

Notes to the Unconsolidated Financial Statements

For the Year Ended December 31, 2007

1 STATUS AND NATURE OF BUSINESS

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.

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.

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 Bank'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 Bank 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 the requirements of the Prudential Regulations are considered. For portfolio impairment; provision on consumer advances, the Bank follows the

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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 judgement. In making this judgement, 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

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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 periods beginning on or after January 1, 2006 and IFAS 2 was effective for leases entered into after July 1, 2007. These standards 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 Bank'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

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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 Bank'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 Bank'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 operate, 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

The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2006, except for the changes as discussed in note 4.1 below.

4.1 Investment in Subsidiaries, Jointly Controlled Entities and Associates

The Bank has changed its accounting policy in respect

of investments in subsidiaries, associates and joint venture from "fair value basis through profit and loss account" to the "cost" basis. This change in accounting policy has been made to comply with the requirements of the circular no 6 dated September 06, 2007 issued by the State Bank of Pakistan. This circular requires to record investments in subsidiaries, associates and jointly controlled entities at cost in unconsolidated financial statements.

In accordance with the requirements of IAS 8; "Accounting Policy, Changes in Accounting Estimates and Errors", the effect of change in accounting policy has been incorporated in these financial statements and the comparative information has been restated. The change in accounting policy had the following impact on these financial statements.

2007 2006
(Rupees in '000)

Profit and Loss for the year ended December 31

Fair value adjustment in investment in associates and joint ventures	11,515,807	2,475,838
Deferred tax expense for the year	4,030,532	250,062
Decrease in profit for the year	7,485,275	2,225,776

Balance Sheet as at December 31

Cumulative impact on investments in associates and joint venture	14,821,983	3,306,176
Cumulative impact on deferred tax liability	4,280,594	540,416
Cumulative impact on retained earnings	10,251,035	2,765,760

(Rupees)

Reduction on earnings per share	11.00	3.23
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4.2 Revenue recognition

Advances and investments

Income on loans and advances and debt security investments are recognised on a time proportion basis

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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 operate, except where in the opinion of the management it would not be prudent to do so.

Dividend income from investments is recognized when the right to receive 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 suspended 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.

4.3 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.

4.4 Investments

The Bank 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.

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Held-to-Maturity

These are securities with fixed or determinable payments and fixed maturity that the Bank 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.

Investments in subsidiaries, associates and joint ventures are recorded at cost less impairment.

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 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 Bank transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable is 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,

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where applicable, and accumulated impairment losses (if any).

Cost of fixed assets of foreign branches 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 Bank 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 unappropriated 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, the Bank 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 scheme). Liability under the pension scheme is determined

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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 Bank provides cash benefits 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 Bank is recognised in the year in which it arises.

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, joint ventures or associates) which are taken to equity under "Exchange Translation Reserve" and on disposal are recognised in profit or 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.

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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 Bank 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 Bank'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 Bank will settle the obligation. Expected recoveries are recognised by debiting customers' 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 Bank 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*
Consist 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 in 23 countries and is considered a separate segment for monitoring

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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 Bank 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	6,951,264	5,398,703
Foreign currency	1,329,442	1,203,325
	<u>8,280,706</u>	<u>6,602,028</u>

With State Bank of Pakistan in

Local currency current account	27,099,329	25,596,991
Foreign currency deposit account	3,274,440	4,526,739
	<u>30,373,769</u>	<u>30,123,730</u>

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
	<u>13,564,914</u>	<u>7,593,232</u>

With National Bank of Pakistan in

Local currency current account	3,142,424	1,925,813
	<u>55,361,813</u>	<u>46,244,803</u>

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.

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	Note	2007 ----- (Rupees in '000) -----	2006 ----- (Rupees in '000) -----
6. BALANCES WITH OTHER BANKS			
In Pakistan			
On current account		385,765	301,197
Outside Pakistan			
On current account	6.1	3,551,701	4,578,886
On deposit account		15,620,585	18,652,082
		19,172,286	23,230,968
		<u>19,558,051</u>	<u>23,532,165</u>

6.1 This includes remunerative current account balance amounting to Rs. 117.541 million (2006: Rs. 320.944 million).

	Note	2007 ----- (Rupees in '000) -----	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
		<u>1,628,130</u>	<u>6,550,128</u>
7.1 Particulars of lending			
In local currency		1,628,130	6,550,128
		<u>1,628,130</u>	<u>6,550,128</u>

	2007			2006		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
7.2 Securities held as collateral against lendings to financial institutions	----- (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
	<u>928,130</u>	<u>-</u>	<u>928,130</u>	<u>5,950,128</u>	<u>-</u>	<u>5,950,128</u>

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).

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8. INVESTMENTS

8.1	Investments by type	Note	2007			2006		
			Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
			----- (Rupees in '000) -----					
			----- (Restated) -----					
	Held-to-Maturity Securities (HTM)	8.3						
	Federal Government Securities							
	- 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		-	-	-	121,825	-	121,825
			12,223,002	-	12,223,002	15,128,457	-	15,128,457
	Available-for-sale Securities (AFS)							
	Federal Government Securities							
	- Market treasury bills	8.9 / 8.11	72,418,745	28,556,867	100,975,612	35,891,929	21,337,072	57,229,001
	- Pakistan investment bonds		9,823,565	-	9,823,565	987,349	-	987,349
	- Government of Pakistan Guaranteed bonds		11,537,844	-	11,537,844	20,196,055	-	20,196,055
	- Government of Pakistan bonds (US Dollar/Euro)		2,789,967	-	2,789,967	864,805	-	864,805
	Overseas Government Securities		9,496,980	-	9,496,980	6,163,192	-	6,163,192
	Fully paid-up ordinary shares							
	- Listed companies		1,525,031	-	1,525,031	1,662,002	-	1,662,002
	- Unlisted companies		416,458	-	416,458	455,613	-	455,613
	Debentures and Corporate Debt Instruments							
	- Listed securities		1,044,923	-	1,044,923	510,926	-	510,926
	- Unlisted securities		11,327,344	-	11,327,344	6,826,795	-	6,826,795
	NIT Units	8.12	41,827	-	41,827	30,208	-	30,208
	Preference Shares		200,000	-	200,000	171,667	-	171,667
	Other Investments		1,126,508	-	1,126,508	183,414	-	183,414
			121,749,192	28,556,867	150,306,059	73,943,955	21,337,072	95,281,027
	Investment in subsidiary companies	8.4	4,047,978	-	4,047,978	2,752,080	-	2,752,080
	Investment in associates and joint venture companies	8.5	5,355,242	-	5,355,242	2,660,947	-	2,660,947
			143,375,414	28,556,867	171,932,281	94,485,439	21,337,072	115,822,511

Notes to the Unconsolidated Financial Statements

	Note	2007 -- -- -- -- (Rupees in '000)	2006 -- -- -- -- (Restated)
8.2 Investments by segments			
Federal Government Securities			
- Market treasury bills		101,217,820	57,321,723
- Pakistan investment bonds		22,166,836	15,912,056
- Government of Pakistan Guaranteed bonds		11,537,844	20,196,055
- Government of Pakistan bonds (US Dollar / Euro)		2,789,967	864,805
Overseas Government Securities		9,555,931	6,387,574
Fully paid-up ordinary shares			
- Listed Companies		1,405,589	1,632,701
- Unlisted Companies		449,635	485,828
Debentures and Corporate Debt Instruments			
- Listed Securities		1,038,271	510,926
- Unlisted Securities		11,670,405	7,314,967
NIT Units		11,112	11,112
Preference Shares		200,000	175,547
Other Investments		1,016,793	94,959
Investment in subsidiary companies		4,047,978	2,752,080
Investment in associates and joint venture companies	8.5	5,355,242	2,660,947
		<hr/> 172,463,423	<hr/> 116,321,280
Less: Provision for diminution in the value of investments	8.8	(421,729)	(518,932)
Investment at cost (net of provision)		<hr/> 172,041,694	<hr/> 115,802,348
(Deficit)/Surplus on revaluation of available for sale securities	19.2	(109,413)	20,163
		<hr/> <hr/> 171,932,281	<hr/> <hr/> 115,822,511

