

## **DIRECTORS' REVIEW**

On behalf of the Board of Directors, we are pleased to present the accounts for the Quarter ended March 31, 2007.

## **FINANCIAL PERFORMANCE**

The financial results of the Group are summarized below: -

	<b>(Rs. in '000')</b>
Profit after tax	3,293,468
Share of profit attributable to minority interest	(25,589)
Profit attributable to shareholders	<u>3,267,879</u>
Appropriations relating to Statutory Reserves of the Bank, Joint Ventures and Subsidiary	344,337
Earning per share Annualized (Basic & Diluted)	18.94

Group's performance has substantially improved in 1Q07, as its current period profit before tax and provision (excluding the staff retrenchment cost) has registered an increase of Rs. 1.2 billion (25%) from the corresponding period of the last year. The current period profit includes an increase in net interest income of Rs. 946.344 million, mainly due to growth in advances by over Rs. 31.576 billion from the corresponding period of last year.

## **OUTLOOK**

Banking sector in Pakistan has shown strong growth and out performed the overall growth in the economy. The higher capital requirement by the regulator is resulting in fewer stronger banks and a highly competitive environment. Being the bank with the largest number of branches in Pakistan, consistent growth in core deposit remains a prime strategy to expand the balance sheet. Market share is pursued to meet our overall strategies of managing interest rate/maturity mismatches risk and producing superior returns on equity. We will maintain our continued focus on improving physical and technological infrastructure, marketing of existing and new products and superior customer service.

**President & Chief Executive Officer**

**Dated:** April 27, 2007

**HABIB BANK LIMITED**  
**CONDENSED INTERIM CONSOLIDATED BALANCE SHEET**  
**AS AT MARCH 31, 2007**

	Note	(Unaudited) March 31, 2007	(Audited) December 31, 2006
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with treasury banks		45,121,689	46,310,478
Balances with other banks		31,683,390	35,965,048
Lendings to financial institutions		2,373,533	6,550,128
Investments	5	130,698,791	119,587,476
Advances	6	343,642,560	349,432,685
Other assets		18,977,689	17,765,291
Operating fixed assets		12,260,172	11,954,876
Deferred tax asset		2,782,530	2,725,486
		587,540,354	590,291,468
<b>LIABILITIES</b>			
Bills payable		3,514,734	5,737,457
Borrowings from financial institutions	7	43,844,160	56,392,270
Deposits and other accounts	8	468,286,988	459,140,198
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Other liabilities		16,125,354	15,578,177
Deferred tax liability		-	-
		531,771,236	536,848,102
<b>NET ASSETS</b>		55,769,118	53,443,366
<b>REPRESENTED BY:</b>			
<b>Shareholders' equity</b>			
Share capital		6,900,000	6,900,000
Reserves		18,459,154	17,802,584
Unappropriated profit		22,030,775	20,475,080
Total equity attributable to the equity holders of the Bank		47,389,929	45,177,664
Minority interest		940,607	913,317
Surplus on revaluation of assets - net of tax	9	7,438,582	7,352,385
		55,769,118	53,443,366
<b>CONTINGENCIES AND COMMITMENTS</b>	<b>10</b>		

The annexed notes 1 to 15 form an integral part of these financial statements.

President and Chief Executive Officer

Director

Director

Director

**HABIB BANK LIMITED**  
**CONDENSED INTERIM CONSOLIDATED PROFIT AND LOSS ACCOUNT (Unaudited)**  
**FOR THE QUARTER ENDED MARCH 31, 2007**

