '000)	
20.	**CONTINGENCIES AND COMMITMENTS**		
20.1	**Direct credit substitutes - financial guarantees**	6,868,760	10,934,318
20.2	**Transaction-related contingent liabilities**		
	Guarantees in favour of:		
	- Government	2,447,628	721,858
	- Financial institutions	1,378,781	844,157
	- Others	38,921,215	30,129,415
		42,747,624	31,695,430
20.3	**Trade-related commitments**		
	Credit cash	150,029,971	102,510,323
	Credit documentary acceptances	12,919,344	12,375,995
	Credit acceptances	13,801,560	9,278,055
		176,750,875	124,164,373
20.4	**Other contingencies**		
	Claims against the Group not acknowledged as debts	45,864,219	44,311,700

20.5 Commitments in respect of forward lending

The Group 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.

20.6	**Commitments in respect of forward foreign exchange contracts**		
	Purchase	39,324,335	52,898,091
	Sale	42,960,952	44,985,569

The above commitments have maturities falling within one year.

	Commitments in respect of foreign currency derivatives		
	Purchase	2,171,290	1,470,566
	Sale	2,171,290	1,470,566
20.7	**Commitments for acquisition of operating fixed assets / intangibles**	682,435	587,277

20.8 Taxation

The income tax returns of Habib Bank Limited have been submitted upto and including the bank's financial year 2006. The tax authorities have concluded the audit of tax year 2005 and audit of tax years 2004, 2005 and 2007 is in process.

While amending the assessment of tax year 2005 under section 122(5A) of the Income Tax Ordinance, 2001 the tax authorities have disallowed various items including addition on account of allocation of expenses amounting to Rs. 2,379 million, related to exempt capital gains and dividend income. The tax authorities are allocating the total operating expenses on the basis of turnover/ income. If the same treatment for allocation of expenses is adopted in the remaining years the total additional tax liability would be approximately Rs. 2,151 million. Management's view is that the law requires that expenses should be based on specific expenditure or allocated in a reasonable manner. Use of income or turnover in a Bank is not a reasonable method and cost of funds should be allocated in proportion to the funds deployed in various types of assets.

Appeal against this assessment is pending before the Commissioner of Income Tax and management is confident that the eventual outcome of this case will be in favour of the bank.

	2007	2006
	(Rupees in '000)	
21. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to		
- Customers	36,030,674	32,598,656
- Financial institutions	231,011	149,336
On investments		
- Available-for-sale	11,072,401	7,235,562
- Held-to-maturity	739,749	932,668
On deposits with financial institutions	1,808,199	1,002,062
On lendings to financial institutions	598,987	1,767,456
	50,481,021	43,685,740
22. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	16,767,617	10,590,476
Securities sold under repurchase agreement borrowings	752,141	367,962
Other short term borrowings	1,426,300	2,167,784
Long term borrowings	207,899	77,481
Others	-	334
	19,153,957	13,204,037

23. INCOME / GAIN ON INVESTMENTS

	Note	2007	2006
		(Rupees in '000)	
23.1 Gain / (loss) on sale of securities			
Federal Government Securities			
- Market Treasury Bills		6,257	(10,832)
- Pakistan Investment Bonds		5,664	5,583
- Other Federal Government Securities		-	25,295
Shares			
- Listed		289,926	2,316
- Unlisted		185	5,048
		302,032	27,410
23.2 Income on investments			
Dividend income		474,319	721,379
Share of profit of associates and joint venture		1,696,312	470,834
		2,170,631	1,192,213
		2,472,663	1,219,623

24. OTHER INCOME

Incidental charges	910,064	840,076
Rent on lockers	100,867	103,522
Gain on sale of property and equipment	51,913	73,441
Rent on property	90,987	70,254
Net gain on disposal of branches	-	142,259
Miscellaneous earnings	1,489,245	1,006,253
	2,643,076	2,235,805

25. ADMINISTRATIVE EXPENSES

Salaries, allowances, etc.	25.3	10,363,786	11,204,831
Charge for defined benefit plan and other benefits	31.2.2 / 31.3	60,902	250,071
Contribution to defined contribution plan		149,381	242,076
		210,283	492,147

	Note	2007	2006
		(Rupees in '000)	
Non-executive directors' fees, allowances and other expenses		1,038	46
Brokerage and commission		14,008	15,404
Rent, taxes, insurance, electricity, etc.		1,316,042	1,045,775
Legal and professional charges		634,933	372,006
Communications		434,598	263,465
Repairs and maintenance		547,029	388,056
Stationery and printing		268,802	288,531
Auditors' remuneration	25.1	80,267	66,313
Advertisement and publicity		884,365	253,049
Amortisation	11.2	234,900	172,004
Depreciation	11.3	941,862	797,979
Entertainment		76,633	61,628
Travelling		403,116	229,832
Conveyance and motor car		68,286	78,387
Training		126,581	137,980
Security charges		335,924	289,123
Remittance charges		201,601	219,732
Donations	25.4	2,552	1,975
Others		1,150,673	770,969
		18,297,279	17,149,232

25.1 Auditors' remuneration

Audit fee	2,645	2,200
Fee for interim audit	2,461	2,093
Fee for audit of local branches of Habib Bank Limited	5,860	4,200
Special certifications / examinations and sundry advisory services	897	800
Tax services	2,895	3,123
Out of pocket expenses	1,725	1,500
	16,483	13,916
Overseas subsidiaries / branches and domestic subsidiaries	63,784	52,397
	80,267	66,313

25.2 The Bank operates a short term employee benefit scheme which includes cash award / special bonus for all employees. Under this scheme, the bonus for all Executives, including the Chief Executive Officer is determined on the basis of employees' evaluation and the Bank's performance during the year. The aggregate amount determined for the eligible employees in respect of the above scheme relating to all Executives and for the Key Management Personnel of the Bank amounted to Rs.613.113 million (2006: Rs. 460.960 million) and Rs. 505.328million (2006: Rs. 359.164 million) respectively.

Included in above, is bonus paid to selected employees on account of Staff Retention Incentive scheme. Under the scheme, the selected employees are committed to continue employment with the bank for a minimum period of three years and the bank advances money by way of bonus to executives to purchase shares of Habib Bank Limited (HBL) to be held for a period of three years. There is a clawback provision for employees leaving before completion of three years.

25.3 During the year, 777 (2006: 2,367) employees were retrenched. The bank has paid in addition to payments under the staff retirement funds, an amount of Rs. 569.700 million (2006: Rs. 1,724 million) under the scheme.

25.4 Details of the donations given in excess of Rupees 100,000 are given as below:

	2007 (Rupees in '000)
Aga Khan Hospital & Medical College Foundation	1,650
Al-Noor	250
Child Aid Association	250
	2,150

	2007	2006
	(Rupees in '000)	

26. OTHER CHARGES

Penalties imposed by State Bank of Pakistan	85,152	54,898

27. TAXATION

For Pakistan - for the year - current	5,816,302	6,266,908
For Pakistan - for the year - deferred	(2,579,964)	(1,081,182)
For Pakistan - prior year - current	1,667,787	(61,738)
For Pakistan - prior year - deferred	(697,632)	115,575
For Overseas - for the year - current	1,404,415	877,938
For Overseas - for the year - deferred	(551,103)	-
For Overseas - prior year - current	775	22,671
For Overseas - prior year - deferred	-	-
	5,060,580	6,140,172

For the purpose of taxation, overseas include Habib Bank Limited's branches in Azad Jammu & Kashmir region.