8.3 The market value of investment classified as "held-to-maturity" (HTM) and investment in listed associates and joint venture is as follows:

	December 31, 2007		December 31, 2006	
	Cost	Market Value	Cost	Market Value
	-- -- -- -- (Rupees in '000)			
- Investment classified as held-to-maturity	12,164,051	10,573,096	15,128,457	12,538,391
- Investment in Listed Associates and Joint Venture	5,355,242	18,203,223	2,660,947	5,967,123

Notes to the Unconsolidated Financial Statements

	Note	2007 - - - - (Rupees in '000)- - - -	2006 - - - -
8.4 Investment in subsidiary companies			
Habib Allied International Bank Plc - Holding 90.5% (2006: 90.5%)		2,000,469	2,000,469
Habib Finance (Australia) Limited - Wholly Owned		-	62,967
Habib Finance International Limited, Hong Kong -Wholly Owned		356,144	356,144
Habib Bank Financial Services (Private) Limited - Wholly Owned		32,500	32,500
Habib Currency Exchange (Private) Limited - Wholly Owned		214,865	200,000
HBL Asset Management Limited		100,000	100,000
HBL Stock Fund		1,344,000	-
		<u>4,047,978</u>	<u>2,752,080</u>

8.5 Investment in associates and joint venture company			(Restated)
Himalayan Bank Limited, Nepal - Holding 20% (2006: 20%)		7,197	7,197
Platinum Habib Bank Plc, Nigeria - Holding 15.29% (2006: 15.29%)		2,426,182	2,426,182
Diamond Trust Bank Limited, Kenya - Holding 9.72% (2006: 3.82%)	8.5.1	980,135	227,568
Kyrgyz Investment and Credit Bank, Kyrgyz Republic - Holding 18% (2006: NIL)	8.5.1	139,996	-
New Jubilee Insurance Company Limited - Holding 9.64% (2006: NIL)	8.5.1	1,088,099	-
New Jubilee Life Insurance Company Limited - Holding 8.91% (2006: NIL)	8.5.1	213,633	-
HBL Income Fund		250,000	-
HBL Multi Asset Fund		250,000	-
		<u>5,355,242</u>	<u>2,660,947</u>

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

Notes to the Unconsolidated Financial Statements

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)--				
Himalayan Bank Limited, Nepal	July 15, 2006	27,239,253	25,516,495	1,722,758	1,722,138	187,827
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

- 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%
	<u>363,300</u>		<u>363,300</u>	

- 8.7.1** The Bank 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.

Notes to the Unconsolidated Financial Statements

	2007 (Rupees in '000)	2006
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:		
Opening balance	518,932	562,065
Reversed during the year	(84,310)	(13,697)
Amount written off	(12,893)	(29,436)
Closing balance	<u>421,729</u>	<u>518,932</u>
8.8.1 Particulars of provision in respect of type and segment		
Available-for-sale securities (AFS)		
<i>Fully paid-up ordinary shares</i>		
- Listed companies	71,868	118,490
- Unlisted companies	33,178	30,215
Debentures and Corporate Debt Instruments	316,683	366,347
Preference shares	-	3,880
	<u>421,729</u>	<u>518,932</u>
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 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.		

Notes to the Unconsolidated Financial Statements

	Note	2007 (Rupees in '000)	2006
9. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		310,514,853	291,263,669
Outside Pakistan		38,796,664	24,889,593
		349,311,517	316,153,262
Net investment in finance lease - in Pakistan	9.2	7,567,196	10,722,288
- outside Pakistan		-	-
		7,567,196	10,722,288
Bills discounted and purchased (excluding Government treasury bills):			
Payable in Pakistan		6,387,870	9,843,364
Payable outside Pakistan		17,484,643	18,079,105
		23,872,513	27,922,469
Provision against Non-Performing advances	9.6	(18,490,698)	(18,812,561)
		362,260,528	335,985,458
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		305,420,652	288,730,437
In foreign currency including foreign currency financing by domestic branches amounting to Rs. 15,158 million (2006: Rs. 18,858 million)		56,839,876	47,255,021
		362,260,528	335,985,458
9.1.2 Short term (for up to one year)		253,808,200	216,171,786
Long term (for over one year)		108,452,328	119,813,672
		362,260,528	335,985,458

Notes to the Unconsolidated Financial Statements

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	742,020	5,912,632	6,654,652	655,463	9,695,381	10,350,844
Residual value	135,537	1,775,519	1,911,056	135,378	2,002,037	2,137,415
Gross investment in finance lease	877,557	7,688,151	8,565,708	790,841	11,697,418	12,488,259
Unearned finance income	37,571	960,941	998,512	44,681	1,721,290	1,765,971
Net investment in finance lease	839,986	6,727,210	7,567,196	746,160	9,976,128	10,722,288

- 9.3 Advances include Rs. 24,588.571 million (2006: Rs. 26,921.974 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	116,616	6,746,786	1,635,158	61,000	1,696,158	4,995,012	55,616	5,050,628
Doubtful	2,157,113	113,674	2,270,787	1,078,552	50,919	1,129,471	1,078,561	62,755	1,141,316
Loss	9,029,355	5,742,108	14,771,463	9,029,355	5,737,110	14,766,465	-	4,998	4,998
	18,616,352	5,972,398	24,588,750	11,743,065	5,849,029	17,592,094	6,873,287	123,369	6,996,656
General Provision									
	-	-	-	759,989	138,615	898,604	-	-	-
	18,616,352	5,972,398	24,588,750	12,503,054	5,987,644	18,490,698	6,873,287	123,369	6,996,656

- 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 Bank monitors 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 previously was applicable 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.

Notes to the Unconsolidated Financial Statements

9.6 Particulars of provision against Non-Performing advances

	Note	2007			2006		
		Specific	General	Total	Specific	General	Total
		-(Rupees in '000)					
Opening balance		17,508,675	1,303,886	18,812,561	26,395,473	1,446,712	27,842,185
Exchange adjustment and other movement		204,470	(11,144)	193,326	58,897	(22,376)	36,521
Charge for the year		9,165,446	42,590	9,208,036	3,089,097	34,465	3,123,562
Reversals		(184,939)	(436,728)	(621,667)	(107,554)	(154,915)	(262,469)
		8,980,507	(394,138)	8,586,369	2,981,543	(120,450)	2,861,093
Amounts written off	9.7	(3,124,578)	-	(3,124,578)	(4,810,903)	-	(4,810,903)
Transferred to over 5 years category	9.6.1	(5,976,980)	-	(5,976,980)	(7,116,335)	-	(7,116,335)
Closing balance		17,592,094	898,604	18,490,698	17,508,675	1,303,886	18,812,561
In local currency		11,743,065	759,989	12,503,054	12,081,789	1,173,890	13,255,679
In foreign currency		5,849,029	138,615	5,987,644	5,426,886	129,996	5,556,882
		17,592,094	898,604	18,490,698	17,508,675	1,303,886	18,812,561

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

	Note	2007 (Rupees in '000)	2006
Opening balance		7,116,335	-
Reversal		(426,667)	-
Transferred 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	3,881,296	4,810,903
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	2,747,661	2,056,754
	3,881,296	4,810,903

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.

Notes to the Unconsolidated Financial Statements

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
-----				-----			

Notes to the Unconsolidated Financial Statements

10. OTHER ASSETS

	Note	2007 (Rupees in '000)	2006
Income / mark-up accrued in local currency		8,235,568	8,179,778
Income / mark-up accrued in foreign currency		776,920	714,016
Advances, deposits, advance rent and other prepayments		1,265,312	663,996
Advance taxation (payments less provisions)		-	1,683,120
Receivable from defined benefit plans	31.2.3	5,193,448	4,835,017
Stationery and stamps on hand		216,471	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 - net		49,043	92,415
Non-banking assets acquired in satisfaction of claims		30,000	30,000
Receivable From National Saving Centre / Clearing In transit		7,796,273	3,883,671
Others		1,350,890	546,454
		<u>25,396,781</u>	<u>21,217,988</u>

10.1 Provision against other assets

Opening balance	730,965	882,071
(Reversal) / charge for the year - net	(400,939)	(151,106)
Closing balance	<u>330,026</u>	<u>730,965</u>

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 the Bank during 2001. All payments made under this scheme are recoverable from the Government of Pakistan as grant to the Bank.