	<b>Quarter ended</b>	
	<b>March 31, 2007</b>	<b>March 31, 2006</b>
	(Rupees in '000)	
Mark-up / return / interest earned	11,903,763	10,052,700
Mark-up / return / interest expensed	4,177,265	3,272,546
Net mark-up / interest income	<u>7,726,498</u>	<u>6,780,154</u>
Provision against non-performing loans and advances - net	319,846	557,906
(Reversal) / provision against off-balance sheet obligations	-	-
Reversal of provision against diminution in value of investments	(4,166)	(29,302)
Bad debts written off directly	-	-
	<u>315,680</u>	<u>528,604</u>
Net mark-up / interest income after provisions	<u>7,410,818</u>	<u>6,251,550</u>
<b>Non mark-up / interest income</b>		
Fee, commission and brokerage income	669,433	749,014
Income / gain on investments	343,569	53,133
Income from dealing in foreign currencies	452,440	259,151
Other income	695,688	444,684
Total non-mark-up / interest income	<u>2,161,130</u>	<u>1,505,982</u>
	9,571,948	7,757,532
<b>Non mark-up / interest expense</b>		
Administrative expenses	3,908,129	3,516,638
Other provisions / write offs - net	37,136	16,225
Other charges	5,313	15,349
Total non mark-up / interest expenses	<u>3,950,578</u>	<u>3,548,212</u>
	5,621,370	4,209,320
Staff retrenchment cost	12 559,100	2,097,000
	<u>5,062,270</u>	<u>2,112,320</u>
<b>Profit before taxation</b>		
	5,062,270	2,112,320
Taxation - current	1,874,135	925,335
Taxation - prior years	-	-
Taxation - deferred	(105,333)	(90,596)
	<u>1,768,802</u>	<u>834,739</u>
<b>Profit after taxation</b>	<u>3,293,468</u>	<u>1,277,581</u>
<b>Attributable to:</b>		
Equity holders of the Bank	3,267,879	1,260,099
Minority Interest	25,589	17,482
	<u>3,293,468</u>	<u>1,277,581</u>
Basic and Diluted earnings per share	<u>18.94</u>	<u>7.30</u>
	( ----- annualised ----- )	

The annexed notes 1 to 15 form an integral part of these financial statements.

President and Chief Executive Officer

Director

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Director

**HABIB BANK LIMITED**  
**CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (Unaudited)**  
**FOR THE QUARTER ENDED MARCH 31, 2007**

	March 31, 2007	March 31, 2006
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	5,062,270	2,112,320
Less: Dividend income and fair value adjustment of associated and joint venture companies	(315,717)	(53,133)
Gain on sale of investments - net	(7,692)	-
	<u>(323,409)</u>	<u>(53,133)</u>
	4,738,861	2,059,187
<b>Adjustment for:</b>		
Depreciation / amortisation / adjustments	248,591	234,913
Reversal against diminution in the value of investments	(4,166)	(29,302)
Provision against non-performing loans and advances - net of reversals	319,846	557,906
Amortisation of premium on investments	83,961	92,209
Gain on sale of property and equipment - net	(16,972)	(2,810)
Miscellaneous provisions	37,136	278,266
	<u>668,396</u>	<u>1,131,182</u>
	5,407,257	3,190,369
<b>(Increase) / decrease in operating assets</b>		
Government securities	(9,096,672)	2,166,120
Lendings to financial institutions	4,176,595	(13,420,914)
Loans and advances	5,470,279	4,257,075
Other assets - net	(2,637,512)	193,737
	<u>(2,087,310)</u>	<u>(6,803,982)</u>
<b>Increase / (decrease) in operating liabilities</b>		
Deposits and other accounts	9,146,790	9,316,604
Borrowings from financial institutions	(12,548,110)	(11,843,843)
Bills payable	(2,222,723)	(4,378,531)
Other liabilities - net	511,074	3,552,522
	<u>(5,112,969)</u>	<u>(3,353,248)</u>
Income tax paid - net	(1,793,022)	(6,966,861)
	<u>(385,294)</u>	<u>(1,881,863)</u>
<b>Net cash flows from / (used in) operating activities</b>	<u>(2,178,316)</u>	<u>(8,848,724)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investments in securities, associates and joint venture companies	(1,905,818)	(294,789)
Repatriation from / (Investment in) subsidiary companies	-	-
Dividend income received	219,509	20,938
Fixed capital expenditure	(565,943)	280,736
Proceeds from sale of fixed assets	28,921	(638,189)
Exchange adjustment on translation of balances in foreign branches	312,233	124,598
<b>Net cash flows from / (used in) investing activities</b>	<u>(1,911,098)</u>	<u>(506,706)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(1,381,033)	-
<b>Net cash flows used in financing activities</b>	<u>(1,381,033)</u>	<u>-</u>
(Decrease) / Increase in cash and cash equivalents during the period	<u>(5,470,447)</u>	<u>(9,355,430)</u>
Cash and cash equivalents at beginning of the period	82,274,241	64,864,562
Effects of exchange rate changes on cash and cash equivalents	1,285	-
	<u>82,275,526</u>	<u>64,864,562</u>
Cash and cash equivalents at end of the period	<u><u>76,805,079</u></u>	<u><u>55,509,132</u></u>

The annexed notes 1 to 15 form an integral part of these financial statements.