	Note	2007	2006
		(Rupees in '000)	
27.1 Relationship between tax expense and accounting profit			
Accounting profit for the current year		15,144,617	18,840,487
Tax on income @ 35% (2006: 35%)		5,300,616	6,594,170
- Exempted income		(167,512)	(693,086)
- Reduced rate income		(193,596)	(252,521)
- Others		121,072	491,609
Tax charge for the current year		5,060,580	6,140,172

28. BASIC AND DILUTED EARNINGS PER SHARE

Profit for the year attributable to equity holders of the Bank	10,000,231	12,630,259
	(Number)	
Weighted average number of ordinary shares	690,000,000	690,000,000
	(Rupees)	
Basic and diluted earnings per share	14.49	18.30

29. CASH AND CASH EQUIVALENTS

		(Rupees in '000)	
Cash and balance with treasury banks	5	55,487,664	46,310,478
Balance with other banks	6	27,020,704	35,965,048
		82,508,368	82,275,526

30. STAFF STRENGTH

	(Number)	
Permanent	14,306	14,388
Others	246	184
Total Staff Strength	14,552	14,572

31. DEFINED BENEFIT PLANS AND OTHER BENEFITS

31.1 Principal Actuarial Assumptions

The latest actuarial valuation for pension and gratuity schemes was carried out as at December 31, 2007 using the Projected Unit Credit Actuarial Cost method and assuming that no indexation of pension will take place.

The following significant assumptions were used for the valuation of these schemes:

	Per Annum
Valuation discount rate	10.00%
Expected rate of increase in salary level	8.00%
Expected rate of return on funds invested	10.00%

31.2 Pension, gratuity and benevolent fund schemes

31.2.1 Fair value of plan assets and present value of defined benefits obligations of these schemes as at December 31, 2007 are as follows:

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2007	2006	2007	2006	2007	2006	2007	2006
	(Rupees in '000)							
Fair value of plan assets	9,968,349	9,677,005	602,376	731,530	1,341,979	1,349,964	-	-
Present value of defined benefit obligation	(5,086,147)	(5,105,937)	(325,663)	(467,581)	(1,515,402)	(1,615,281)	-	-
Surplus / (Deficit)	4,882,202	4,571,068	276,713	263,949	(173,423)	(265,317)	-	-
Present value of unfunded obligation	-	-	-	-	-	-	(1,609,418)	(1,770,489)
Unrecognised past service cost	-	-	-	-	207,956	249,548	92,006	110,406
Asset / (provision) recognised in the balance sheet	4,882,202	4,571,068	276,713	263,949	34,533	(15,769)	(1,517,412)	(1,660,083)

31.2.2 The following amounts have been charged / (credited) to the profit and loss account in respect of the above-referred schemes:

	Note	Pension		Gratuity		Benevolent		Post-employment medical benefits	
		2007	2006	2007	2006	2007	2006	2007	2006
		(Rupees in '000)							
Current service cost		24,128	35,105	46	264	23,856	25,556	20,484	25,102
Mark-up cost		510,594	549,152	46,758	45,995	161,528	160,072	177,048	202,033
Expected return on plan assets		(1,106,662)	(1,063,872)	(73,153)	(69,910)	(134,996)	(145,154)	-	-
Other movements	31.2.2.1	261,841	(85,532)	57,356	(1,149)	3,124	539,424	(64,186)	(139,258)
Contributions - employees		-	-	-	-	(15,508)	(16,325)	-	-
Charge / (Reversal) for the year		(310,099)	(565,147)	31,007	(24,800)	38,004	563,573	133,346	87,877

Charge for the year is included in administrative expenses (note 25 to the financial statements) under 'Charge for defined benefit plans and other benefits' account head. A sensitivity analysis to estimate the impact of increase in medical costs has not been carried out and is not likely to have a material impact on Group's financial statements.

31.2.2.1 It represents net impact of actuarial gain / (loss), past service cost, curtailment gain and assets recognised in current period.

31.2.3 Movement in amounts (receivable from) / payable to defined benefit plans

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2007	2006	2007	2006	2007	2006	2007	2006
	(Rupees in '000)							
Opening balance	(4,571,068)	(4,005,921)	(263,949)	(239,149)	15,769	234,891	1,660,083	1,891,523
Charge / (credit) for the year	(310,099)	(565,147)	31,007	(24,800)	38,004	563,573	133,346	87,877
Contributions during the year	(1,035)	-	(43,771)	-	(88,306)	(782,695)	-	-
Benefits paid	-	-	-	-	-	-	(276,016)	(319,317)
Closing balance	(4,882,202)	(4,571,068)	(276,713)	(263,949)	(34,533)	15,769	1,517,413	1,660,083

31.2.4 The significant portion of the assets comprises of debt securities.

31.2.5 Movement of present value of defined benefit obligation

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2007	2006	2007	2006	2007	2006	2007	2006
	(Rupees in '000)							
Opening balance	(5,105,937)	(5,491,521)	(467,581)	(459,947)	(1,615,281)	(1,600,716)	(1,770,489)	(2,020,330)
Current service cost	(24,128)	(35,105)	(46)	(264)	(23,856)	(25,556)	(20,484)	(25,102)
Interest cost	(510,594)	(549,152)	(46,758)	(45,995)	(161,528)	(160,072)	(177,048)	(202,033)
Benefits paid	301,970	743,701	205,905	61,726	227,737	603,726	276,016	319,317
Other movements	252,542	226,140	(17,183)	(23,101)	57,526	(432,663)	82,587	157,659
Closing balance	(5,086,147)	(5,105,937)	(325,663)	(467,581)	(1,515,402)	(1,615,281)	(1,609,418)	(1,770,489)

31.2.6 Movement of fair value of plan assets

	Pension		Gratuity		Benevolent	
	2007	2006	2007	2006	2007	2006
	(Rupees in '000)					
Opening balance	9,677,005	9,497,442	731,530	699,096	1,349,964	1,074,684
Expected return on plan assets	1,106,662	1,063,872	73,153	69,910	134,996	145,154
Interest cost on overdraft	(118,118)	(112,840)	-	-	-	(51,905)
Employer contributions	1,035	-	43,771	-	88,306	782,695
Employee contributions	-	-	-	-	15,508	16,325
Benefits paid	(396,265)	(743,701)	(40,173)	(61,726)	(19,058)	(603,726)
Actuarial gain / (loss) on plan assets	(301,970)	(27,768)	(205,905)	24,250	(227,737)	(13,263)
Closing balance	9,968,349	9,677,005	602,376	731,530	1,341,979	1,349,964

31.2.7 Actual return on plan assets

	Pension		Gratuity		Benevolent	
	2007	2006	2007	2006	2007	2006
	(Rupees in '000)					
Expected return on plan assets	1,106,662	1,063,872	73,153	69,910	134,996	145,154
Interest cost on overdraft	(118,118)	-	-	-	-	-
Actuarial (loss) / gain on plan assets	(396,265)	(27,768)	(40,173)	24,250	(19,058)	(13,263)
Actual return on plan assets	592,279	1,036,104	32,980	94,160	115,938	131,891

31.3 Other benefits - Employee compensated absences

The liability of the Bank in respect of employee compensated absences as at December 31, 2007, amounted to Rs. 1,261.152 million (2006: Rs. 1,297.901 million). Provision for this balance is held by Bank.