10.3 During the year 2006 the clearing in transit account was classified in bills payable which is now being reclassified to other assets.

Notes to the Unconsolidated Financial Statements

11. OPERATING FIXED ASSETS

	Note	2007 (Rupees in '000)	2006
Capital work-in-progress	11.1	539,449	394,720
Intangible assets	11.2	647,380	434,861
Operating fixed assets	11.3	12,395,411	10,973,289
		<u>13,582,240</u>	<u>11,802,870</u>

11.1 Capital work-in-progress

Civil works	410,717	267,515
Equipment	1,421	1,332
Others	127,311	125,873
	<u>539,449</u>	<u>394,720</u>

11.2 Intangible assets

Description	2007									
	COST				AMORTISATION				Book value	Rate of
	As at	Additions /	Adjustments	As at	As at	Charge for	Adjustments	As at	As at	amortisation
	January 1, 2007	(deletions) during the year		December 31, 2007	January 1, 2007	the year / (Amortisation on deletions)		December 31, 2007	December 31, 2007	%
	—(Rupees in '000)—									
Computer software	787,532	445,118 (886)	1,783	1,233,547	352,671	232,619 (886)	1,763	586,167	647,380	33.33

Description	2006									
	COST				AMORTISATION				Book value	Rate of
	As at	Additions /	Adjustments	As at	As at	Charge for	Adjustments	As at	As at	amortisation
	January 1, 2006	(deletions) during the year		December 31, 2006	January 1, 2006	the year / (Amortisation on deletions)		December 31, 2006	December 31, 2006	%
	—(Rupees in '000)—									
Computer software	329,032	273,368 (2,080)	187,212	787,532	27,419	171,676 (2,061)	155,637	352,671	434,861	33.33

Notes to the Unconsolidated Financial Statements

11.3 Operating fixed assets

Description	2007									
	COST / REVALUATION				DEPRECIATION				Book value	Rate of
	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	%
-(Rupees in '000)-										
Land	6,590,020	387,244 (15,546) 12,515	-	6,974,233	-	-	-	-	6,974,233	-
Building including related machinery	3,509,382	247,546 (29,784) 26,881	-	3,754,025	675,706	157,422 (6,327) 8,796	-	835,597	2,918,428	2.5-10
Furniture, fixture and office equipment	4,810,672	1,659,368 (256,435) 58,534	-	6,272,139	3,363,484	696,897 (251,416) 32,876	-	3,841,841	2,430,298	20-33
Vehicles	322,243	14,324 (74,526) 3,332	-	265,373	219,838	33,573 (61,920) 1,430	-	192,921	72,452	20
	15,232,317	2,308,482 (376,291) 101,262	-	17,265,770	4,259,028	887,892 (319,663) 43,102	-	4,870,359	12,395,411	

Description	2006									
	COST / REVALUATION				DEPRECIATION				Book value	Rate of
	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	%
-(Rupees in '000)-										
Land	6,407,082	71,472 (5,175) (7,487)	124,128	6,590,020	-	- - -	-	-	6,590,020	-
Building including related machinery	3,367,995	140,120 - (6,736)	8,003	3,509,382	547,755	142,640 - (5,986)	(8,703)	675,706	2,833,676	2.5-10
Furniture, fixture and office equipment	4,412,204	740,946 (187,538) (154,940)	-	4,810,672	3,134,645	540,789 (182,525) (129,425)	-	3,363,484	1,447,188	20-33
Vehicles	565,737	53,013 (262,186) (34,321)	-	322,243	388,981	59,837 (197,322) (31,658)	-	219,838	102,405	20
	14,753,018	1,005,551 (454,899) (203,484)	132,131	15,232,317	4,071,381	743,266 (379,847) (167,069)	(8,703)	4,259,028	10,973,289	

Notes to the Unconsolidated Financial Statements

- 11.4** The Bank's 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. The Bank's 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 (Private) 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 Bank's use, as at the above date, amounted to Rs. 1.581 million (2006: Rs. 1.605 million).

12. DEFERRED TAX ASSET

	Note	2007 (Rupees in '000)	2006 (Restated)
Deductible temporary differences on			
- provision against investments		110,504	127,886
- provision against doubtful debts		5,362,476	2,886,695
- provision against others		1,181,436	247,175
On revaluation of investments	19.2	41,990	(8,503)
		6,696,406	3,253,253
Taxable temporary differences on			
- fixed assets		(577,374)	(488,992)
Net deferred tax asset recognised by the Bank		<u>6,119,032</u>	<u>2,764,261</u>

Notes to the Unconsolidated Financial Statements

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							
- Provision against investments	153,341	(25,455)	-	127,886	(17,382)	-	110,504
- Provision against doubtful debts	1,705,775	1,180,920	-	2,886,695	2,475,781	-	5,362,476
- Provision against others	446,226	(199,051)	-	247,175	934,261	-	1,181,436
On revaluation of investments	65,519	-	(74,022)	(8,503)	-	50,493	41,990
Taxable temporary differences on							
- Fixed assets	(502,632)	19,484	(5,844)	(488,992)	(97,218)	8,836	(577,374)
	<u>1,868,229</u>	<u>975,898</u>	<u>(79,866)</u>	<u>2,764,261</u>	<u>3,295,442</u>	<u>59,329</u>	<u>6,119,032</u>

13. BILLS PAYABLE

	Note	2007 (Rupees in '000)	2006
In Pakistan		14,847,417	8,880,342
Outside Pakistan		<u>532,023</u>	<u>467,267</u>
		<u>15,379,440</u>	<u>9,347,609</u>

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

14. BORROWINGS FROM FINANCIAL INSTITUTIONS

In Pakistan	46,636,301	46,633,171
Outside Pakistan	<u>5,581,927</u>	<u>3,347,623</u>
	<u>52,218,228</u>	<u>49,980,794</u>

14.1 Particulars of borrowings from financial institutions

In local currency	46,636,301	46,633,171
In foreign currency	<u>5,581,927</u>	<u>3,347,623</u>
	<u>52,218,228</u>	<u>49,980,794</u>

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		6,747	9,145
- Long term finance - export oriented projects		7,376,449	8,213,632

Borrowings from subsidiary companies

	155,000	-
Repurchase agreement borrowings	<u>28,370,002</u>	<u>21,285,463</u>
	<u>46,691,271</u>	<u>45,186,350</u>

Notes to the Unconsolidated Financial Statements

Unsecured

In Pakistan

- Interbank call money borrowing

Outside Pakistan

- Overdrawn nostro accounts
- Borrowings of overseas branches

	2007	2006
	(Rupees in '000)	
	100,030	1,446,821
	705,430	937,139
	4,721,497	2,410,484
	5,426,927	3,347,623
	5,526,957	4,794,444
	52,218,228	49,980,794

- 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

Customers

Fixed deposits

Savings chequing account

Other savings account

Current accounts - non-remunerative

Financial institutions

Remunerative deposits

Non-remunerative deposits

	2007	2006
	(Rupees in '000)	
	126,001,346	120,890,875
	194,696,000	168,057,000
	68,644,550	51,054,296
	107,900,664	87,555,494
	497,242,560	427,557,665
	9,085,258	8,732,019
	2,658,723	3,434,651
	11,743,981	12,166,670
	508,986,541	439,724,335

15.1 Particulars of deposits

In local currency

In foreign currency {including foreign currency deposits of domestic

branches of Rs. 36,985.653million (2006: Rs. 33,147.443 million)}

	414,553,222	359,339,363
	94,433,319	80,384,972
	508,986,541	439,724,335

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 indebtedness 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.

