

DIRECTORS' REVIEW

On behalf of the Board of Directors, I am pleased to present the accounts for the half-year ended June 30, 2005.

FINANCIAL PERFORMANCE

The financial results of the Group are summarized below: -

	<u>(Rs '000)</u>	
Profit after tax	3,360,475	
Share of profit attributable to minority interest	<u>(13,102)</u>	
Profit attributable to shareholders	3,347,373	
Appropriation relating to Statutory Reserves	<table border="1"><tr><td style="text-align: center;">655.626</td></tr></table>	655.626
655.626		
Earning per share Annualized (Basic)	9.70	

During the half year under review, pre-tax profit increased by Rs. 2.7 billion, representing a growth of 121% over the corresponding period last year. Robust growth in business volumes, coupled with effective spread management and stringent cost controls were the primary factors behind the increase in the overall profitability. The Bank's core earnings from net interest income registered an increase of Rs. 4.4 billion (or 75%) over the same period last year. Excluding the one-off VSS-related payments of Rs. 1.5 billion, total administrative expenses increased by Rs. 630 million. The Bank witnessed consistent growth in business volumes during the period, with total advances increasing by Rs. 30 billion (or 11.6%) since December 2004. Consumer finances grew by Rs. 7.4 billion (33%) during the six months. Despite the competitive market, deposits increased by Rs. 23.3 billion during the six-month period.

OUTLOOK

The ensuing macro-economic environment of higher interest rates and reduced market liquidity will be an additional challenge for the banking industry. However, we feel confident that the initiatives being currently pursued by HBL have poised the Bank to manage these opportunities effectively. Our main focus for the immediate future is to leverage our investment in state-of-the-art technological platform so as to provide superior customer services and products in the most cost-effective and timely manner. The technological over-haul of our strong branch network *vis-à-vis* innovative internet/electronic banking services, and availability of additional automated teller machines will ensure that HBL remains customer's number one choice for banking services. Furthermore, the breadth of our management experience, the commitment of our staff, the investment in technology and equipment coupled with our over-riding determination to place the satisfaction of customers first, will ensure continued success in the future.

President & Chief Executive Officer
July 19, 2005

HABIB BANK LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2005

	(Unaudited) June 30, 2005	(Audited) December 31, 2004
Note	(Rupees in '000)	
ASSETS		
Cash and balances with treasury banks	35,276,459	31,970,290
Balances with other banks	29,085,402	33,386,118
Lendings to financial institutions	3,174,585	3,755,039
Investments	4 133,997,061	134,540,558
Advances	5 288,276,234	258,306,053
Other assets	15,434,729	11,935,142
Operating fixed assets	11,018,069	11,110,314
Deferred tax asset - net	561,587	1,978,144
	<u>516,824,126</u>	<u>486,981,658</u>
LIABILITIES		
Bills payable	6,971,977	7,601,766
Borrowings from financial institutions	6 32,755,012	29,196,284
Deposits and other accounts	7 427,940,541	404,629,059
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Other liabilities	15,347,213	14,090,772
Deferred tax liabilities	-	-
	<u>483,014,743</u>	<u>455,517,881</u>
NET ASSETS	<u><u>33,809,383</u></u>	<u><u>31,463,777</u></u>
REPRESENTED BY:		
Minority Interest	268,933	275,702
Shareholders' equity		
Share capital	6,900,000	6,900,000
Other tier 1 capital	-	-
Capital reserves	2,294,813	2,644,052
Unappropriated profit and other reserves	16,910,813	13,546,636
	<u>26,105,626</u>	<u>23,090,688</u>
Surplus on revaluation of assets - net of tax	8 7,434,824	8,097,387
	<u><u>33,809,383</u></u>	<u><u>31,463,777</u></u>
CONTINGENCIES AND COMMITMENTS	9	

The annexed notes 1 to 12 form an integral part of these financial statements.