President and Chief Executive Officer

Director

Director

Director

**HABIB BANK LIMITED**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)**  
**FOR THE QUARTER ENDED MARCH 31, 2007**

	Attributable to shareholders of the Group						Minority Interest	Total	
	Share Capital	Exchange Translation Reserve	RESERVES		Subtotal				
			Statutory requirement of Joint Venture and Subsidiaries	Bank		Other Reserves			General
----- (Rupees in '000) -----									
Balance as at December 31, 2005	6,900,000	1,932,210	119,161	7,787,094	6,073,812	9,908,920	32,721,197	846,801	33,567,998
Profit for the period	-	-	-	-	-	1,260,099	1,260,099	17,482	1,277,581
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	11,538	11,538	-	11,538
Effect of translation of net investment in foreign branches, subsidiaries and joint ventures	-	124,598	-	-	-	-	124,598	4,343	128,941
Total recognized income and expense for the period	-	124,598	-	-	-	1,271,637	1,396,235	21,825	1,418,060
Transferred to statutory reserves	-	-	1,653	124,149	-	(125,802)	-	-	-
Minority share of surplus on revaluation of securities of modaraba	-	-	-	-	-	-	-	36	36
Balance as at March 31, 2006	6,900,000	2,056,808	120,814	7,911,243	6,073,812	11,054,755	34,117,432	868,662	34,986,094
Profit for the period	-	-	-	-	-	11,370,160	11,370,160	52,574	11,422,734
Exchange translation released or disposal of investment:	-	(55,709)	-	-	-	-	(55,709)	-	(55,709)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	55,320	55,320	-	55,320
Effect of translation of net investment in foreign branches, subsidiaries and joint ventures	-	380,461	-	-	-	-	380,461	39,322	419,783
Total recognized income and expense for the period	-	324,752	-	-	-	11,425,480	11,750,232	91,896	11,842,128
Transferred to statutory reserves	-	-	11,691	1,303,464	-	(1,315,155)	-	-	-
Cash dividend paid at Re 1 per share	-	-	-	-	-	(690,000)	(690,000)	(42,885)	(732,885)
Minority share of surplus on revaluation of securities of modaraba	-	-	-	-	-	-	-	(4,356)	(4,356)
Balance as at December 31, 2006	6,900,000	2,381,560	132,505	9,214,707	6,073,812	20,475,080	45,177,664	913,317	46,090,981
Profit for the period	-	-	-	-	-	3,267,879	3,267,879	25,589	3,293,468
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	12,153	12,153	-	12,153
Effect of translation of net investment in foreign branches, subsidiaries and joint ventures	-	312,233	-	-	-	-	312,233	414	312,647
Total recognized income and expense for the period	-	312,233	-	-	-	3,280,032	3,592,265	26,003	3,618,268
Transferred to statutory reserves	-	-	8,926	335,411	-	(344,337)	-	-	-
Cash dividend paid at Re 2 per share	-	-	-	-	-	(1,380,000)	(1,380,000)	-	(1,380,000)
Minority share of surplus on revaluation of securities of modaraba	-	-	-	-	-	-	-	1,287	1,287
Balance as at March 31, 2007	6,900,000	2,693,793	141,431	9,550,118	6,073,812	22,030,775	47,389,929	940,607	48,330,536

The annexed notes 1 to 15 form an integral part of these financial statements.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**

Habib Bank Limited  
Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)  
For the quarter ended March 31, 2007

**1 THE GROUP AND ITS OPERATIONS**

Habib Bank Limited (the Bank) is incorporated in Pakistan and is engaged in commercial banking, modaraba management and asset management related services in Pakistan and overseas. The bank as a group comprises of:

**Holding company**

- Habib Bank Limited, Pakistan

**Subsidiary companies**

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

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

**2 STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of these standards, the requirement of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence. The disclosures made in these financial statements have, however, been limited based on the format prescribed by the State Bank of Pakistan vide BSD Circular letter No. 2 dated May 12, 2004 and the requirements of International Accounting Standard 34 'Interim Financial Reporting'.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the annual accounts of the group for the year ended December 31, 2006.

**4 ACCOUNTING ESTIMATES**

The basis for accounting estimates adopted in the preparation of these financial statements are the same as those applied in the preparation of the annual accounts of the group for the year ended December 31, 2006.