Notes to the Unconsolidated Financial Statements

	Note	2007 (Rupees in '000)	2006
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		563,989	419,907
Security deposits against leases		1,911,056	2,137,415
Accrued expenses		1,616,305	1,293,942
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		1,793,061	1,089,989
Provision for staff retirement benefits		554,921	311,985
Payable to defined benefit plan		-	15,769
Provision for taxation-net of payments		727,504	-
Others		1,578,695	836,229
		<u>18,210,692</u>	<u>14,521,645</u>
17.1 Provision against off-balance sheet obligations			
Opening balance		474,457	519,895
(Reversals) for the year		(54,626)	(45,438)
Closing balance		<u>419,831</u>	<u>474,457</u>
17.2 Provision for contingencies			
Opening balance		807,754	839,702
(Reversal) for the year		(69,934)	(36,193)
Exchange adjustment		3,014	4,245
Closing balance		<u>740,834</u>	<u>807,754</u>

Notes to the Unconsolidated Financial Statements

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 their profits to a statutory reserve until the reserve equals share capital, thereafter 10% of the profits of the holding company are to be transferred to this reserve.

18.5 Dividends

The following dividends were declared and paid by the Bank:

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

Notes to the Unconsolidated Financial Statements

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

	Note	2007 (Rupees in '000)	2006
Surplus arising on revaluation of:			
- fixed assets	19.1	7,269,814	7,334,729
- investments	19.2	(67,423)	11,660
Surplus on revaluation of assets - net of deferred tax		<u>7,202,391</u>	<u>7,346,389</u>
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		<u>7,889,744</u>	<u>7,989,613</u>
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)
		<u>619,930</u>	<u>654,884</u>
		<u>7,269,814</u>	<u>7,334,729</u>
19.2 Surplus / (Deficit) on revaluation of investments			
Market treasury bills		(242,208)	(92,722)
Pakistan Investment Bonds		(179,220)	(142,457)
Listed securities		197,963	147,791
NIT units		30,714	19,096
Other investments		83,338	88,455
		<u>(109,413)</u>	<u>20,163</u>
Add / (Less) : related deferred tax asset / (liability)		41,990	(8,503)
		<u>(67,423)</u>	<u>11,660</u>

Notes to the Unconsolidated Financial Statements

20. CONTINGENCIES AND COMMITMENTS

	2007	2006
	(Rupees in '000)	
20.1 Direct credit substitutes - financial guarantees	6,868,760	10,934,318
20.2 Transaction-related contingent liabilities		
Guarantees in favour of:		
- Government	1,085,386	721,858
- Financial institutions	1,378,781	844,157
- Others	38,781,861	29,631,964
	41,246,028	31,197,979
20.3 Trade-related commitments		
Credit cash	149,620,633	101,933,596
Credit documentary acceptances	12,919,344	12,342,582
Credit acceptances	8,449,004	6,164,470
	170,988,981	120,440,648
20.4 Other contingencies		
Claims against the Bank not acknowledged as debts	45,863,026	44,310,527
20.5 Commitments in respect of forward lending		
The Bank makes commitments to extend credit in the normal course of its business but none of these commitments are irrevocable and do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
	2007	2006
	(Rupees in '000)	
20.6 Commitments in respect of forward foreign exchange contracts		
Purchase	39,324,335	52,873,507
Sale	42,960,952	44,960,985
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

Notes to the Unconsolidated Financial Statements

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.

	Note	2007 (Rupees in '000)	2006
21. MARK-UP / RETURN / INTEREST EARNED			
<i>On loans and advances to</i>			
- Customers		34,894,593	31,538,329
- Financial institutions		127,296	65,465
<i>On investments</i>			
- Available-for-sale		10,541,605	6,850,684
- Held-to-maturity		739,749	928,524
On deposits with financial institutions		1,439,817	1,002,062
On lendings to financial institutions		598,987	1,767,456
		<u>48,342,047</u>	<u>42,152,520</u>
22. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		15,615,156	10,075,579
Securities sold under repurchase agreement borrowings		752,141	367,962
Other short term borrowings		1,426,300	1,982,880
Long term borrowings		207,899	77,481
Others		-	334
		<u>18,001,496</u>	<u>12,504,236</u>
23. INCOME / GAIN ON INVESTMENTS			
Dividend income		606,882	762,838
Gain on sale of securities	23.1	302,032	27,410
		<u>908,914</u>	<u>790,248</u>

Notes to the Unconsolidated Financial Statements

	Note	2007 (Rupees in '000)	2006
23.1 GAIN / (LOSS) ON SALE OF SECURITIES			
<i>Federal Government Securities</i>			
- Market Treasury Bills		6,257	(10,832)
- Pakistan Investment Bonds		5,664	5,583
- Other Federal Government Securities		-	25,295
<i>Shares</i>			
- Listed		289,926	2,316
- Unlisted		185	5,048
		<u>302,032</u>	<u>27,410</u>
24. OTHER INCOME			
Incidental charges		879,758	816,325
Rent on lockers		100,867	103,403
Gain on sale of property and equipment		51,817	73,539
Rent on property		90,987	68,702
Net gain on disposal of branches		-	142,259
Miscellaneous earnings		1,338,943	970,141
		<u>2,462,372</u>	<u>2,174,369</u>
25. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.	25.3	9,796,014	10,699,642
Charge for defined benefit plan and other benefits - net	31.2.2 / 31.3	60,902	250,071
Contribution to defined contribution plan		130,753	225,162
		191,655	475,233
Non-executive directors' fees, allowances and other expenses		1,038	46
Brokerage and commission		14,008	15,404
Rent, taxes, insurance, electricity, etc.		1,248,122	954,914
Legal and professional charges		601,823	354,258
Communications		399,530	232,655
Repairs and maintenance		533,392	387,342
Stationery and printing		258,794	278,052
Auditors' remuneration	25.1	59,668	51,194
Advertisement and publicity		875,200	255,357
Amortisation	11.2	232,619	171,676

Notes to the Unconsolidated Financial Statements

	Note	2007 (Rupees in '000)	2006
Depreciation	11.3	887,892	743,266
Entertainment		69,774	55,814
Travelling		392,079	221,655
Conveyance and motor car		66,810	76,783
Training		121,793	124,123
Security charges		334,785	289,123
Remittance charges		201,601	219,732
Donations	25.4	2,552	1,975
Others		1,066,553	704,341
		<u>17,355,732</u>	<u>16,312,585</u>
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 the Bank		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
		<u>16,483</u>	<u>13,916</u>
Overseas branches		43,185	37,278
		<u>59,668</u>	<u>51,194</u>

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. 505.328 million (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.

Notes to the Unconsolidated Financial Statements

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
	<u>2,150</u>

26. OTHER CHARGES

	2007 (Rupees in '000)	2006 (Rupees in '000)
Penalties imposed by State Bank of Pakistan	85,152	54,898

27. TAXATION

		(Restated)
For Pakistan - for the year - current	5,816,302	6,266,908
For Pakistan - for the year - deferred	(2,597,810)	(1,091,473)
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	896,939	747,343
For Overseas - for the year - deferred	-	-
	<u>5,085,586</u>	<u>5,976,615</u>

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

27.1 Relationship between tax expense and accounting profit

	2007 (Rupees in '000)	2006 (Rupees in '000)
		(Restated)
Accounting profit for the current year	13,127,002	18,026,964
Tax on income @ 35% (2006: 35%)	4,594,451	6,309,437
- Exempted income	(167,512)	(693,086)
- Reduced rate income	(193,596)	(262,813)
- Others	852,243	623,077
Tax charge for the current year	<u>5,085,586</u>	<u>5,976,615</u>

Notes to the Unconsolidated Financial Statements

	Note	2007 (Rupees in '000)	2006 Restated
28. BASIC AND DILUTED EARNINGS PER SHARE			
Profit for the year attributable to equity holders of the Bank		8,041,416	12,050,349
		(Number)	
Weighted average number of ordinary shares		690,000,000	690,000,000
		(Rupees)	
Basic and diluted earnings per share		11.65	17.46

29. CASH AND CASH EQUIVALENTS		(Rupees in '000)	
Cash and balance with treasury banks	5	55,361,813	46,244,803
Balance with other banks	6	19,558,051	23,532,165
		74,919,864	69,776,968

30. STAFF STRENGTH		(Number)	
Permanent		14,215	14,304
Others		246	184
Total Staff Strength		14,461	14,488

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%

Notes to the Unconsolidated Financial Statements

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	261,841	(85,532)	57,356	(1,149)	3,124	539,424	(64,186)	(139,258)
Contributions - employees	-	-	-	-	(15,508)	(16,325)	-	-
(Reversal) / Charge 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 the Bank'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.