R. Zakir Mahmood

President and Chief Executive Officer

Director

Director

Director

HABIB BANK LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT (Unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2005

	Six months ended		Quarter ended	
	January 01 to June 30, 2005	January 01 to June 30, 2004	April 01 to June 30, 2005	April 01 to June 30, 2004
	----- (Rupees in '000) -----			
Mark-up / return / interest earned	13,334,262	7,907,655	7,503,394	4,045,467
Mark-up / return / interest expensed	3,016,511	2,025,908	1,673,495	982,648
Net mark-up / interest income	10,317,751	5,881,747	5,829,899	3,062,819
Provision against non-performing loans and advances - net	388,170	1,185,752	238,887	621,368
Provision against off-balance sheet obligations	128,851	251,311	128,851	251,311
Reversal of provision against diminution in value of investments	(6,022)	(140,175)	(2,089)	(130,067)
Bad debts written off directly	-	-	-	-
	510,999	1,296,888	365,649	742,612
Net mark-up / interest income after provisions	9,806,752	4,584,859	5,464,250	2,320,207
Non mark-up / interest income				
Fee, commission and brokerage income	1,300,408	1,208,978	681,110	623,309
Income / gain on sale of investments	779,584	1,203,632	562,495	541,340
Dividend income including share of profit of joint ventures	220,043	408,518	102,073	215,713
Income from dealing in foreign currencies	544,326	422,850	300,585	246,903
Other income	912,114	1,006,366	509,207	513,270
Total non-mark-up / interest income	3,756,475	4,250,344	2,155,470	2,140,535
	13,563,227	8,835,203	7,619,720	4,460,742
Non mark-up / interest expense				
Administrative expenses	8,660,039	6,532,532	5,307,240	3,482,821
Other provisions - net	(21,111)	86,404	2,759	64,915
Other charges	41,707	4,347	41,584	3,421
Total non mark-up / interest expenses	8,680,635	6,623,283	5,351,583	3,551,157
PROFIT BEFORE TAXATION	4,882,592	2,211,920	2,268,137	909,585
Taxation - current	150,028	249,434	34,884	135,032
- prior periods	(44,428)	(17,913)	(44,428)	(4,695)
- deferred	1,416,517	466,387	620,897	212,178
	1,522,117	697,908	611,353	342,515
PROFIT AFTER TAXATION	3,360,475	1,514,012	1,656,784	567,070
Share of profit attributable to minority interest	(13,102)	(6,663)	(6,199)	(3,488)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	3,347,373	1,507,349	1,650,585	563,582
Basic and Diluted earnings per share	9.70	4.37	4.78	1.63
	(----- annualised -----)		(----- for the quarter -----)	

The annexed notes 1 to 12 form an integral part of these financial statements.

R. Zakir Mahmood
President and Chief Executive Officer

Director

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HABIB BANK LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT (continued)
FOR THE SIX MONTHS ENDED JUNE 30, 2005

	Six months ended		Quarter ended	
	January 01 to June 30, 2005	January 01 to June 30, 2004	April 01 to June 30, 2005	April 01 to June 30, 2004
	----- (Rupees in '000) -----			
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	3,347,373	1,507,349	1,650,585	563,582
Unappropriated profit / (accumulated loss) brought forward	1,468,964	(13,028,813)	3,096,379	(12,072,412)
	<u>4,816,337</u>	<u>(11,521,464)</u>	<u>4,746,964</u>	<u>(11,508,830)</u>
APPROPRIATIONS AND TRANSFERS:				
Transferred from :				
Surplus on revaluation of fixed assets				
Current period - net of tax	42,809	42,515	20,376	29,881
Transferred to:				
Statutory reserve	(655,626)	(301,470)	(576,668)	(301,470)
Capital reserve	-	-	-	-
General reserve	-	(1,203,078)	-	(1,203,078)
Reserves set aside as per regulatory requirements of overseas joint ventures	(26,005)	(45,316)	(13,157)	(45,316)
	<u>(681,631)</u>	<u>(1,549,864)</u>	<u>(589,825)</u>	<u>(1,549,864)</u>
Unappropriated profit / (accumulated loss) carried forward	<u><u>4,177,515</u></u>	<u><u>(13,028,813)</u></u>	<u><u>4,177,515</u></u>	<u><u>(13,028,813)</u></u>

The annexed notes 1 to 12 form an integral part of these financial statements.