**5 INVESTMENTS**

Note	March 31, 2007			December 31, 2006		
	Held by group	Given as collateral	Total	Held by group	Given as collateral	Total
----- (Rupees in '000) -----						
<b>Held to Maturity securities (HTM)</b>						
<b>Federal Government Securities</b>						
- Market treasury bills			-	86,392	-	86,392
- Pakistan investment bonds	13,974,827		13,974,827	14,782,250	-	14,782,250
<b>Overseas Government securities</b>	223,882		223,882	224,382		224,382
<b>Debentures and Corporate Debt Instruments</b>	166,659		166,659	166,996	-	166,996
	14,365,368	-	14,365,368	15,260,020	-	15,260,020
<b>Available-for-sale securities (AFS)</b>						
<b>Federal Government Securities</b>						
- Market treasury bills	54,201,544	11,524,004	65,725,548	35,891,929	21,337,072	57,229,001
- Pakistan investment bonds	1,529,072		1,529,072	987,349	-	987,349
- Government of Pakistan Guaranteed Bonds	20,412,840		20,412,840	20,653,643	-	20,653,643
- Government of Pakistan bonds (US Dollar / Euro)	860,973		860,973	864,805	-	864,805
<b>Overseas Government securities</b>	7,276,583		7,276,583	6,163,192	-	6,163,192
<b>Fully paid-up ordinary shares:</b>						
- Listed companies	1,988,878		1,988,878	1,679,827	-	1,679,827
- Unlisted companies	455,654		455,654	455,613	-	455,613
<b>Debentures and Corporate Debt Instruments</b>						
- Listed securities	506,578		506,578	510,926	-	510,926
- Unlisted securities	13,727,619		13,727,619	12,117,227		12,117,227
<b>NIT units</b>	35,000		35,000	32,134	-	32,134
<b>Preference shares</b>	171,500		171,500	171,667	-	171,667
<b>Other investments</b>	446,398		446,398	183,414	-	183,414
	101,612,639	11,524,004	113,136,643	79,711,726	21,337,072	101,048,798
<b>Investment in associates and joint venture companies</b>						
	3,196,780	-	3,196,780	3,278,658	-	3,278,658
	119,174,787	11,524,004	130,698,791	98,250,404	21,337,072	119,587,476

5.1 The market value of Pakistan Investment Bonds classified as "held-to-maturity" amounted to Rs. 12.193 million (December 31, 2006: Rs. 12.538 million).

## 5.2 Particulars of provision held against diminution in value of investments

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

	Quarter ended March 31, 2007	Year ended December 31, 2006
	----- (Rupees in '000) -----	
Opening balance	518,932	562,065
Reversed during the period / year	(4,166)	(13,697)
Amount written off	(4,179)	(29,436)
Closing balance	<u>510,587</u>	<u>518,932</u>

## 6 ADVANCES

Loans, cash credits, running finances, etc.

In Pakistan	286,532,694	291,209,502
Outside Pakistan	<u>41,961,734</u>	<u>38,068,479</u>
	328,494,428	329,277,981
Net investment in finance lease - in Pakistan	11,076,926	11,827,390
Bills discounted and purchased (excluding Government treasury bills)		
Payable in Pakistan	<u>8,134,342</u>	<u>9,843,364</u>
Payable outside Pakistan	<u>18,291,763</u>	<u>20,415,802</u>
	26,426,105	30,259,166
Provision against non-performing advances	<u>(22,354,899)</u>	<u>(21,931,853)</u>
	<u>343,642,560</u>	<u>349,432,684</u>

### Fully provided non-performing advances classified as loss for more than five years

In Pakistan	<u>6,395,968</u>	<u>6,622,757</u>
Outside Pakistan	<u>491,922</u>	<u>493,578</u>
	6,887,890	7,116,335
Provision	<u>(6,887,890)</u>	<u>(7,116,335)</u>
	-	-

- 6.1 Advances include Rs. 30,551.709 million (2006: 30,032.988 million) which have been placed under non-performing status, other than those accounts classified as loss and fully provided for more than five years which have been placed in separate category.