Notes to the Unconsolidated Financial Statements

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

Notes to the Unconsolidated Financial Statements

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: 188.568 million) is included in administrative expenses (note 25 to the financial statements) under 'Charge for defined benefit plans and other benefits' account head.

32. DEFINED CONTRIBUTION PLAN

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.

Notes to the Unconsolidated Financial Statements

33. REMUNERATION OF DIRECTORS AND EXECUTIVES

	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	-	-	1,133,531	843,066
Contribution to provident and benevolent fund	900	900	-	-	37,377	23,057
Medical	137	120	64	17	31,137	11,832
House maintenance	183	196	2,901	132	-	-
Utilities	220	185	532	236	-	-
Conveyance	312	291	-	-	-	-
Others	-	-	1,062	-	-	-
	<u>12,072</u>	<u>12,012</u>	<u>5,597</u>	<u>431</u>	<u>1,202,045</u>	<u>877,955</u>
Number of persons	1	1	6	6	504	371

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

In addition to the above, all Executives, including Chief Executive Officer of the Bank 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% shares of the Bank. The Bank has related party relationship with its subsidiaries, associated undertakings, joint venture company (refer note 8.4 & 8.5), employee benefit plans (refer note 4.8) of the Bank / related party, and members of the Key Management Personnel of the Bank / 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 than those under terms of employment. Details of loans and advances to related parties are given in note 9.9 to these financial statements.

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

Notes to the Unconsolidated Financial Statements

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

	Note	2007 (Rupees in '000)	2006 (Restated)
Balances outstanding as at the year end			
- Borrowings / Deposits from			
- Joint venture and associates		4,790,355	2,497,800
- Subsidiary Companies		322,811	729,904
- Retirement benefit funds		107,135	235,383
- Companies in which Directors are interested		515,020	1,305,620
- 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		902,767	605,766
- Other contingencies and commitments		-	2,354
- Receiveable from subsidiaries companies		10,446	18,003
- Payable to subsidiaries companies		12,276	74
- Placements with			
- Subsidiaries Companies and associates		4,379,573	2,949,279
- Nostro blances with subsidiaries		199,881	176,311
Profit / Expense for the year			
- Interest paid			
- Joint venture and associates		137,746	75,416
- Subsidiary Companies		4,844	2,739
- 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			
- Subsidiary Companies		31,861	38,575
- Retirement benefit funds		73,068	123,517
- Companies in which Directors are interested		103,188	177,215
- Modaraba managment fees		5,417	4,640
- Other Income - Subsidiaries and joint ventures		1,089	-
- Other Expenses - Subsidiaries and joint ventures		7,452	7,772
Dividend Income:			
- Joint venture and associates		140,563	12,488
- Subsidiary Companies		4,875	16,738

Notes to the Unconsolidated Financial Statements

34.1 Key Management Personnel

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

	2007 (Rupees in '000)	2006
Managerial remuneration (including allowances)	564,734	540,298
Contribution to provident and benevolent fund	17,251	14,292
Medical	11,666	7,225
	<u>593,651</u>	<u>561,815</u>
Number of persons	<u>140</u>	<u>171</u>

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 Bank evaluates business opportunities in terms of the risk-reward relationship. The risks that Bank 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 HBL, the risk is managed through a framework, organisational structure, risk management and monitoring processes that are closely aligned with the activities of the Bank and in line with the guidelines given by the 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.
- The 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 Bank to manage Credit, Market and Operational risk on an integrated basis.
- The structure of Risk Management group is closely aligned with the structure of Bank's business groups.

Notes to the Unconsolidated Financial Statements

- 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 Bank's risk exposures. The Bank'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 Bank 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 HBL's tolerance for risk i.e. credit risk appetite and the level of expected profitability. This, as a minimum, reflects HBL'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 programs which are approved by various levels of approving authorities as defined in the credit policy manual. Each product program contains detailed credit criteria, regulatory, compliance and documentation requirement.

The Bank 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 Bank 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 Bank has an established Asset Remedial Division to focus on expediting recoveries from problem credits.

Notes to the Unconsolidated Financial Statements

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 Bank 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 Bank has established limits for Cross Border Transfer Risk (CBTR) based on the ratings assigned by internationally recognised rating agencies. The limit utilization is controlled at Head office level and Country risk exposures 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 it's obligation due to the imposition of governmental or regulatory controls restricting its ability to perform under its obligation toward 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 HBL is managed by the Risk Management Group under the supervision of ALCO supported by Treasury Middle Office (TMO).

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

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 Bank 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 Bank is only dealing in FXCO and CCIRS on a very limited scale on purely 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 Bank 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 Bank's assets and liabilities are subject to floating rates hence are re-priced simultaneously. However, the Bank 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.

Notes to the Unconsolidated Financial Statements

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

Foreign Exchange Risk

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

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 Bank; 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 Bank. The intra-day positions are managed by Treasury /dealing room through stop loss /dealers limits. Going forward the Bank will adopt VAR approaches to measure and monitor foreign exchange risk.

Liquidity Risk Management

Liquidity Risk is the risk that the Bank 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 Bank follows a comprehensive liquidity risk management policy duly approved by ALCO and the Board. The policy stipulates maintenance of various ratios, funding preferences and evaluation of Bank's liquidity under normal and crisis situation (stress

testing). To comply with the policy the Bank has also conducted a behavioral 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 deposit, the Bank has been able to avoid concentration/ reliance on volatile deposits in its books. A comprehensive contingency plan to deal with crisis situation 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 Bank. 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

HBL remains fully committed to enhance and improve its Risk Management systems and processes. Basel II implementation is a vital initiative towards strengthening Bank's Risk Management for which it has engaged the services of an international consultant. After completion of diagnostic/gap analysis work, the Bank is now in its implementation phase. A lot of effort has already gone into aligning Bank's risk management structure, policies and procedures with the requirements of Basel II. In addition, several initiatives are underway including data cleansing/ population, probability of default (PD) estimation, and assessment of various systems and tools required to monitor and measure Bank's exposure and risk. While these are extensive projects in nature and expected to take considerable time and effort, HBL in line with SBP guidelines has already adopted standardized approach for credit, market and operational risk and is reporting capital adequacy to SBP under this framework.

Notes to the Unconsolidated Financial Statements

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)	
	(Restated)	
<i>Tier I Capital</i>		
Shareholders' capital / assigned capital	6,900,000	6,900,000
Capital and other reserves	16,092,661	15,288,519
Accumulated profit	25,212,980	19,281,940
	48,205,641	41,470,459
Less: Deficit on account of revaluation of AFS investments - net of deferred tax	(421,428)	(243,682)
Less: Investment in Subsidiary companies not consolidated in the balance sheet	(4,047,978)	(2,752,080)
<i>Total Tier I Capital</i>	43,736,235	38,474,697
<i>Tier II Capital</i>		
General provisions subject to 1.25% of total risk weighted assets	898,604	1,303,886
Revaluation reserve (up to 50%)	3,634,907	3,667,365
Surplus on revaluation of securities - eligible up to 50%	177,003	127,671
Effect of translation of net investment in foreign branches	2,535,923	1,528,953
Sub-ordinated debt (up to 50% of total Tier I Capital)	3,100,000	-
<i>Total Tier II Capital</i>	10,346,437	6,627,875
<i>Eligible Tier III Capital</i>	-	-
Total Regulatory Capital	54,082,672	45,102,572