The charge for the year amounting to Rs. 168.644 million (2006: Rs. 188.568 million) is included in administrative expenses (note 25 to these financial statements) under 'Charge for defined benefit plans and other benefits' account head.

32. DEFINED CONTRIBUTION PLAN

Habib Bank Limited (Bank)

32.1 Provident Fund

For new employees and for those employees who did not opt for the Bank's pension scheme introduced in 1977, the Bank operates an approved provident fund under which both the Bank and employees contribute at 5% of basic salary. The staff who are covered by the Bank's pension plan (now closed) are also eligible to join the provident fund by contributing 5% of their basic pay. However, the Bank does not contribute for these employees.

The total assets of the Fund were Rs. 6,559.024 million as at December 31, 2005 (2004: Rs. 6,121.988 million) as per latest available audited financial statements.

32.2 Subsidiary companies

32.2.1 Habib Finance International Limited, Hong Kong

Habib Finance International Limited, Hong Kong is maintaining the following two schemes for its employees.

Provident Fund

The Company is required to contribute at 5% of salary of all of its employees, subject to a maximum contribution of HK $ 1,000. Employees who earn HK $ 5,000 or more per month are also required to contribute the same amount. Those who earn less than HK $ 5,000 per month have an option to contribute to the fund.

Long Service Payment

The Company is required to pay long service payment at 2/3rd of employee's last month's full wages or 2/3rd of HK $ 22,500 whichever is lower, for every year of service. The maximum payment is the total amount of wages earned during the last 12 months or HK $ 390,000 whichever is lower.

32.2.2 Habib Allied International Bank Plc., United Kingdom

Habib Allied International Bank Plc. (HAIB) is maintaining a defined contribution pension scheme for its employees. Employer's contribution is 6% of basic salary, whereas contribution from the employee is voluntary. HAIB also makes defined contribution towards personal pension plans of some of the staff members as per their terms of employment.

33. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Group President / Chief Executive		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	(Rupees in '000)					
Fees	-	-	1,038	46	-	-
Managerial remuneration (including allowances)	10,320	10,320	-	-	1,272,107	859,083
Contirbution to provident and benevolent fund	900	900	-	-	45,170	23,057
Medical	137	120	64	17	31,480	11,832
House maintenance	183	196	2,901	132	-	-
Utilities	220	185	532	236	-	-
Conveyance	312	291	-	-	-	-
Others	-	-	1,062	-	-	-
	12,072	12,012	5,597	431	1,348,757	893,972
Number of persons	1	1	6	6	518	374

The Chairman, Group's President / Chief Executive Officer and certain Executives are provided with free club membership and the Chairman, Group's President / Chief Executive Officer are also provided with free use of the Group's maintained cars in accordance with their entitlement.

In addition to the above, all executives, including Chief Executive Officer of the Group are also entitled to certain short term employee benefits which are disclosed in note 25.2 to these financial statements.

34. 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 (refer note 8.4), employee benefit plans (refer note 4.8) of the Group / related party and members of the Key Management Personnel of the Group / 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) other then those under terms of employment. Details of loans and advances to the related parties are given in note 9.9 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.

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

	Note	2007	2006
		(Rupees in '000)	
Balances outstanding as at the year end			(Restated)
- Borrowings / Deposits from			
- Joint venture and associates		4,790,355	2,497,800
- Retirement benefit funds		107,135	235,383
- Companies in which Directors are interested		515,020	1,305,620
- Key management personnel		-	13,816
- Receivable from defined benefit plan	31.2.3	5,193,448	4,835,017
- Payable to defined benefit plan		-	15,769
- Acceptances during the year		2,767	5,766
- Placements with associates		335,764	-
Profit / Expense for the year			
- Interest paid			
- Joint venture and associates		137,746	75,416
- Retirement benefit funds		5,627	5,066
- Companies in which Directors are interested		189,624	53,386
- Premium paid to companies in which directors are interested		183,937	169,143
- Interest income			
- Retirement benefit funds		73,068	123,517
- Companies in which Directors are interested		103,188	177,215
- Share of profit of joint venture companies and associates - net of tax		1,295,117	323,620

34.1 Key Management Personnel

Key Management Personnel comprises Members of Management Committee, Regional Management, Country Managers and Senior Executives.

	2007	2006
	(Rupees in '000)	
Managerial remuneration (including allowances)	689,035	540,298
Contribution to provident and benevolent fund	25,044	14,292
Medical	12,009	7,225
	726,088	561,815
Number of persons	154	171

In addition Key Management Personnel are paid short-term employee benefits which are disclosed in note 25.2.

35. RISK MANAGEMENT FRAMEWORK

Risk taking is central to banking activity. The Group evaluates business opportunities in terms of the risk-reward relationship. The risks that the Group takes are reasonable, controlled, within its financial resources and credit competence.

The diversity of our business requires us to identify, measure and manage our risks effectively. At the Group, the risk is managed through a framework, organisational structure, risk management and monitoring processes that are closely aligned with the activities of the Group and in line with the guidelines given by State Bank of Pakistan (SBP).

Risk Management Principles

The following key principles form part of our approach to risk management.

- The Board, through its subcommittee, oversees risk management, reviews and approves risk policies and tolerance limits wherever required.
- Various committees at functional level oversee the implementation of risk management policies.
- Market and liquidity risk are managed by a well-represented Assets and Liabilities Committee (ALCO), whose members are President and CEO, Heads of business groups, Chief Risk Officer, Chief Financial Officer and Head of market risk.
- Risk Management Group is headed by Chief Risk Officer, who is the secretary of the Board subcommittee on risk management.
- Credit policy committee and Operational risk committee are responsible for defining and implementation of respective policies.
- The Management Risk Committee represented by Heads of various risk groups allows the Group to manage Credit, Market and Operational risk on an integrated basis.
- The structure of Risk Management Group is closely aligned with the structure of Group's business groups.

- The risk management function is independent of business groups / divisions.

- Independent risk review function is conducted by our Business Risk Review department operating under Audit which reports directly to the Board Audit Committee.

Credit Risk Management

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with agreed contract terms.

Credit risk makes up the largest part of Group's risk exposures. The Group's credit process is guided by centrally established credit policies, rules and guidelines continuing a close-to-the market approach with an aim to maintain a well-diversified portfolio of credit risk which produces a reliable and consistent return.

Credit risk policies are established by the Credit Policy Committee and approved by the Board through its Risk Management Committee. The Group has a system of checks and balances in place around the extension of credit that are:

- an independent risk management function

- multiple credit approvers

- an independent audit and risk review function

The Credit Risk Strategy reflects Group's tolerance for risk i.e. credit risk appetite and the level of expected profitability. This, as a minimum, reflects Group's strategy to grant credit based on various products, economic sectors, client segments etc, target markets giving due consideration to risks specific to each target market.

