

## REVIEW REPORT TO THE MEMBERS

We have reviewed the annexed balance sheet of **Habib Bank Limited** as at June 30, 2005, and the related profit and loss account , cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the ‘financial statements’), for the six months then ended. These financial statements are the responsibility of the bank’s management. Our responsibility is to issue a report on these financial statements based on our review. The figures of the profit and loss account for the quarters ended June 30, 2004 and 2005 have not been reviewed, as we are required to review only the cumulative figures for the six months ended June 30, 2005.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of bank’s personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the annexed financial statements are not presented fairly, in all material respects, in accordance with the approved accounting standards as applicable in Pakistan.

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Chartered Accountants  
Karachi

**HABIB BANK LIMITED**  
**BALANCE SHEET**  
**AS AT JUNE 30, 2005**

	(Unaudited)	(Audited)
	June 30,	December 31,
Note	2005	2004
	(Restated)	
	(Rupees in '000)	
<b>ASSETS</b>		
Cash and balances with treasury banks	35,230,617	31,934,375
Balances with other banks	22,527,288	24,005,342
Lendings to financial institutions	3,174,585	3,755,039
Investments	4 129,670,850	130,709,196
Advances	5 279,757,621	250,612,460
Other assets	15,248,822	11,719,874
Operating fixed assets	10,882,799	10,949,060
Deferred tax asset - net	561,587	1,978,144
	<u>497,054,169</u>	<u>465,663,490</u>
<b>LIABILITIES</b>		
Bills payable	6,205,728	7,359,133
Borrowings from financial institutions	6 29,485,103	26,624,558
Deposits and other accounts	7 412,283,559	386,332,570
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Other liabilities	14,799,622	13,350,205
Deferred tax liabilities	-	-
	<u>462,774,012</u>	<u>433,666,466</u>
<b>NET ASSETS</b>	<u><u>34,280,157</u></u>	<u><u>31,997,024</u></u>
<b>REPRESENTED BY:</b>		
<b>Shareholders' equity</b>		
Share capital	6,900,000	6,900,000
Other tier 1 capital	-	-
Capital reserves	1,801,782	2,177,026
Unappropriated profit and other reserves	18,143,551	14,822,611
	26,845,333	23,899,637
Surplus on revaluation of assets - net of tax	8 7,434,824	8,097,387
	<u><u>34,280,157</u></u>	<u><u>31,997,024</u></u>
<b>CONTINGENCIES AND COMMITMENTS</b>	<b>9</b>	

The annexed notes 1 to 13 form an integral part of these financial statements.

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

**Sajid Zahid**  
**Director**

**Arif Mansur**  
**Director**

**Shaukat Hayat Durrani**  
**Director**

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

Note	Six months ended		Quarter ended	
	January 01 to June 30, 2005	January 01 to June 30, 2004 (Restated)	April 01 to June 30, 2005	April 01 to June 30, 2004 (Restated)
----- (Rupees in '000) -----				
Mark-up / return / interest earned	12,781,100	7,535,027	7,225,965	3,847,576
Mark-up / return / interest expensed	2,787,998	1,900,108	1,558,113	918,140
Net mark-up / interest income	9,993,102	5,634,919	5,667,852	2,929,436
Provision against non-performing loans and advances - net	382,450	1,181,437	238,020	621,242
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	-	-	-	-
	505,279	1,292,573	364,782	742,486
Net mark-up / interest income after provisions	9,487,823	4,342,346	5,303,070	2,186,950
<b>Non mark-up / interest income</b>				
Fee, commission and brokerage income	1,186,430	1,124,254	626,499	580,311
Gain on investments	970,922	1,514,577	622,238	724,571
Dividend income	93,332	172,023	37,347	80,407
Income from dealing in foreign currencies	504,911	383,960	281,999	227,911
Other income	871,476	967,366	485,565	499,134
Total non-mark-up / interest income	3,627,071	4,162,180	2,053,648	2,112,334
	13,114,894	8,504,526	7,356,718	4,299,284
<b>Non mark-up / interest expense</b>				
Administrative expenses	8,294,050	6,194,288	5,119,679	3,310,621
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	8,314,646	6,285,039	5,164,022	3,378,957
<b>PROFIT BEFORE TAXATION</b>	4,800,248	2,219,487	2,192,696	920,327
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
<b>PROFIT AFTER TAXATION</b>	3,278,131	1,521,579	1,581,343	577,812
Basic and Diluted earnings per share	9.50	4.41	2.29	0.84
	(----- annualised -----)		(----- for the quarter -----)	

The annexed notes 1 to 13 form an integral part of these financial statements.

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

**Sajid Zahid**  
**Director**

**Arif Mansur**  
**Director**

**Shaukat Hayat Durrani**  
**Director**

**HABIB BANK LIMITED**  
**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 (Restated)	April 01 to June 30, 2005	April 01 to June 30, 2004 (Restated)
----- (Rupees in '000) -----				
<b>PROFIT AFTER TAXATION</b>	3,278,131	1,521,579	1,581,343	577,812
Unappropriated profit / (accumulated loss) brought forward	2,744,939	(11,946,020)	4,385,202	(10,989,619)
	6,023,070	(10,424,441)	5,966,545	(10,411,807)
<b>APPROPRIATIONS AND TRANSFERS:</b>				
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	-	-	-	-
	(655,626)	(1,504,548)	(576,668)	(1,504,548)
Unappropriated profit / (accumulated loss) carried forward	5,410,253	(11,886,474)	5,410,253	(11,886,474)