Notes to the Unconsolidated Financial Statements

36.2 Risk-Weighted Exposures

Credit Risk

Balance Sheet Items:

Cash and other liquid assets
Balance with other banks
Money at call
Investments
Loans and advances
Fixed assets
Other assets

2007		2006	
Book value	Risk adjusted value	Book value	Risk adjusted value
----- (Rupees '000) -----			
(Restated)			
52,219,389	-	44,318,990	-
22,700,475	4,540,095	25,457,978	5,091,596
1,628,130	140,000	6,550,128	120,000
171,932,281	14,345,828	115,822,511	10,616,003
356,521,210	301,031,637	331,748,576	278,412,443
13,582,240	13,582,240	11,802,870	11,802,870
31,515,813	30,892,094	23,982,249	21,855,555
650,099,538	364,531,894	559,683,302	327,898,467

Off Balance Sheet items:

Loan repayment guarantees
Performance bonds etc.
Standby Letters of Credit
Outstanding foreign exchange contracts
-Purchase
-Sale

27,097,010	23,340,136	26,060,919	20,059,836
37,724,460	15,549,958	29,992,287	14,705,044
148,546,449	29,960,815	97,122,891	10,638,141
41,495,625	180,467	52,873,507	205,750
45,132,242	200,362	44,960,985	179,843
299,995,786	69,231,738	251,010,589	45,788,614

Credit risk-weighted exposures

433,763,632

373,687,081

Market Risk

General market risk
Specific market risk

18,203
76,818

27,353
62,581

Market risk-weighted exposures

1,187,758

1,124,175

Total risk-weighted exposures

434,951,390

374,811,256

Total capital adequacy ratio

12.43%

12.03%

36.3 Capital management

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

Notes to the Unconsolidated Financial Statements

In implementing current capital requirements, SBP requires the Bank to maintain a prescribed ratio of 8% total capital to total risk-weighted assets. The Bank 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 Bank'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 upto 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 Bank'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 Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

The Bank 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	546,710,195	514,718,541	3,636,618	35,628,272
United States Dollar	47,623,484	33,178,109	(7,883,150)	6,562,225
Great Britain Pound	3,584,897	6,643,020	3,482,159	424,036
UAE Dirham	16,222,491	14,032,213	(37,140)	2,153,138
Japanese Yen	255,599	124,501	(119,468)	11,630
Euro	4,756,126	4,305,303	723,114	1,173,937
Other currencies	36,686,064	24,893,214	197,867	11,990,717
	655,838,856	597,894,901	-	57,943,955

Notes to the Unconsolidated Financial Statements

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	-(Rupees '000) -			
	(Restated)			
Pakistan Rupee	478,169,887	435,951,152	(7,912,522)	34,306,213
United States Dollar	39,429,084	39,523,612	3,239,561	3,145,033
Great Britain Pound	4,306,337	5,330,972	3,366,593	2,341,958
UAE Dirham	10,822,164	9,671,511	-	1,150,653
Japanese Yen	253,752	108,449	(78,296)	67,007
Euro	4,254,877	3,753,573	1,435,809	1,937,113
Other currencies	26,684,083	19,235,114	(51,145)	7,397,824
	563,920,184	513,574,383	-	50,345,801

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	55,361,813	49,459,611	3,091,085	2,811,117	-	-	-	-	-	-
Balances with other banks	19,558,051	15,402,556	3,922,015	196,874	36,606	-	-	-	-	-
Lendings to financial institutions	1,628,130	-	700,000	928,130	-	-	-	-	-	-
Investments	171,932,281	7,627,117	12,397,772	27,121,300	69,693,498	6,597,462	12,325,104	11,637,568	16,667,305	7,865,155
Loans and advances	362,260,528	143,280,233	29,397,806	42,398,009	38,732,152	19,399,798	29,830,708	32,343,622	14,838,626	12,039,574
Other assets	25,396,781	21,068,815	614,980	-	3,712,986	-	-	-	-	-
Operating fixed assets	13,582,240	-	539,449	-	-	-	647,380	-	-	12,395,411
Deferred tax asset	6,119,032	-	-	-	-	796,387	1,086,412	4,236,233	-	-
	655,838,856	236,838,332	50,663,107	73,455,430	112,175,242	26,793,647	43,889,604	48,217,423	31,505,931	32,300,140
Liabilities										
Bills payable	15,379,440	2,811,475	4,133,541	8,434,424	-	-	-	-	-	-
Borrowings from financial institutions	52,218,228	47,633,382	847,109	106,887	188,553	642,334	766,828	1,184,916	848,219	-
Deposits and other accounts - note 38.1	508,986,541	413,361,108	37,393,336	19,884,788	16,144,817	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	18,210,692	18,032,260	-	-	-	107,059	71,373	-	-	-
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
	597,894,901	481,838,225	42,373,986	28,426,099	16,333,370	5,917,066	7,834,005	7,891,622	6,870,782	409,746
Net Gap	57,943,955	(244,999,893)	8,289,121	45,029,331	95,841,872	20,876,581	36,055,599	40,325,801	24,635,149	31,890,394
Share capital	6,900,000									
Reserves	18,628,584									
Unappropriated profit	25,212,980									
Surplus on revaluation of assets - net of tax	7,202,391									
	57,943,955									

- 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 Bank as stable core source of funding of its operations.

Notes to the Unconsolidated Financial Statements

	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
- (Rupees in '000) -										
- (Restated) -										
Assets										
Cash and balances with treasury banks	46,244,803	45,934,992	188,306	-	121,505	-	-	-	-	-
Balances with other banks	23,532,165	14,405,013	5,171,577	3,955,575	-	-	-	-	-	-
Lendings to financial institutions	6,550,128	2,689,105	635,118	3,225,905	-	-	-	-	-	-
Investments	115,822,511	5,416,501	4,189,786	20,910,128	46,419,618	4,142,596	5,687,101	16,979,514	8,570,297	3,506,970
Loans and advances	335,985,458	80,120,206	57,183,296	50,074,141	28,794,143	14,914,426	25,959,894	51,495,317	14,830,078	12,613,957
Other assets	21,217,988	13,366,940	3,237,879	2,454,261	2,158,908	-	-	-	-	-
Operating fixed assets	11,802,870	171,159	243,635	316,113	533,548	869,738	826,251	1,739,476	4,348,690	2,754,260
Deferred tax asset	2,764,261	8,243	20,607	(36,575)	(40,697)	764,787	721,115	441,859	884,922	-
	563,920,184	162,112,159	70,870,204	80,899,548	77,987,025	20,691,547	33,194,361	70,656,166	28,633,987	18,875,187
Liabilities										
Bills payable	9,347,609	8,856,329	491,280	-	-	-	-	-	-	-
Borrowings from financial institutions	49,980,794	10,958,685	27,627,598	9,391,087	1,240,933	762,491	-	-	-	-
Deposits and other accounts - note 38.2	439,724,335	348,226,909	43,812,552	22,008,611	10,990,430	347,144	4,163,682	4,266,479	5,590,632	317,896
Other liabilities	14,521,645	6,948,863	1,876,722	485,661	811,840	1,099,175	1,368,591	1,930,793	-	-
Deferred tax liability	-	-	-	-	-	-	-	-	-	-
	513,574,383	374,990,786	73,808,152	31,885,359	13,043,203	2,208,810	5,532,273	6,197,272	5,590,632	317,896
Net Gap	50,345,801	(212,878,627)	(2,937,948)	49,014,189	64,943,822	18,482,737	27,662,088	64,458,894	23,043,355	18,557,291
Share capital	6,900,000									
Reserves	16,817,472									
Unappropriated profit	19,281,940									
Surplus on revaluation of assets - net of tax	7,346,389									
	50,345,801									

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 Bank 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 Bank comprises of working capital finances which are re-priced on a three monthly basis. The Bank'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.