Salient features of our risk approval process are delineated below:

- Every extension of credit to any counterparty requires approval by the pre-defined level of authority

- All business groups must apply consistent standards in arriving at their credit decisions.

- Every material change to a credit facility requires approval at the appropriate / pre-defined level.

- Credit approval authority is assigned to individuals according to their qualifications and experience.

Certain groups of exposures / facilities are managed under product programmes which are approved by various level of approving authorities as defined in the credit policy manual. Each product programme contains detailed credit criteria, regulatory, compliance and documentation requirement.

The Group uses risk rating system to supplement the credit risk measurement procedure for exposures exceeding a certain threshold. Risk rating of counterparties is an essential requirement of credit approval process. Risk management group validates the individual risk rating. Going forward the system will be upgraded substantially to align it with the Basel II IRB guidelines.

Stress testing on the credit portfolio is performed according to the guidelines issued by SBP at defined frequency.

The disbursement, administration and monitoring of credit facilities is managed by Credit Administration Departments (CAD) linked to various business units and operates under the Risk Management Group. CAD is also responsible for collateral / documents management.

The Group monitors its credit portfolio on continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of our credit culture and is intended to ensure

that greater attention is paid to such exposure. The Group has an established Asset Remedial Division to focus on expediting recoveries from problem credits. The division negotiates with problem borrowers and recommends restructuring and rescheduling of stuck up loans to the senior management. Cases where the possibilities of economically viable means of recovery are exhausted, legal proceedings are initiated.

The Group follows the guidelines of SBP or the Regulators under which it is operating in other countries for the classification / write-off procedures relating to problem loans.

Country Risk

The Group has established limits for Cross Border Transfer Risk (CBTR) based on the ratings assigned by internationally recognised rating agencies. The limit utilisation is controlled at Head Office level and Country risk exposure are reported to Board Risk Management Committee at defined frequency. CBTR arises from exposure to counterparties in countries other than the country where exposure is located. We define transfer risk as arising where an otherwise solvent and willing debtor is unable to meet its obligation due to the imposition of governmental or regulatory controls restricting its ability to perform under its obligation towards its foreign liabilities.

Market Risk Management

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and equity prices. It emanates from the trading activities mainly carried out by Treasury and Investments / structural positions housed in banking book.

Market Risk at Group is managed by the Risk Management Group under the supervision of ALCO supported by Treasury Middle Office (TMO).

The Group carries a limited amount of market risk, the bulk is located in the banking book stemming from the mismatches in structural assets and liabilities position .

Tolerance limits for market risk are approved by the Board. The limit is further allocated to banking and trading book that are monitored at pre-defined frequencies. Risk measurement is currently based on sensitivity analysis and stress testing. Going forward the Group intends to use more sophisticated models and is currently evaluating various tools which would allow it to use Value at Risk (VAR) methodologies.

Derivatives

SBP has granted permission to financial institutions for dealing in derivatives. Transactions currently permitted include Foreign Currency Options (FXCO), Forward Rate Agreements, Interest Rate Swaps (IRS) and Cross Currency Interest Rate Swaps (CCIRS). At present the Group is only dealing in FXCO and CCIRS on a very limited scale and purely on a back to back basis without carrying any open position in its books. Policies in line with SBP instructions have been formulated and are operative. The Group intends to obtain Authorised Derivative Dealer licence during 2008.

Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship.

Substantial part of the Group's assets and liabilities are subject to floating rates hence are re-priced simultaneously. However, the Group is exposed to interest rate risk as a result of mismatches on a relatively small portion of its assets and liabilities. The major portion related to this risk is reflected in the banking book owing to the retail activities and investments qualifying for statutory reserve

requirements. The overall potential impact of the mismatches on the earnings in short term and economic value of the portfolio in the long term is not material and is being managed within the tolerance limits approved by the Board.

The Group uses simulation and duration gap models to measure and monitor the interest rate sensitivity on the potential earnings and Group's economic value.

Foreign Exchange Risk

The Group's assets are typically funded in the same currency as that of the business transacted to eliminate foreign exchange exposure. However, the Group is obliged to maintain a reasonable open position in various currencies resulting from the sizeable trade related transactions handled across the Group.

Foreign Exchange risks are controlled and monitored through the limits approved by ALCO within the overall limits advised by SBP. The regulatory limit for foreign exchange is relatively small compared to the size of the Group; hence the risk generated through foreign exchange activities is insignificant.

End of the day positions are marked to market daily according to the guidelines of SBP and sensitivity is conducted in line with the internal market risk policy of the Group. The intra-day positions are managed by Treasury / dealing room through stop loss / dealers limits. Going forward, the Group will adopt VAR approaches to measure and monitor foreign exchange risk.

Liquidity Risk Management

Liquidity Risk is the risk that the Group will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management function.

The Group follows a comprehensive liquidity risk management policy duly approved by ALCO and Board. The policy stipulates maintenance of various ratios, funding preferences and evaluation of Group's liquidity under normal and crisis situation (stress testing). To comply with the policy, the Group has also conducted a behavioural study on its open ended deposits to evaluate their stickiness, which may not reflect in their maturity profile. Such evaluation forms part of liquidity management process to realistically project the reliance on such funding sources. As a result of close monitoring and strict policy towards reliance on core deposits, the Group has been able to avoid concentration / reliance on volatile deposits in its books. A comprehensive contingency plan to deal with crisis situations is also in place .

Operational Risk

Operational risk management policy has been approved by the Board. The policy covers the core governing principles for operational risk management and provides guidelines to identify, control, monitor, measure and report operational risk in a consistent manner across the Group. Recently, external consultants as part of the diagnosis project have submitted a detailed gap analysis report and work is in progress to have a comprehensive operational risk management framework.

Risk Management alignment with Basel II Project

The Group remains fully committed to enhance and improve its Risk Management systems and processes. Basel II implementations is a vital intiative towards strengthening Group's Risk Management for which it has engaged the services of an International consultant. After completion of diagnostics / gap analysis work, the Group is now in its implementation phase. A lot of effort has already gone into aligning Group's risk magement structure, polices and procedures with the requirment of Basel II. In addition, several initiatives are under way including data cleansing / population, probability of default (PD) estimation and assessment of various systems and tools required to monitor and measure Group's exposure and risk.

While these are extensive projects in nature and expected to take considerable time and effort, the Group, in line with SBP guidelines has already adopted standardised approach for credit, market and operational risk and is reporting capital adequacy to SBP under this framework.