R. Zakir Mahmood
President and Chief Executive Officer

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HABIB BANK LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED CASH FLOW STATEMENT (Unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2005

	June 30, 2005	June 30, 2004
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	4,882,592	2,211,920
Less: Dividend income including share of profit of joint ventures	(220,043)	(408,518)
Profit from investment securities	(779,584)	(1,203,632)
	(999,627)	(1,612,150)
	<u>3,882,965</u>	<u>599,770</u>
Adjustment for non-cash charges		
Depreciation	408,031	343,984
Reversal of provision against diminution in the value of investments	(6,022)	(140,175)
Provision against non-performing loans and advances - net of reversals	388,170	1,185,752
Amortisation of premium on investments	206,883	219,937
Profit on sale of fixed assets	(7,014)	(9,446)
Miscellaneous provisions	56,783	499,715
	<u>1,046,831</u>	<u>2,099,767</u>
	4,929,796	2,699,537
(Increase) / decrease in operating assets		
Government securities	28,672	2,744,626
Lendings to financial institutions	580,454	10,938,915
Loans and advances	(30,358,352)	(28,992,756)
Other assets - net	(2,560,410)	(104,141)
	<u>(32,309,636)</u>	<u>(15,413,356)</u>
Increase / (decrease) in operating liabilities		
Deposits and other accounts	23,311,482	20,265,484
Borrowings from financial institutions	3,558,728	(4,620,741)
Bills payable	(629,789)	(676,822)
Other liabilities - net	1,524,787	(3,095,200)
	<u>27,765,208</u>	<u>11,872,721</u>
	385,368	(841,098)
Dividend Paid	(345,000)	-
Income tax refunded / (paid)	(1,048,119)	(567,255)
Net cash flows from operating activities	<u>(1,007,751)</u>	<u>(1,408,353)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in held to maturity and available-for-sale securities and joint ventures	600,641	3,040,970
Dividend income received	96,674	265,488
Fixed capital expenditure	(321,985)	(295,495)
Proceeds from sale of fixed assets	13,118	41,051
Net cash flows from investing activities	<u>388,448</u>	<u>3,052,014</u>
Exchange adjustment on translation of balances in foreign branches, subsidiaries and joint ventures	(375,244)	99,484
Decrease in cash and cash equivalents during the period	<u>(994,547)</u>	<u>1,743,145</u>
Cash and cash equivalents at beginning of the period	66,796,236	47,670,204
Effects of exchange rate changes on cash and cash equivalents	(1,439,828)	281,755
	<u>65,356,408</u>	<u>47,951,959</u>
Cash and cash equivalents at end of the period	<u><u>64,361,861</u></u>	<u><u>49,695,104</u></u>

The annexed notes 1 to 12 form an integral part of these financial statements.

R. Zakir Mahmood
President and Chief Executive Officer

Director

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HABIB BANK LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2005