	Effective yield / interest rate	2007										Not exposed to yield / interest risk
		Exposed to yield / interest risk										
		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) -												
On-balance sheet assets												
Financial Assets												
Cash and balances with treasury banks	6.48%	55,361,813	8,547,501	1,266,135	-	-	73,692	-	-	-	-	45,474,485
Balances with other banks		19,558,051	8,372,312	7137,050	196,874	36,606	-	-	-	-	-	3,815,209
Lendings to financial institutions		1,628,130	-	700,000	928,130	-	-	-	-	-	-	-
Investments		171,932,281	6,078,338	13,236,884	43,682,655	68,011,975	4,874,112	5,423,162	2,465,839	15,868,582	7,865,154	4,425,580
Advances		362,260,528	133,585,170	79,004,266	106,965,603	20,813,313	4,345,444	5,831,017	-	4,472,580	4,014,305	3,228,830
Other assets		25,396,781	-	-	-	-	-	-	-	-	-	25,396,781
		636,137,584	156,583,321	101,344,335	151,773,262	88,861,894	9,293,248	11,254,179	2,465,839	20,341,162	11,879,459	82,340,885
Financial Liabilities												
Bills payable		15,379,440	-	-	-	-	-	-	-	-	-	15,379,440
Borrowings from financial institutions	5.84%	52,218,228	45,041,011	3,439,479	106,887	188,553	642,334	766,828	1,184,916	848,220	-	-
Deposits and other accounts	3.25%	508,986,541	73,268,410	51,273,570	267,462,197	26,033,886	5,517,149	7,302,510	28,567,479	13,856,474	11,341,307	24,363,559
Sub-ordinated loans		3,100,000	-	-	3,100,000	-	-	-	-	-	-	-
Other liabilities		18,210,692	-	-	-	-	-	-	-	-	-	18,210,692
		597,894,901	118,309,421	54,713,049	270,669,084	26,222,439	6,159,483	8,069,338	29,752,395	14,704,694	11,341,307	57,953,691
On-balance sheet gap		38,242,683	38,273,900	46,631,286	(118,895,822)	62,639,455	3,133,765	3,184,841	(27,286,556)	5,636,468	538,152	24,387,194
Non - financial net assets		19,701,272	-	-	-	-	-	-	-	-	-	-
Total Net assets		57,943,955	-	-	-	-	-	-	-	-	-	-
Cumulative Yield / Interest Risk Sensitivity Gap												
		38,273,900	84,905,186	(33,990,636)	28,648,819	31,782,584	34,967,425	7,680,869	13,317,337	13,855,489	38,242,683	

Notes to the Unconsolidated Financial Statements

Effective yield / interest rate		2006										Not exposed to yield / interest risk
		Exposed to yield / interest risk										
		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) -----												
----- (Restated) -----												
On-balance sheet assets												
Financial Assets												
Cash and balances with treasury banks	6.24%	46,244,803	4,526,739	-	-	-	-	-	-	-	-	41,718,064
Balances with other banks		23,532,165	18,037,842	1,163,747	115,890	-	-	-	-	-	-	4,214,686
Lendings to financial institutions	8.75%	6,550,128	2,689,105	635,118	3,225,905	-	-	-	-	-	-	-
Investments	9.13%	114,887,084	3,770,359	9,767,131	22,603,696	48,769,926	10,153,918	2,772,271	665,610	8,669,120	622,487	7,092,566
Advances	9.68%	335,985,458	81,448,349	90,656,349	27,814,963	77,991,781	3,735,150	12,296,984	21,067,021	5,308,817	6,810,418	8,855,626
Other assets		8,893,794	8,893,794	-	-	-	-	-	-	-	-	-
		536,093,432	119,366,188	102,222,345	53,760,454	126,761,707	13,889,068	15,069,255	21,732,631	13,977,937	7,432,905	61,880,942
Financial Liabilities												
Bills payable		9,347,609	-	-	-	-	-	-	-	-	-	9,347,609
Borrowings from financial institutions	6.63%	49,980,794	10,802,515	26,977,255	9,334,196	1,259,115	835,375	-	-	-	-	772,338
Deposits and other accounts	2.84%	439,724,335	29,364,056	43,812,552	249,881,319	10,990,430	347,144	4,163,682	4,266,479	5,590,632	317,896	90,990,145
Other liabilities		4,580,352	4,580,352	-	-	-	-	-	-	-	-	-
		503,633,090	44,746,923	70,789,807	259,215,515	12,249,545	1,182,519	4,163,682	4,266,479	5,590,632	317,896	101,110,092
On-balance sheet gap		32,460,342	74,619,265	31,432,538	(205,455,061)	114,512,162	12,706,549	10,905,573	17,466,152	8,387,305	7,115,009	(39,229,150)
Non - financial net assets		17,885,459	-	-	-	-	-	-	-	-	-	-
Total Net assets		50,345,801	-	-	-	-	-	-	-	-	-	-
Cumulative Yield / Interest Risk Sensitivity Gap												
		74,619,265	106,051,803	(99,403,258)	15,108,904	27,815,453	38,721,026	56,187,178	64,574,483	71,689,492	32,460,342	

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments are based on quoted market prices and unquoted investments including investments in subsidiaries, joint venture and associates are estimated using the best available market based information. 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 Bank'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 repriced.

41. CONCENTRATION OF CREDIT AND DEPOSITS

41.1 Concentration of credit risk

Out of the total financial assets of Rs. 636,137,584 million, financial assets which were subject to credit risk amounted to Rs. 627,856.878 million. The Bank'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:

Notes to the Unconsolidated Financial Statements

	2007 (Rupees in '000)
Guaranteed by the Government of Pakistan	
- Investments	140,353,418
- Loans and advances	30,854,093
- Mark-up receivable on government guaranteed financial assets	1,244,705
	172,452,216
Financial assets receivable from enterprises owned / controlled by Government	23,046,094
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
	249,732,657

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	14,169,201	3.72	1,282,186	0.25	19,700,833	8.99
Agribusiness	26,751,768	7.03	5,395,259	1.06	741,427	0.34
Textile	82,725,279	21.73	2,322,410	0.46	13,909,945	6.35
Cement	11,738,791	3.08	326,313	0.06	2,930,183	1.34
Sugar	3,219,026	0.85	578,374	0.11	908,880	0.41
Shoes and leather garments	2,381,884	0.63	176,143	0.03	315,661	0.14
Automobile and transportation equipment	6,685,696	1.76	2,495,724	0.49	3,835,383	1.75
Financial	5,901,513	1.55	4,209,196	0.83	3,811,802	1.74
Insurance	375	-	185,567	0.04	-	-
Electronics and electrical appliances	7,387,712	1.94	414,007	0.08	4,718,704	2.15
Production and transmission of energy	21,202,640	5.57	8,614,781	1.69	32,982,401	15.05
Communication	16,005,499	4.20	-	-	3,599,307	1.64
Food, tobacco and beverages	9,096,306	2.39	475,966	0.09	2,061,934	0.94
Metal and allied	7,176,652	1.88	862,980	0.17	3,828,934	1.75
General traders	32,576,689	8.56	10,557,025	2.07	6,411,537	2.93
Public / Government - note 41.2.1	50,698,487	13.32	97,578,839	19.17	83,242,549	37.99
Individuals	36,968,048	9.69	164,292,239	32.28	6,399,024	2.92
Others	46,065,660	12.13	209,219,532	41.12	29,705,265	13.58
	380,751,226	100.00	508,986,541	100.00	219,103,769	100.00