36. CAPITAL ADEQUACY

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

36.1 Regulatory Capital Base

	2007	2006
	(Rupees in '000)	
Tier I Capital		
Shareholders' capital / assigned capital	6,900,000	6,900,000
Minority interest	965,642	913,317
Capital and other reserves	16,248,431	15,421,024
Accumulated profit	28,341,670	20,475,080
	52,455,743	43,709,421
Less: Deficit on account of revaluation of AFS investments	(421,902)	(246,911)
Total Tier I Capital	52,033,841	43,462,510
Tier II Capital		
General provisions subject to 1.25% of total risk weighted assets	1,050,634	1,413,165
Revaluation reserve (up to 50%)	3,634,907	3,667,365
Surplus on revaluation of securities - eligible up to 50%	180,375	132,284
Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies	3,573,024	2,381,560
Sub-ordinated debt (up to 50% of total Tier I Capital)	3,100,000	-
Total Tier II Capital	11,538,940	7,594,374
Eligible Tier III Capital	-	-
Total Regulatory Capital	63,572,781	51,056,884

36.2 Risk-Weighted Exposures

	2007		2006	
	Book value	Risk adjusted value	Book value	Risk adjusted value
	-(Rupees '000)-			
Credit Risk				
Balance Sheet Items:				
Cash and other liquid assets	52,345,239	-	44,384,663	-
Balance with other banks	30,163,129	6,032,626	37,890,863	7,578,173
Money at call	1,628,130	140,000	6,550,128	120,000
Investments	177,942,251	23,851,127	119,587,476	16,588,581
Loans and advances	375,676,109	315,314,607	344,550,648	287,749,588
Fixed assets	13,780,555	13,780,555	11,954,876	11,954,876
Other assets	33,959,483	33,335,764	24,260,957	22,143,739
	685,494,896	392,454,679	589,179,611	346,134,957
Off Balance Sheet items:				
Loan repayment guarantees	32,449,566	28,692,692	29,164,052	23,162,969
Performance bonds etc.	39,226,056	16,300,756	30,489,738	14,953,768
Standby Letters of Credit	146,898,657	29,136,919	97,318,295	10,735,842
Outstanding foreign exchange contracts				
-Purchase	41,495,625	180,467	52,898,091	205,750
-Sale	45,132,242	200,362	44,985,569	179,942
	305,202,146	74,511,196	254,855,745	49,238,271
Credit risk-weighted exposures		466,965,875		395,373,228
Market Risk				
General market risk		18,203		27,353
Specific market risk		89,725		66,312
Market risk-weighted exposures		1,349,095		1,170,813
Total risk-weighted exposures		468,314,970		396,544,041
Total capital adequacy ratio		**13.57%**		**12.88%**

36.3 Capital Management

The Group's lead regulator State Bank of Pakistan (SBP) sets and monitors capital requirements for the Bank and the Group as a whole. In addition the Group's branches and subsidiaries outside Pakistan are also required to follow capital requirements applicable in respective countries.

In implementing current capital requirements, SBP requires the Group to maintain a prescribed ratio of 8% total capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the methodology provided by SBP which takes account of specific and general market risk, capital charge for interest rate risk and equity price risk using the maturity method.

The Group's regulatory capital is analysed into three tiers:

- Tier I capital, which includes ordinary share capital, capital and other reserves except exchange translation reserve, minority interest and retained profit.

- Tier II capital includes revaluation surplus, exchange translation reserve, subordinated debt and impairment allowances not kept against identified debts. The revaluation surplus is allowable as tier II capital up to 50% of the reserve. Subordinated debt is limited to 50% of Tier I capital.

- Tier III supplementary capital consists of short term subordinated debt solely for the purpose of meeting a proportion of the Capital requirements for market risks. The bank currently does not have any Tier III capital.

Total of Tier II and III capital is limited to Tier I capital.

Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

The Group is also required to manage its capital based on Basel II accord under the standardised approach. At present it is required to submit the quarterly parallel returns calculating the capital requirement. The date when this approach will be made mandatory has not yet been decided. The ratio of total capital to total risk weighted assets under the revised approach would not change materially from the ratio under the current requirement.

37. CURRENCY RISK

	2007			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees '000)			
Pakistan Rupee	549,115,241	516,085,700	3,636,618	36,666,159
United States Dollar	63,015,698	48,275,890	(7,883,150)	6,856,658
Great Britain Pound	19,525,265	20,459,816	3,482,159	2,547,608
UAE Dirham	16,233,048	14,041,528	(37,140)	2,154,380
Japanese Yen	370,413	124,501	(119,468)	126,444
Euro	5,000,208	4,513,989	723,114	1,209,333
Other currencies	38,731,648	25,252,668	197,867	13,676,847
	691,991,521	628,754,092	-	63,237,429

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees '000)			
Pakistan Rupee	476,597,911	436,690,185	(7,912,522)	31,995,204
United States Dollar	41,088,212	51,594,003	3,247,093	(7,258,698)
Great Britain Pound	29,790,488	17,989,675	3,366,594	15,167,407
UAE Dirham	11,072,847	9,671,511	-	1,401,336
Japanese Yen	267,414	117,639	(78,296)	71,479
Euro	4,847,652	4,891,815	1,435,809	1,391,646
Other currencies	30,397,124	19,663,454	(58,678)	10,674,992
	594,061,648	540,618,282	-	53,443,366

38. MATURITIES OF ASSETS AND LIABILITIES

	2007									
	Total	Up to one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	55,487,664	50,155,367	3,100,882	2,231,415	-	-	-	-	-	-
Balances with other banks	27,020,704	22,247,181	4,540,042	196,874	36,607	-	-	-	-	-
Lendings to financial institutions	1,628,130	-	700,000	928,130	-	-	-	-	-	-
Investments	177,942,251	9,414,716	17,017,944	27,773,152	69,772,624	7,063,493	11,913,375	11,637,568	17,089,034	6,260,345
Loans and advances	382,172,734	154,156,363	30,397,039	40,422,682	41,873,496	21,800,837	30,959,422	34,565,012	15,916,159	12,081,724
Other assets	27,346,111	23,689,075	-	-	3,657,036	-	-	-	-	-
Operating fixed assets	13,780,555	-	539,449	-	-	-	651,315	-	-	12,589,791
Deferred tax asset	6,613,372	-	-	-	-	909,999	1,066,054	4,637,319	-	-
	691,991,521	259,662,702	56,295,356	71,552,253	115,339,763	29,774,329	44,590,166	50,839,899	33,005,193	30,931,860
Liabilities										
Bills payable	15,418,230	2,811,475	4,172,329	8,434,426	-	-	-	-	-	-
Borrowings from financial institutions	58,994,609	52,816,632	2,123,248	385,632	205,611	646,288	771,548	1,192,209	853,441	-
Deposits and other accounts - note 38.1	531,298,127	428,517,168	43,741,304	20,432,392	16,404,771	5,167,673	6,995,804	6,706,706	2,922,563	409,746
Sub-ordinated Loans	3,100,000	-	-	-	-	-	-	-	3,100,000	-
Other liabilities	19,943,126	15,815,374	3,962,644	-	99,065	66,043	-	-	-	-
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
	628,754,092	499,960,649	53,999,525	29,252,450	16,709,447	5,880,004	7,767,352	7,898,915	6,876,004	409,746
Net Gap	63,237,429	(240,297,947)	2,295,831	42,299,803	98,630,316	23,894,325	36,822,814	42,940,984	26,129,189	30,522,114
Share capital	6,900,000									
Reserves	19,821,455									
Unappropriated profit	28,341,670									
Surplus on revaluation of assets - net of tax	7,208,662									
Minority interest	965,642									
	63,237,429									

38.1 Expected maturity dates do not differ significantly from the contract dates except for the maturity of Rs. 290.368 billion of deposits representing retail deposit accounts considered by the Group as stable core source of funding of its operations.