	Share Capital	Other tier 1 Capital	RESERVES				Total	
			Capital		Other Reserves			
			Exchange Translation Reserve	Joint Ventures and Subsidiaries	Statutory	General		Unappropriated profit / (accumulated loss)
----- (Rupees in '000) -----								
Balance as at December 31, 2003	12,178,495	8,000,000	1,024,896	610,511	4,870,741	3,112,919	(13,028,813)	16,768,749
Profit for the period attributable to shareholders	-	-	-	-	-	-	1,507,349	1,507,349
Issue of right shares during the period	8,000,000	(8,000,000)	-	-	-	-	-	-
Share of statutory reserves of joint ventures	-	-	-	45,316	-	-	(45,316)	-
Transferred from surplus on revaluation of fixed assets to accumulated losses for: - Current period - net of tax	-	-	-	-	-	-	42,515	42,515
Transferred to statutory reserves	-	-	-	-	301,470	-	(301,470)	-
Transferred to general reserves	-	-	-	-	-	1,203,078	(1,203,078)	-
Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies	-	-	99,484	-	-	-	-	99,484
Balance as at June 30, 2004	20,178,495	-	1,124,380	655,827	5,172,211	4,315,997	(13,028,813)	18,418,097
Profit for the period attributable to shareholders	-	-	-	-	-	-	4,158,247	4,158,247
Reduction in share capital	(13,278,495)	-	-	-	-	-	13,278,495	-
Share of statutory reserves of joint ventures	-	-	-	29,758	-	-	(29,758)	-
Share premium reserve of joint ventures	-	-	-	31,123	-	-	-	31,123
Transferred from surplus on revaluation of fixed assets to accumulated losses for: - Current period - net of tax	-	-	-	-	-	-	25,257	25,257
Transferred to statutory reserves	-	-	-	-	831,649	-	(831,649)	-
Transferred to general reserves	-	-	-	-	-	1,757,815	(1,757,815)	-
Final cash dividend	-	-	-	-	-	-	(345,000)	(345,000)
Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies	-	-	802,964	-	-	-	-	802,964
Balance as at December 31, 2004	6,900,000	-	1,927,344	716,708	6,003,860	6,073,812	1,468,964	23,090,688
Profit for the period attributable to shareholders	-	-	-	-	-	-	3,347,373	3,347,373
Share of statutory reserves of joint ventures	-	-	-	26,005	-	-	(26,005)	-
Transferred from surplus on revaluation of fixed assets to accumulated losses for: - Current period - net of tax	-	-	-	-	-	-	42,809	42,809
Transferred to statutory reserves	-	-	-	-	655,626	-	(655,626)	-
Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies	-	-	(375,244)	-	-	-	-	(375,244)
Balance as at June 30, 2005	6,900,000	-	1,552,100	742,713	6,659,486	6,073,812	4,177,515	26,105,626

The annexed notes 1 to 12 form an integral part of these financial statements.

R. Zakir Mahmood
President and Chief Executive Officer

Director

Director

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Habib Bank Limited and Subsidiary Companies
Notes to the Financial Statements (Unaudited)
For the six months ended June 30, 2005

1 THE GROUP AND ITS OPERATIONS

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

Holding company

- Habib Bank Limited, Pakistan

Subsidiary companies

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

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 31 'Interim Financial Reporting'.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are being presented in a condensed format in accordance with the requirements of IAS 34 "Interim Financial Reporting" and the requirements of BSD circular letter No. 2 dated May 12, 2004.

The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the annual accounts of the bank for the year ended December 31, 2004.