Category of Classification	March 31, 2007								
	Non-performing advances			Provision required and held			Net non-performing loans		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- (Rupees in '000) -----								
<b>Specific Provision</b>									
Other assets especially mentioned	411,844		411,844			-	411,844	-	411,844
Substandard	4,167,433	809,887	4,977,320	884,643		884,643	3,282,790	809,887	4,092,677
Doubtful	2,142,088	237,581	2,379,669	944,369	118,791	1,063,160	1,197,719	118,790	1,316,509
Loss	14,359,356	8,423,520	22,782,876	10,794,240	8,309,427	19,103,667	3,565,116	114,093	3,679,209
	<u>21,080,721</u>	<u>9,470,988</u>	<u>30,551,709</u>	<u>12,623,252</u>	<u>8,428,218</u>	<u>21,051,470</u>	<u>8,457,469</u>	<u>1,042,770</u>	<u>9,500,239</u>
<b>General Provision</b>									
	-	-	-	1,056,266	247,163	1,303,429	-	-	-
	<u>21,080,721</u>	<u>9,470,988</u>	<u>30,551,709</u>	<u>13,679,518</u>	<u>8,675,381</u>	<u>22,354,899</u>	<u>8,457,469</u>	<u>1,042,770</u>	<u>9,500,239</u>

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

	March 31, 2007				December 31, 2006			
	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the period	Loan repaid during the period	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the year	Loan repaid during the year
----- (Rupees in '000) -----								
Debts due by directors or executives of the Group or any of them either severally or jointly with any other persons								
- in respect of directors	-	-	-	-	-	-	-	-
- in respect of executives *	360,615	360,615	116,151	9,400	253,864	333,004	196,000	148,877
- in respect of key management personnel	250,230	250,230	72,493	6,690	184,427	184,427	106,400	47,337
Debts due by companies or firms in which the directors of the Group are interested as directors, partners or in the case of private companies as members	-	-	-	-	-	292,000	-	-
Debts due by								
- Retirement benefit funds	1,389,612	1,389,612	-	-	1,389,612	2,520,733	-	-

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

\* (These represent staff loans given by the Group to its executives as per their terms of employment)

\*\* (Maximum amount has been arrived at by reference to month end balance)

**7 BORROWINGS FROM FINANCIAL INSTITUTIONS**
**Secured**

Borrowings from State Bank of Pakistan under

Export refinance scheme

Locally manufactured machinery refinance scheme

Long term finance - export oriented projects

Repurchase agreement borrowings

March 31,  
2007

December 31,  
2006

(Rupees in '000)

15,809,140	15,678,110
7,945	9,145
7,945,305	8,213,632
11,475,280	21,285,463
<u>35,237,670</u>	<u>45,186,350</u>

**Unsecured**

In Pakistan

Interbank call money borrowings including borrowings by domestic subsidiaries

Outside Pakistan

Overdrawn nostro accounts

Borrowings of overseas branches

1,469,626	1,881,744
-	-
247,674	692,708
6,889,190	8,631,468
7,136,864	9,324,176
8,606,490	11,205,920
<u>43,844,160</u>	<u>56,392,270</u>

**8 DEPOSITS AND OTHER ACCOUNTS**
**Customers**

Fixed deposits

Savings chequing account

Other savings account

Current accounts - non-remunerative

129,641,859	135,098,044
169,036,000	168,057,000
63,214,363	52,325,375
93,010,914	90,350,296
<u>454,903,136</u>	<u>445,830,715</u>

**Financial institutions**

Remunerative deposits

Non-remunerative deposits

9,857,533	8,612,135
3,526,319	4,697,348
13,383,852	13,309,483
<u>468,286,988</u>	<u>459,140,198</u>



9 SURPLUS ON REVALUATION OF ASSETS - net of deferred tax	Note	March 31, 2007	December 31, 2006
		(Rupees in '000)	
Surplus arising on revaluation of:			
- fixed assets	9.1	7,322,576	7,334,729
- investments	9.2	116,006	17,656
Surplus on revaluation of assets - net of deferred tax		<u>7,438,582</u>	<u>7,352,385</u>
<b>9.1 Surplus on revaluation of fixed assets</b>			
Surplus on revaluation of fixed assets as at January 1		7,989,613	7,950,982
Surplus/ (Adjustment) on revaluation		-	131,519
Surplus realised on disposal of revalued properties during the period / year		-	(18,517)
Transferred to accumulated profit in respect of incremental depreciation charged during the period / year - net of deferred tax		(12,153)	(48,341)
Related deferred tax liability of incremental depreciation charged during the period / year		(6,544)	(26,030)
Surplus on revaluation of fixed assets as at period / year end		<u>7,970,916</u>	<u>7,989,613</u>
Less: related deferred tax liability on:			
- revaluation as at January 1		654,884	675,067
- revaluation of Group's properties recognised/ (adjusted) during the period / year		-	5,847
- incremental depreciation charged during the period / year transferred to profit and loss account		(6,544)	(26,030)
		<u>648,340</u>	<u>654,884</u>
		<u>7,322,576</u>	<u>7,334,729</u>
<b>9.2 Surplus / (deficit) on revaluation of investments</b>			
Market treasury bills		(62,617)	(92,722)
Pakistan Investment Bonds		(123,062)	(142,457)
Listed securities		231,367	155,506
NIT units		23,471	20,605
Other investments		108,125	88,456
		177,284	29,388
Less: related deferred tax liability		(61,278)	(11,732)
		<u>116,006</u>	<u>17,656</u>