	2006									
	Total	Up to one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years
Assets										
Cash and balances with treasury banks	46,310,478	46,000,667	188,306	-	121,505	-	-	-	-	-
Balances with other banks	35,965,048	21,748,390	8,539,398	5,039,861	637,399	-	-	-	-	-
Lendings to financial institutions	6,550,128	2,689,105	635,118	3,225,905	-	-	-	-	-	-
Investments	119,587,476	4,116,666	4,189,786	20,910,128	47,258,172	4,142,596	6,447,839	17,138,846	8,570,297	6,813,146
Loans and advances	349,432,685	80,055,935	61,862,783	50,564,734	32,743,238	14,914,426	25,959,894	53,498,251	17,219,467	12,613,957
Other assets	21,535,471	17,909,388	1,769,821	1,075,808	780,454	-	-	-	-	-
Operating fixed assets	11,954,876	176,928	254,997	333,065	567,270	983,659	889,977	1,706,669	4,260,250	2,782,061
Deferred tax asset	2,725,486	188,350	37,873	-	1,639,427	615,446	615,446	(129,807)	(46,538)	(194,711)
	594,061,648	172,885,429	77,478,082	81,149,501	83,747,465	20,656,127	33,913,156	72,213,959	30,003,476	22,014,453
Liabilities										
Bills payable	9,507,637	5,121,214	4,386,423	-	-	-	-	-	-	-
Borrowings from financial institutions	56,392,270	16,340,831	28,549,870	9,498,145	1,240,933	762,491	-	-	-	-
Deposits and other accounts - note 38.2	459,140,198	360,886,403	49,800,616	22,554,209	11,213,137	347,144	4,163,682	4,266,479	5,590,632	317,896
Other liabilities	15,578,177	6,578,898	3,252,316	485,928	812,800	1,106,985	1,382,087	1,959,163	-	-
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
	540,618,282	388,927,346	85,989,225	32,538,282	13,266,870	2,216,620	5,545,769	6,225,642	5,590,632	317,896
Net Gap	53,443,366	(216,041,917)	(8,511,143)	48,611,219	70,480,595	18,439,507	28,367,387	65,988,317	24,412,844	21,696,557
Share capital	6,900,000									
Reserves	17,802,584									
Unappropriated profit	20,475,080									
Surplus on revaluation of assets - net of tax	7,352,385									
Minority interest	913,317									
	53,443,366									

38.2 Expected maturity dates do not differ significantly from the contract dates except for the maturity of Rs. 297.981 billion of deposits representing retail deposit accounts considered by the Group as stable core source of funding of its operations.

39. YIELD / INTEREST RATE RISK

39.1 Interest rate risk management

A high proportion of loans and advances portfolio of the Group comprises of working capital finances which are re-priced on a three monthly basis. The Group's interest / mark-up rate risk is limited since the majority of customers deposits are retrospectively re-priced on a six monthly basis on the profit and loss sharing principles.

	2007											
	Effective yield / interest rate	Total	Exposed to yield / interest risk									Not exposed to yield / interest risk
			Up to one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years	
			(Rupees in '000)									
On-balance sheet assets												
Financial Assets												
Cash and balances with treasury banks	6.48%	55,487,664	8,995,892	1,266,035	-	-	73,692	-	-	-	-	45,152,045
Balances with other banks		27,020,704	17,669,061	4,491,922	196,874	36,606	-	-	-	-	-	4,626,241
Lendings to financial institutions	8.84%	1,628,130	-	700,000	928,130	-	-	-	-	-	-	-
Investments	10.89%	177,942,251	8,289,788	17,445,909	44,313,663	68,091,101	5,337,632	5,423,162	2,465,839	15,868,582	7,641,623	3,064,952
Advances	11.35%	382,172,734	148,940,486	79,272,950	107,445,924	20,854,838	4,416,789	5,843,005	3,293,983	4,477,926	4,027,817	3,599,016
Other assets		27,346,111	-	-	-	-	-	-	-	-	-	27,346,111
		671,597,594	183,895,227	103,176,816	152,884,591	88,982,545	9,828,113	11,266,167	5,759,822	20,346,508	11,669,440	83,788,365
Financial Liabilities												
Bills payable		15,418,230	-	-	-	-	-	-	-	-	-	15,418,230
Borrowings from financial institutions	5.84%	58,994,609	49,821,262	5,118,618	385,632	205,611	646,288	771,548	1,192,209	853,441	-	-
Deposits and other accounts	3.25%	531,298,127	88,377,484	57,668,524	268,009,801	26,293,839	5,517,149	7,302,510	28,567,479	13,856,474	11,341,307	24,363,560
Sub-ordinated loans		3,100,000	-	-	3,100,000	-	-	-	-	-	-	-
Other liabilities		19,943,126	-	-	-	-	-	-	-	-	-	19,943,126
		628,754,092	138,198,746	62,787,142	271, 495,433	26,499,450	6,163,437	8,074,058	29,759,688	14,709,915	11,341,307	59,724,916
On-balance sheet gap		42,843,502	45,696,481	40,389,674	(118,610,842)	62,483,095	3,664,676	3,192,109	(23,999,866)	5,636,593	328,133	24,063,449
Non - financial net assets		20,393,927										
Total Net assets		63,237,429										
Cumulative Yield / Interest Risk Sensitivity Gap			45,696,481	86,086,155	(32,524,687)	29,958,408	33,623,084	36,815,193	12,815,327	18,451,920	18,780,053	42,843,502

	2006											
	Effective yield / interest rate	Total	Exposed to yield / interest risk									Not exposed to yield / interest risk
			Up to one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years	
On-balance sheet assets												
Financial Assets												
Cash and balances with treasury banks	6.24%	46,310,478	4,526,739	-	-	-	-	-	-	-	-	41,783,739
Balances with other banks		35,965,048	25,002,023	4,802,015	115,890	-	-	-	-	-	-	6,045,120
Lendings to financial institutions	8.75%	6,550,128	2,689,105	635,118	3,225,905	-	-	-	-	-	-	-
Investments	9.13%	118,991,458	4,134,495	8,215,743	23,442,250	50,273,429	10,457,306	3,533,009	2,109,954	9,027,170	622,487	7,175,615
Advances	9.68%	349,432,685	79,712,715	93,620,342	33,748,206	77,991,781	3,735,150	12,296,984	23,069,955	7,698,206	6,867,102	10,692,244
Other assets		21,535,471	21,535,471	-	-	-	-	-	-	-	-	-
		578,785,268	137,600,548	107,273,218	60,532,251	128,265,210	14,192,456	15,829,993	25,179,909	16,725,376	7,489,589	65,696,718
Financial Liabilities												
Bills payable		9,507,637	-	-	-	-	-	-	-	-	-	9,507,637
Borrowings from financial institutions	6.63%	56,392,270	16,017,241	28,101,122	9,407,079	1,259,115	835,375	-	-	-	-	772,338
Deposits and other accounts	2.84%	459,140,198	36,844,249	49,800,616	251,548,719	11,213,137	347,144	4,163,682	4,266,479	5,590,632	317,895	95,047,645
Other liabilities		4,663,560	4,663,560	-	-	-	-	-	-	-	-	-
		529,703,665	57,525,050	77,901,738	260,955,798	12,472,252	1,182,519	4,163,682	4,266,479	5,590,632	317,895	105,327,620
On-balance sheet gap		49,081,603	80,075,498	29,371,480	(200,423,547)	115,792,958	13,009,937	11,666,311	20,913,430	11,134,744	7,171,694	(39,630,902)
Non - financial net assets		12,991,680										
Total Net assets		62,073,283										
Cumulative Yield / Interest Risk Sensitivity Gap			80,075,498	109,446,978	(90,976,569)	24,816,389	37,826,326	49,492,637	70,406,067	81,540,811	88,712,505	49,081,603

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments are based on quoted market prices and unquoted investments are estimated using the breakup value / cost. Fair value of these investments has been disclosed in note 8.