4 INVESTMENTS	Note	June 30, 2005			December 31, 2004		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
----- (Rupees in '000) -----							
Held to Maturity securities (HTM)							
<i>Federal Government Securities</i>							
- Pakistan investment bonds		16,731,337	794,455	17,525,792	21,398,951	-	21,398,951
- Government of Pakistan US Dollar/Euro bonds		1,619,041	-	1,619,041	1,622,989	-	1,622,989
<i>Overseas Government securities</i>		2,855,320	-	2,855,320	4,571,042	-	4,571,042
<i>Debentures and Corporate Debt Instruments</i>		281,583	-	281,583	280,417	-	280,417
		<u>21,487,281</u>	<u>794,455</u>	<u>22,281,736</u>	<u>27,873,399</u>	<u>-</u>	<u>27,873,399</u>
Available-for-sale securities (AFS)							
<i>Federal Government Securities</i>							
- Market treasury bills		48,477,443	10,184,222	58,661,665	47,250,726	8,367,090	55,617,816
- Pakistan investment bonds		965,837	-	965,837	905,446	-	905,446
- Government of Pakistan Guaranteed Bonds	4.1	25,956,932	-	25,956,932	24,203,445	-	24,203,445
- WAPDA bonds		599,993	-	599,993	899,993	-	899,993
- Government of Pakistan US Dollar/Euro bonds		853,937	-	853,937	1,114,367	-	1,114,367
<i>Overseas Government securities</i>		6,726,658	-	6,726,658	5,666,681	-	5,666,681
<i>Fully paid-up ordinary shares:</i>							
- Listed companies		1,299,704	-	1,299,704	1,619,112	-	1,619,112
- Unlisted companies		355,807	-	355,807	355,791	-	355,791
<i>Modarba certificates</i>		30,000	-	30,000	30,000	-	30,000
<i>Debentures and Corporate Debt Instruments</i>		14,241,557	-	14,241,557	13,799,168	-	13,799,168
<i>NIT units</i>		3,537	-	3,537	3,537	-	3,537
<i>Preference shares</i>		279,472	-	279,472	189,466	-	189,466
<i>Other investments</i>		86,792	-	86,792	82,112	-	82,112
<i>Investment (net of provision)</i>		99,877,669	10,184,222	110,061,891	96,119,844	8,367,090	104,486,934
Surplus on revaluation of investments		112,379	(9,238)	103,141	738,037	(15,278)	722,759
Investments (at revalued amount)		<u>99,990,048</u>	<u>10,174,984</u>	<u>110,165,032</u>	<u>96,857,881</u>	<u>8,351,812</u>	<u>105,209,693</u>
Investment in associated undertakings		63,300	-	63,300	63,300	-	63,300
Investment in joint venture companies		1,486,993	-	1,486,993	1,394,166	-	1,394,166
		<u>123,027,622</u>	<u>10,969,439</u>	<u>133,997,061</u>	<u>126,188,746</u>	<u>8,351,812</u>	<u>134,540,558</u>

4.1 This figure includes an amount of Rs 10,899.739 million in respect of which the Government of Pakistan (GOP) has committed to issue bonds against assessed tax refunds and in respect of certain non-performing advances, debentures and corporate debt instruments transferred to Corporate and Industrial Restructuring Corporation (CIRC).

4.2 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:

	June 30, 2005	December 31, 2004
	(Rupees in '000)	
Opening balance	655,870	904,172
Reversed during the period / year	(6,022)	(151,218)
Amount written off	(8,118)	(97,084)
Closing balance	<u>641,730</u>	<u>655,870</u>

5 ADVANCES

Loans, cash credits, running finances, etc.

In Pakistan	242,390,547	220,599,097
Outside Pakistan	<u>42,889,444</u>	<u>41,387,378</u>
	285,279,991	261,986,475
Net investment in finance lease - in Pakistan	9,889,487	6,833,790
Bills discounted and purchased (excluding Government treasury bills)		
Payable in Pakistan	<u>11,084,915</u>	<u>9,800,467</u>
Payable outside Pakistan	<u>13,884,384</u>	<u>12,978,982</u>
	24,969,299	22,779,449
Provision against non-performing advances		
- Specific	(30,736,417)	(32,429,771)
- General	(1,126,126)	(863,890)
	<u>288,276,234</u>	<u>258,306,053</u>

5.1 Advances include Rs 41,922.276 million (2004: Rs 44,506.433 million) which have been placed under non-performing status as detailed below:

Category of Classification	Note	June 30, 2005		
		Non-performing advances	Provision Required	Provision Held
		----- (Rupees in '000) -----		
Pakistan				
Other Assets Especially Mentioned		1,311,772	-	-
Substandard		2,746,847	398,326	398,326
Doubtful		1,660,005	698,940	698,940
Loss		<u>21,898,583</u>	<u>16,568,039</u>	<u>16,568,039</u>
		27,617,207	17,665,305	17,665,305
Overseas operations		14,305,069	13,071,112	13,071,112
General Provision		-	1,126,126	1,126,126
Total		<u>41,922,276</u>	<u>31,862,543</u>	<u>31,862,543</u>