## 11 RELATED PARTY TRANSACTIONS

Aga Khan Fund for Economic Development holds 51% of the shares of the Bank. The Group has related party relationships with its associated undertakings, joint venture company, employee benefit plans of the Group / related party, and members of the Key Management Personnel of the Group / related party, including both Executive and Non-Executive Directors and Executive officers.

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

Contributions to and accruals in respect of staff retirement and other benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan.

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
	<b>(Rupees in '000)</b>	
<b>Balances outstanding as at the period/ year end</b>		
<b>- Borrowings / Deposits from</b>		
- Joint Venture and Associates	1,890,855	2,497,800
- Retirement benefit funds	172,730	235,383
- Companies in which Directors are interested	155,223	148,199
- Key Management Personnel	17,811	13,816
- Receivable from defined benefit plan	4,836,363	4,835,017
- Payable to defined benefit plan	15,769	15,769
	<b>March 31, 2007</b>	<b>March 31, 2006</b>
	<b>(Rupees in '000)</b>	
<b>Profit / Expense for the period</b>		
- Interest expense	28,535	1,943
- Interest income	14,348	84,773
- Share of profit of joint venture company and associates -net of tax	42,841	7,127

- 12 During the period 777 employees were retrenched with effect from January 13, 2007. The group has committed to pay, in addition to payments under the staff retirement funds, an amount of Rs.559 million under the retrenchment scheme. The impact, if any, on staff retirement benefit schemes will be finalised in due course through actuarial valuations.

13 **Segment Details with respect to business activities**

<b>March 31, 2007</b>						
Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	Total	
-----Rupees in million-----						
Net interest and non-markup income	5,807	1,313	208	1,294	1,361	9,983
Total expenses including provision	1,578	877	21	826	1,619	4,921
Net income (loss)	4,229	436	187	468	(258)	5,062
Segment assets (gross)	111,703	225,529	62,575	113,664	104,912	618,383
Segment non-performing loans	6,529	8,262	-	9,471	6,290	30,552
Segment provision required including general provision	4,653	4,721	-	9,168	10,701	29,243
Segment liabilities including equity	298,664	125,704	21,128	77,266	64,767	587,529
Segment return on net liability / asset	1.42%	0.20%	0.30%	0.45%	-0.28%	-
Segment cost of funds (%)	10.07%	10.07%	8.71%	10.07%	10.07%	-

14 **ISLAMIC BANKING BRANCH AND FIRST HABIB BANK MODARABA**

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
	(Rupees in '000)	
<b>ASSETS</b>		
Cash and balances with treasury banks	35,658	34,741
Investments - net	66,355	64,919
- Murabaha	29,391	26,071
- Ijara	1,148,880	1,139,902
Other assets	15,437	7,266
Operating fixed assets	746	772
	<u>1,296,467</u>	<u>1,273,671</u>
<b>LIABILITIES</b>		
Borrowings from financial institutions	502,959	489,090
Deposit and other accounts	10,308	9,259
Other liabilities	87,421	105,773
	<u>600,688</u>	<u>604,122</u>
<b>NET ASSETS</b>	<u>695,779</u>	<u>669,549</u>
<b>REPRESENTED BY</b>		
Islamic Banking Fund / Certificate Capital	447,072	447,072
Reserves	180,425	176,845
Unappropriated / Unremitted profit	57,623	36,408
	<u>685,120</u>	<u>660,325</u>
Surplus on revaluation of assets	10,659	9,224
	<u>695,779</u>	<u>669,549</u>

The commitment in respect of letters of credit of Islamic Banking branch of Habib Bank Limited amounted to Rs. 10.624 million (2005: Rs. 0.053 million).

15. **DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue in the Board of Directors meeting held on April 27, 2007.

President and Chief Executive Officer

Director

Director

Director