Notes to the Unconsolidated Financial Statements

	2006					
	Gross advances		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	13,525,024	3.81	818,963	0.19	9,478,063	1.92
Agribusiness	28,741,089	8.10	4,838,276	1.10	490,996	5.84
Textile	67,345,331	18.98	1,133,272	0.26	11,806,608	6.68
Cement	11,634,842	3.28	302,671	0.07	2,266,113	2.19
Sugar	3,008,195	0.85	89,290	0.02	644,920	0.93
Shoes and leather garments	2,227,085	0.63	98,033	0.02	211,164	0.35
Automobile and transportation equipment	5,966,209	1.68	3,839,601	0.87	2,273,199	0.41
Financial	2,294,774	0.65	3,259,586	0.74	1,940,297	5.41
Insurance	544	-	53,687	0.01	-	2.99
Electronics and electrical appliances	4,106,177	1.16	2,244,790	0.51	4,366,729	1.25
Production and transmission of energy	9,723,078	2.74	410,191	0.09	19,918,326	9.25
Communication	10,053,207	2.83	480,620	0.11	4,116,361	-
Food, tobacco and beverages	12,442,520	3.51	553,813	0.13	2,498,232	0.83
Metal and allied	14,092,624	3.97	1,359,052	0.31	4,216,627	3.14
General traders	9,892,396	2.79	6,140,992	1.40	5,635,386	2.58
Public / Government - note 41.2.1	36,788,782	10.37	52,376,773	11.91	68,530,358	39.15
Individuals	57,027,398	16.07	139,654,563	31.76	5,256,354	-
Others	65,928,744	18.58	222,070,162	50.50	18,923,212	17.08
	354,798,019	100.00	439,724,335	100.00	162,572,945	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	51,360	0.05	28,123	0.03
Financial	310,034	0.61	449,912	0.46	1,951,356	2.34
Insurance	-	-	6,297,788	6.45	-	-
Electronics and electrical appliances	-	-	-	-	2,335	-
Production and transmission of energy	24,227,841	47.79	7,341,699	7.52	13,551,551	16.28
Communication	5,772	0.01	-	-	222,395	0.27
Food, tobacco and beverages	6,943,112	13.69	-	-	-	-
Metal and allied	1,715,738	3.38	-	-	1,793,538	2.15
General traders	6,950,844	13.71	217,550	0.22	101,915	0.12
Others	896,207	1.78	83,039,363	85.12	65,591,336	78.81
	50,698,487	100.00	97,578,839	100.00	83,242,549	100.00

Notes to the Unconsolidated Financial Statements

	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	0.42	-	-
Textile	-	-	-	-	-	-
Cement	-	-	-	-	-	-
Automobile and transportation equipment	3,325,078	9.04	167,485	0.32	117,629	0.98
Financial	-	-	3,546,076	6.77	1,962,468	-
Insurance	-	-	5,307,321	10.13	-	-
Electronics and electrical appliances	-	-	2,176,151	4.15	-	-
Production and transmission of energy	12,210,699	33.19	-	-	12,119,987	19.48
Communication	16,170	0.04	-	-	16,067	-
Food, tobacco and beverages	16,643,909	45.24	-	-	-	-
Metal and allied	1,940,738	5.28	-	-	751,336	-
General traders	-	-	324,582	0.62	102,615	0.17
Individuals	-	-	-	-	18,866	-
Others	2,652,188	7.21	40,582,479	77.49	53,440,632	79.37
	36,788,782	100.00	52,376,773	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	13.32	97,578,839	19.17	83,242,549	37.99
Private	330,052,739	86.68	411,407,702	80.83	135,861,220	62.01
	380,751,226	100.00	508,986,541	100.00	219,103,769	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	10.37	52,376,773	11.91	68,530,358	42.15
Private	318,009,237	89.63	387,347,562	88.09	94,042,587	57.85
	354,798,019	100.00	439,724,335	100.00	162,572,945	100.00

41.2.3 The comparatives of contingencies and commitments have been reclassified.

Notes to the Unconsolidated Financial Statements

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	7,683	200,980	9,792
Sugar	323	323	433,635	191,923
Shoes and leather garments	487,168	485,182	516,918	147,149
Automobile and transportation equipment	524,784	463,543	230,837	198,656
Financial	4,199	4,199	11,599	5,350
Electronics and electrical appliances	178,480	152,703	146,054	136,714
Production and transmission of energy	27,123	25,192	-	-
Food, tobacco and beverages	1,519,436	1,218,232	953,316	640,894
Metal and allied	117,912	59,331	120,354	95,533
General traders	1,652,401	1,339,545	875,189	403,178
Public / Government	101,417	-	667,108	-
Individuals	624,687	549,666	383,327	-
Others	5,712,642	4,310,455	10,040,933	7,419,173
	24,588,751	17,592,094	26,921,976	17,508,675

42. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	2007				
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services
	(Rupees in million)				
Net interest and non-markup income	24,413	6,269	542	4,472	2,616
Total expenses including provision	9,226	5,766	73	2,513	7,607
Net income (loss)	15,187	503	469	1,959	(4,991)
Segment assets (gross)	107,915	286,718	160,321	97,856	22,271
Segment Non-Performing loans	5,061	9,727	-	5,972	3,829
Segment provision required including general provision	3,136	9,193	106	5,975	832
Segment liabilities including equity	401,260	77,249	31,146	64,697	81,486
Segment return on net liability / asset (%)	8.52%	10.58%	5.89%	11.05%	17.39%
Segment cost of funds (%)	2.61%	8.19%	5.89%	2.89%	-

Notes to the Unconsolidated Financial Statements

	2006					Total
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	
	(Rupees in million)					
Net interest and non-markup income	26,382	6,293	609	3,447	588	37,319
Total expenses including provision	10,936	3,183	196	3,189	1,788	19,292
Net income (loss)	15,446	3,110	413	258	(1,200)	18,027
Segment assets (gross)	125,863	236,119	113,664	80,181	28,156	583,983
Segment Non-Performing loans	5,901	7,413	-	3,592	10,016	26,922
Segment provision required including general provision	2,379	1,350	154	2,670	13,510	20,063
Segment liabilities including equity	358,441	83,442	17,235	50,725	54,076	563,919
Segment return on net liability / asset (%)	9.41%	10.66%	5.48%	11.85%	-	-
Segment cost of funds (%)	2.73%	7.66%	5.48%	3.35%	1.49%	-

43. TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities. However, the Bank 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	10,844,451	556,419,420	35,956,514	198,081,800
Asia Pacific (including South Asia)	891,798	34,810,939	5,993,323	6,096,042
Europe	152,544	7,721,810	5,451,955	4,984,695
North America	132,789	3,071,536	1,069,237	397,406
Middle East	852,431	42,798,591	4,757,011	9,127,133
Others	252,989	11,016,560	4,715,915	416,693
	13,127,002	655,838,856	57,943,955	219,103,769

Notes to the Unconsolidated Financial Statements

	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- (Rupees '000) -----			
	----- (Restated) -----			
Pakistan	16,696,253	484,147,404	29,977,350	145,671,738
Asia Pacific (including South Asia)	572,116	23,591,136	4,894,099	5,609,936
Europe	6,277	7,293,127	3,944,723	2,737,943
North America	165,849	3,492,732	923,935	176,996
Middle East	520,501	31,613,862	3,351,992	8,186,138
Others	65,968	13,781,923	7,253,702	190,194
	<u>18,026,964</u>	<u>563,920,184</u>	<u>50,345,801</u>	<u>162,572,945</u>

45. ISLAMIC BANKING BRANCH

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

	2007 (Rupees in '000)	2006 (Rupees in '000)
ASSETS		
Cash and balances with treasury banks	15,879	10,052
Modarba	31,540	34,800
Ijara	24,495	26,070
Other assets	50,387	4,358
	<u>122,301</u>	<u>75,280</u>
LIABILITIES		
Bills payable	-	-
Deposit and other accounts	12,396	9,259
Other liabilities	60,856	24,011
	<u>73,252</u>	<u>33,270</u>
NET ASSETS	<u>49,049</u>	<u>42,010</u>
REPRESENTED BY		
Islamic Banking Fund	50,000	50,000
Reserves	-	-
Accumulated (loss) / Profit	(951)	(7,990)
	<u>49,049</u>	<u>42,010</u>

Notes to the Unconsolidated Financial Statements

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

46. DATE OF AUTHORISATION FOR ISSUE

These Unconsolidated Financial Statements were authorised for issue in the Board of Directors meeting held on February 14, 2008.

47. 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.

47.1 The figures have been restated / reclassified where necessary for comparison purposes.

R. Zakir Mahmood
President and Chief Executive Officer

Iain Donald Cheyne
Director

Sajid Zahid
Director

Ahmed Jawad
Director