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

	Balance as at June 30, 2005	Maximum total amount of loans and advances including temporary advances granted during the period
		(Rupees in '000) **
Debts due by directors or executives of the Group or any of them either severally or jointly with any other persons:		
- in respect of directors	-	-
- in respect of executives *	127,093	171,513
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	372,000	392,000
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties	-	-
* (These represent staff loans given by the Group to its executives as per their terms of employment)		
** (Maximum amount has been arrived at by reference to month end balance)		

June 30, 2005 **December 31, 2004**
(Rupees in '000)

6 BORROWINGS FROM FINANCIAL INSTITUTIONS
Secured

Borrowings from State Bank of Pakistan under		
Export refinance scheme	15,088,451	14,771,718
Locally manufactured machinery refinance scheme	10,814	4,163
Others	-	-
Repurchase agreement borrowings	10,872,042	8,329,748
	<u>25,971,307</u>	<u>23,105,629</u>

Unsecured
In Pakistan

International Development Agency	-	-
Interbank call money borrowing	1,200,000	556,580
	1,200,000	556,580

Outside Pakistan

Overdrawn nostro accounts	289,334	349,208
Borrowings of overseas branches	5,294,371	5,184,867
	<u>5,583,705</u>	<u>5,534,075</u>
	6,783,705	6,090,655
	<u>32,755,012</u>	<u>29,196,284</u>

7 DEPOSITS AND OTHER ACCOUNTS
Customers

Fixed deposits	91,838,204	74,439,968
Savings deposits	239,626,708	239,817,027
Current accounts - non-remunerative	91,313,811	84,067,896
	<u>422,778,723</u>	<u>398,324,891</u>

Financial institutions

Remunerative deposits	2,851,013	2,891,984
Non-remunerative deposits	2,310,805	3,412,184
	<u>5,161,818</u>	<u>6,304,168</u>
	<u>427,940,541</u>	<u>404,629,059</u>

8 SURPLUS ON REVALUATION OF ASSETS - net of tax	Note	June 30, 2005	December 31, 2004
		(Rupees in '000)	
Surplus arising on revaluation of:			
- fixed assets	8.1	7,281,315	7,323,885
- investments	8.2	153,509	773,502
Surplus on revaluation of assets - net of tax		<u>7,434,824</u>	<u>8,097,387</u>
8.1 Surplus on revaluation of fixed assets			
Surplus on revaluation of fixed assets as at January 1		8,027,572	4,074,924
(Adjustment) / surplus on revaluation of bank's properties during the period / year		(95)	4,055,522
Surplus realised on disposal of revalued properties during the period / year		(2,057)	(17,259)
Transferred to accumulated losses in respect of incremental depreciation charged during the period / year - net of deferred tax		(40,752)	(50,513)
Related deferred tax liability of incremental depreciation charged during the period / year		(24,977)	(35,102)
Surplus on revaluation of fixed assets as at period / year end		<u>7,959,691</u>	<u>8,027,572</u>
Less: related deferred tax liability on:			
revaluation as at January 1		703,687	480,485
revaluation of bank's properties adjusted / recognised during the period / year		(33)	258,567
incremental depreciation charged during the period / year transferred to profit and loss account		(24,977)	(35,102)
disposal of revalued properties reversed during the period / year		(301)	(263)
		<u>678,376</u>	<u>703,687</u>
		<u>7,281,315</u>	<u>7,323,885</u>
8.2 Surplus / (deficit) on revaluation of investments			
Market treasury bills		(32,093)	(76,106)
Pakistan Investment Bonds		(111,274)	(67,980)
Listed securities		168,281	806,412
NIT units		17,013	15,163
Other investments		61,214	45,270
		103,141	722,759
Add / (Less): related deferred tax asset / (liability)		50,368	50,743
		<u>153,509</u>	<u>773,502</u>