Fair value of fixed term loan, other assets and other liabilities cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Group's accounting policy as stated in note 4.6.

The maturity and repricing profile and effective rates are stated in notes 38 and 39 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently re-priced.

41. CONCENTRATION OF CREDIT AND DEPOSITS

41.1 Concentration of credit risk

Out of the total financial assets of Rs. 671,597.594 million, financial assets which were subject to credit risk amounted to Rs. 663,191.364 million. The Group's major credit risk is concentrated in the textile sector.

The following financial assets are guaranteed by the Federal / overseas Governments or State Bank of Pakistan / other Central Banks and enterprises owned / controlled by the Government:

	2007 (Rupees in '000)
Guaranteed by the Government of Pakistan	
- Investments	140,906,064
- Loans and advances	30,854,093
- Mark-up receivable on government guaranteed financial assets	1,244,705
	173,004,862
Financial assets receivable from enterprises owned / controlled by Government	23,046,594
Guaranteed by overseas Governments	9,555,931
Financial assets receivable from State Bank of Pakistan	31,113,502
Financial assets receivable from other Central Banks	13,564,914
	250,285,803

41.2 Segment by class of business

	2007					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	14,195,408	3.52	1,295,477	0.24	19,700,833	8.70
Agribusiness	26,751,768	6.63	5,396,253	1.01	741,427	0.33
Textile	83,265,927	20.64	2,962,171	0.56	13,909,945	6.14
Cement	11,738,791	2.91	326,312	0.06	2,930,183	1.29
Sugar	3,219,026	0.80	578,374	0.11	908,880	0.40
Shoes and leather garments	2,381,884	0.59	176,143	0.03	315,661	0.14
Automobile and transportation equipment	8,996,785	2.23	3,518,027	0.66	3,835,383	1.69
Financial	13,350,250	3.31	6,134,922	1.15	3,811,802	1.68
Insurance	375	-	688,708	0.13	-	-
Electronics and electrical appliances	7,387,712	1.83	463,688	0.09	4,718,704	2.08
Production and transmission of energy	21,202,640	5.25	9,668,506	1.82	32,982,401	14.57
Communication	16,005,499	3.97	-	-	3,599,307	1.59
Food, tobacco and beverages	9,096,306	2.25	502,545	0.09	2,061,934	0.91
Metal and allied	7,176,652	1.78	862,980	0.16	3,828,934	1.69
General traders	35,012,901	8.68	11,619,587	2.19	6,526,611	2.88
Public / Government - note 41.2.1	50,698,487	12.56	98,369,629	18.50	84,604,791	37.38
Individuals	38,328,179	9.50	175,263,082	32.96	6,399,024	2.83
Others	54,670,310	13.55	213,471,723	40.24	35,491,439	15.70
	403,478,900	100.00	531,298,127	100.00	226,367,259	100.00

	2006					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	13,535,885	3.64	827,556	0.18	9,478,063	5.68
Agribusiness	28,741,089	7.74	4,844,142	1.06	490,996	0.29
Textile	67,573,527	18.20	1,465,781	0.32	11,806,608	7.08
Cement	11,634,842	3.13	302,671	0.07	2,266,113	1.36
Sugar	3,008,195	0.81	89,290	0.02	644,920	0.39
Shoes and leather garments	2,227,085	0.60	98,033	0.02	211,164	0.13
Automobile and transportation equipment	6,581,219	1.77	4,044,883	0.88	2,273,199	1.36
Financial	6,554,976	1.77	4,485,284	0.98	1,992,152	1.19
Insurance	544	-	55,358	0.01	-	-
Electronics and electrical appliances	4,136,724	1.11	2,251,593	0.49	4,366,729	2.62
Production and transmission of energy	9,723,078	2.62	410,311	0.09	19,918,326	11.94
Communication	10,053,207	2.71	480,620	0.10	4,116,361	2.47
Food, tobacco and beverages	12,442,520	3.35	574,580	0.13	2,498,232	1.50
Metal and allied	14,092,624	3.79	1,370,151	0.30	4,216,627	2.53
General traders	9,892,396	2.66	6,440,561	1.40	5,635,386	3.38
Public / Government - note 41.2.1	36,788,782	9.91	55,401,107	12.07	68,530,358	41.09
Individuals	57,027,398	15.36	139,814,750	30.45	5,256,354	3.15
Others	77,350,447	20.83	236,183,527	51.43	23,092,533	13.84
	371,364,538	100.00	459,140,198	100.00	166,794,121	100.00

41.2.1 Public / Government sector

	2007					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and Pharmaceuticals	-	-	42,293	0.04	-	-
Agribusiness	-	-	138,874	0.14	-	-
Automobile and transportation equipment	9,648,939	19.03	51,361	0.05	28,123	0.03
Financial	310,034	0.61	449,912	0.46	1,951,356	2.31
Insurance	-	-	6,297,787	6.40	-	-
Electronics and electrical appliances	-	-	-	-	2,335	-
Production and transmission of energy	24,227,841	47.79	7,341,699	7.46	13,551,551	16.02
Communication	5,772	0.01	-	-	222,395	0.26
Food, tobacco and beverages	6,943,112	13.69	-	-	-	-
Metal and allied	1,715,738	3.38	-	-	1,793,538	2.12
General traders	6,950,844	13.71	217,551	0.22	101,915	0.12
Others	896,207	1.78	83,830,152	85.23	66,953,578	79.14
	50,698,487	100.00	98,369,629	100.00	84,604,791	100.00

	2006					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and Pharmaceuticals	-	-	53,667	0.10	758	-
Agribusiness	-	-	219,012	0.40	-	-
Automobile and transportation equipment	3,325,078	9.04	167,485	0.30	215,624	0.31
Financial	-	-	3,461,520	6.25	1,864,473	2.72
Insurance	-	-	5,307,321	9.58	-	-
Electronics and electrical appliances	-	-	2,176,151	3.93	-	-
Production and transmission of energy	12,210,699	33.19	-	-	12,119,988	17.69
Communication	16,170	0.04	-	-	16,067	0.02
Food, tobacco and beverages	5,894,803	16.02	-	-	-	-
Metal and allied	1,940,738	5.28	-	-	751,336	1.10
General traders	10,749,106	29.22	324,582	0.59	102,615	0.15
Individuals	-	-	-	-	18,866	0.03
Others	2,652,188	7.21	43,691,369	78.85	53,440,631	77.98
	36,788,782	100.00	55,401,107	100.00	68,530,358	100.00