	June 30, 2005	December 31, 2004
	(Rupees in '000)	
9 CONTINGENCIES AND COMMITMENTS		
9.1 Direct credit substitutes	16,785,699	16,326,865
9.2 Transaction-related contingent liabilities		
Guarantees in favour of:		
Government	10,538,551	10,063,520
Financial institutions	452,626	489,271
Others	3,403,548	3,593,771
	<u>14,394,725</u>	<u>14,146,562</u>
9.3 Trade-related commitments		
Credit cash	76,484,186	61,022,626
Credit documentary acceptance	9,446,780	7,031,799
Credit acceptance	9,526,285	11,784,616
	<u>95,457,251</u>	<u>79,839,041</u>

9.4 Commitments in respect of forward lending

The bank makes commitments to extend credit in the normal course of its business but none of these commitments are irrevocable and do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

	June 30, 2005	December 31, 2004
	(Rupees in '000)	
9.5 Other contingencies		
Claims against the Group not acknowledged as debts	40,144,109	41,844,592
9.6 Commitments in respect of forward foreign exchange contracts		
Purchase	35,990,616	42,004,160
Sale	29,998,205	33,444,750
9.7 Commitments for acquisition of operating fixed assets	54,392	132,285

9.8 The Group has committed to upgrade its computer software system for all its international and domestic operations and the remaining committed cost in this respect is approximately Rs 202.500 million.

9.9 Taxation

As at December 31, 2004, an amount of Rs 2,378 million was being shown as contingent liability in respect of assessments upto financial year 2002, relating to Azad Jammu and Kashmir (AJ&K) taxation. During the year, a committee was constituted under the Chairmanship of Secretary KA&NA Division / AJ&K Council with the representatives from Finance Division, Central Board of Revenue, State Bank of Pakistan and Commercial Banks to determine a basis / formula for assessment of income tax on the earnings of Commercial Banks operating in Azad Kashmir.

The recommendations / basis established by the Committee were duly approved by the Prime Minister of Pakistan and Chairman AJ&K Council. Hence the contingent liability has been removed and the corresponding tax calculations have been incorporated in the accounts.

10 RELATED PARTY TRANSACTIONS

The Group has related party relationship with its associated undertakings, joint venture companies, employee benefit plans, and its directors and executive officers (including their associates) and retirement benefit funds.

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 a normal risk (i.e. under the comparable uncontrolled price method).

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

Details of transactions with related parties except those under the terms of employment and balances with them as at the period-end were as follows:

	June 30, 2005	December 31, 2004
	(Rupees in '000)	
Balances outstanding as at the period / year end		
- Borrowings from related parties	6,243,405	6,700,394
- Deposits from retirement benefit funds	90,494	218,510
- Payable to staff welfare fund	-	-
- Receivable from defined benefit plan	3,956,759	3,584,238
- Balances with related parties	372,000	224,000
- Other contingencies and commitments	-	-
	June 30, 2005	June 30, 2004
	(Rupees in '000)	
Profit / Expense for the period		
- Interest paid during the period	63,308	42,550
- Modaraba management fees	4,000	3,974
- Interest income for the period	7,190	-
- Other income	-	-

Transactions entered into with directors / executive officers as per their terms of employment are excluded from related party transactions.

11 EMPLOYEE COST

11.1 During the year the Bank offered voluntary staff separation scheme (VSSS) to some of its employees. Under this scheme 2,024 employees opted for the separation. The Bank has incurred additional cost of Rs 1,500 million.

11.2 - The Bank has introduced defined contribution schemes for post retirement benefits effective from April 01, 2005 in place of the current defined benefit schemes. The benefits for service up to March 31, 2005 will continue to be computed under the terms of the defined benefit schemes of Pension and Gratuity.

- All executives and officers who retire after January 01, 2006 will be entitled to receive lump sum payment in lieu of Post Retirement Medical facilities.

The net charge for the period related to post retirement staff benefits, based on the actuarial valuations conducted as on 30 June 05, amounted to Rs 29 million and is included in administrative expenses.

12 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on _____ by the Board of Directors of the Bank.

R. Zakir Mahmood
President and Chief Executive Officer

Director

Director

Director