41.2.2 Segment by sector

	2007					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	50,698,487	12.57	98,369,629	18.50	84,604,791	37.38
Private	352,780,413	87.43	432,928,498	81.50	141,762,468	62.62
	403,478,900	100.00	531,298,127	100.00	226,367,259	100.00

	2006					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	36,788,782	9.91	55,401,107	12.07	68,530,358	41.09
Private	334,575,756	90.09	403,739,091	87.93	98,263,763	58.91
	371,364,538	100.00	459,140,198	100.00	166,794,121	100.00

41.2.3 The comparatives of contingencies and commitements have been reclassified.

41.3 Details of Non-Performing advances and specific provisions by class of business segment

	2007 (Rupees in '000)		2006 (Rupees in '000)	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
Chemical and pharmaceuticals	99,260	91,818	104,215	92,496
Agribusiness	4,806,013	2,733,967	1,864,905	788,670
Textile	8,717,632	6,150,255	10,372,606	7,379,147
Cement	15,274	7,682	200,980	9,792
Sugar	322	323	433,635	191,923
Shoes and leather garments	487,167	485,181	516,919	147,149
Automobile and transportation equipment	524,784	331,151	231,552	199,372
Financial	2,338,069	2,338,069	2,304,314	2,298,065
Insurance	-	-	-	-
Electronics and electrical appliances	178,480	152,702	172,430	163,091
Production and transmission of energy	27,123	25,192	-	-
Food, tobacco and beverages	1,519,436	718,232	953,316	640,894
Metal and allied	117,912	59,331	120,354	95,533
General traders	1,821,315	1,662,775	875,189	403,178
Public / Government	101,417	-	667,108	-
Individuals	630,400	556,374	383,327	-
Others	6,308,165	4,942,480	10,832,138	8,109,378
	27,692,769	20,255,532	30,032,988	20,518,688

42. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	2007					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	Total
	Rupees in million					
Net interest and non-markup income	24,413	6,269	542	7,511	2,615	41,350
Total expenses including provision	9,226	5,766	73	3,535	7,605	26,205
Net income (loss)	15,187	503	469	3,976	(4,990)	15,145
Segment assets (gross)	107,915	286,718	160,360	135,148	23,933	714,074
Segment Non-Performing loans	5,061	9,727	-	9,076	3,829	27,693
Segment provision required including general provision	3,136	9,193	106	8,791	857	22,083
Segment liabilities including equity	401,260	77,249	31,146	95,309	87,028	691,992
Segment return on net liability / asset	8.52%	10.58%	5.89%	8.66%	17.39%	-
Segment cost of funds (%)	2.61%	8.19%	5.89%	2.03%	-	-

	2006					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	Total
	Rupees in million					
	(Restated)					
Net interest and non-markup income	26,382	6,293	609	5,100	587	38,971
Total expenses including provision	10,936	3,183	196	4,029	1,786	20,130
Net income (loss)	15,446	3,110	413	1,071	(1,199)	18,841
Segment assets (gross)	125,863	236,119	113,664	113,442	28,179	617,267
Segment Non-Performing loans	5,901	7,413	-	6,703	10,016	30,033
Segment provision required including general provision	2,379	1,350	154	5,789	13,533	23,205
Segment liabilities including equity	358,441	83,442	17,235	77,770	57,174	594,062
Segment return on net liability / asset	9.41%	10.66%	5.48%	9.34%	-	-
Segment cost of funds (%)	2.73%	7.66%	5.48%	2.36%	1.49%	-

43. TRUST ACTIVITIES

The Group is not engaged in any significant trust activities. However, Habib Bank Limited acts as security agent for some of the term finance certificates it arranges and distributes on behalf of its customers.

44. GEOGRAPHICAL SEGMENT ANALYSIS

	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees '000)			
Pakistan	10,816,274	556,726,166	36,993,778	198,081,798
Asia Pacific (including South Asia)	823,654	35,540,533	6,017,965	6,211,116
Europe	605,383	43,982,310	7,651,962	12,133,113
North America	132,789	1,683,626	1,069,237	397,406
Middle East	852,431	41,056,874	4,757,011	9,127,133
Others	1,914,086	13,002,012	6,747,476	416,693
	15,144,617	691,991,521	63,237,429	226,367,259

	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees '000)			
Pakistan	16,688,586	488,329,750	34,187,323	145,671,739
Asia Pacific (including South Asia)	574,089	23,979,243	5,150,339	5,794,333
Europe	354,660	37,067,748	5,264,538	6,774,721
North America	165,849	3,249,092	923,935	176,996
Middle East	520,501	30,383,205	3,351,992	8,186,138
Others	536,802	11,052,610	4,565,239	190,194
	18,840,487	594,061,648	53,443,366	166,794,121

45. NET ASSETS OF SUBSIDIARY COMPANIES -
Share of the Group (before intra-group elimination)

	2007	2006
	(Rupees in '000)	
Habib Allied International Bank Plc., United Kingdom	4,200,476	3,320,283
Habib Finance International Limited, Hong Kong	380,786	434,223
Habib Finance (Australia) Limited, Sydney	-	241,129
Habib Bank Financial Services (Private) Limited, Karachi	46,709	47,268
Habib Currency Exchange (Private) Limited	200,734	184,745
First Habib Bank Modaraba	62,695	62,753
HBL Asset Management Limited	100,731	87,660
HBL Stock Fund	1,351,670	-
	6,343,801	4,378,061

46. ISLAMIC BANKING BRANCH AND FIRST HABIB BANK MODARABA

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

	2007	2006
	(Rupees in '000)	
ASSETS		
Cash and balances with treasury banks	34,416	34,741
Investments - net	30,648	64,919
Murabaha	31,540	26,071
Ijara	1,044,887	1,139,902
Other assets	171,072	7,266
Operating fixed assets	1,679	772
	1,314,242	1,273,671
LIABILITIES		
Borrowings from financial institutions	452,353	489,090
Deposit and other accounts	12,396	9,259
Other liabilities	173,479	105,773
	638,228	604,122
NET ASSETS	676,014	669,549
REPRESENTED BY		
Islamic Banking Fund / Certificate Capital	447,072	447,072
Reserves	219,770	176,845
Unappropriated / Unremitted profit	(951)	36,408
	665,891	660,325
Surplus on revaluation of assets	10,123	9,224
	676,014	669,549

The commitment in respect of letters of credit of Islamic Banking branch of Habib Bank Limited amounted to Rs. 0.023million (2006: Rs. 0.053 million).

47. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue in the Board of Directors meeting held on February 14, 2008.

48. GENERAL

These financial statements have been prepared in accordance with the revised format for financial statements of banks issued by the State Bank of Pakistan through BSD Circular No. 4 dated February 17, 2006.

R. Zakir Mahmood	Iain Donald Cheyne	Sajid Zahid	Ahmed Jawad
President and Chief Executive Officer	Director	Director	Director