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**Director**

**HABIB BANK LIMITED**  
**CASH FLOW STATEMENT (Unaudited)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2005**

Note	June 30, 2005	June 30, 2004 (Restated)
(Rupees in '000)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	4,800,248	2,219,487
Less: Dividend income and fair value adjustments in subsidiaries and joint ventures	2,269	(575,031)
Profit from investment securities	(970,922)	(1,514,577)
	<u>(968,653)</u>	<u>(2,089,608)</u>
	3,831,595	129,879
Adjustment for non-cash charges		
Depreciation	389,264	322,623
Reversal of provision against diminution in the value of investments	(6,022)	(140,175)
Provision against non-performing loans and advances - net of reversals	382,450	1,181,437
Amortisation of premium on investments	206,883	219,937
Profit on sale of fixed assets	(7,014)	(9,446)
Miscellaneous provisions	(367,593)	499,715
	<u>597,968</u>	<u>2,074,091</u>
	4,429,563	2,203,970
(Increase) / decrease in operating assets		
Government securities	(279,306)	3,097,822
Lendings to financial institutions	580,454	10,938,915
Loans and advances	(29,527,612)	(28,231,494)
Other assets - net	(2,592,205)	(87,190)
	<u>(31,818,669)</u>	<u>(14,281,947)</u>
Increase / (decrease) in operating liabilities		
Deposits and other accounts	25,950,989	20,956,413
Borrowings from financial institutions	2,860,545	(3,140,307)
Bills payable	(1,153,405)	(900,819)
Other liabilities - net	2,162,010	(3,249,668)
	<u>29,820,139</u>	<u>13,665,619</u>
	2,431,033	1,587,642
Dividend Paid	(345,000)	-
Income tax refunded / (paid)	(1,045,685)	(562,333)
Net cash flows from operating activities	<u>1,040,348</u>	<u>1,025,309</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investments in held to maturity and available-for-sale securities and joint ventures	1,372,494	959,114
Investment in subsidiary companies	-	-
Dividend income received	96,674	265,488
Fixed capital expenditure	(329,202)	(285,757)
Proceeds from sale of fixed assets	13,118	41,040
Net cash flows from investing activities	<u>1,153,084</u>	<u>979,885</u>
Exchange adjustment on translation of balances in foreign branches, subsidiaries and joint ventures	(375,244)	99,484
Increase in cash and cash equivalents during the period	<u>1,818,188</u>	<u>2,104,678</u>
Cash and cash equivalents at beginning of the period	56,611,711	41,113,183
Effects of exchange rate changes on cash and cash equivalents	(671,994)	107,519
	55,939,717	41,220,702
Cash and cash equivalents at end of the period	<u><u>57,757,905</u></u>	<u><u>43,325,380</u></u>

The annexed notes 1 to 13 form an integral part of these financial statements.

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**HABIB BANK LIMITED**  
**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 as previously reported	12,178,495	8,000,000	1,274,578	610,511	4,870,741	3,112,919	(13,278,495)	16,768,749
Change in accounting policy for investment in subsidiaries, associates and joint venture companies				(610,511)			1,332,475	721,964
Balance as at December 31, 2003 as restated	12,178,495	8,000,000	1,274,578	-	4,870,741	3,112,919	(11,946,020)	17,490,713
Profit after taxation for the period (restated)	-	-	-	-	-	-	1,521,579	1,521,579
Issue of right shares during the period	8,000,000	(8,000,000)	-	-	-	-	-	-
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 (restated)	-	-	-	-	-	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 as restated	20,178,495	-	1,374,062	-	5,172,211	4,315,997	(11,886,474)	19,154,291
Profit after taxation for the period (restated)	-	-	-	-	-	-	4,262,125	4,262,125
Reduction in share capital	(13,278,495)	-	-	-	-	-	13,278,495	-
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)	-
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 as restated	6,900,000	-	2,177,026	-	6,003,860	6,073,812	2,744,939	23,899,637
Profit after taxation for the period	-	-	-	-	-	-	3,278,131	3,278,131
Transferred from surplus on revaluation of fixed assets to unappropriated profit 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	-	1,801,782	-	6,659,486	6,073,812	5,410,253	26,845,333

The annexed notes 1 to 13 form an integral part of these financial statements.

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**President and Chief Executive Officer**

**Sajid Zahid**  
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**Director**

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

**1 THE BANK 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's registered office and principal offices are situated at Habib Bank Plaza, I. I. Chundrigar road, Karachi. The Bank operates 1,425 branches inside Pakistan and 44 branches outside Pakistan (including the KEPZ branch).

**2 STATEMENT OF COMPLIANCE**

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

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the annual accounts of the Bank for the year ended December 31, 2004 except for the change as discussed in note 3.1 below.

**3.1 Investment in Subsidiaries, Jointly Controlled Entities and Associates**

The Bank has changed its accounting policy in respect of accounting for investment in subsidiaries and jointly controlled entities from equity method of accounting to the fair value basis. This change in accounting policy, has been made to comply with the new requirements of International Accounting Standard (IAS) 27 "Consolidated and Separate Financial Statements", IAS 28 "Investment in Associates" and IAS 31 "Interest in Joint Ventures". These IASs are applicable for annual periods beginning on or after January 01, 2005. Had this change in accounting policy not been made, the value of investment in subsidiaries and joint venture entities would have been lower by Rs 739.707 million and profit for the six months ended June 30, 2005, would be higher by Rs 69.242 million.

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)
							(Restated)
<b>Held to Maturity securities (HTM)</b>							
<i>Federal Government Securities</i>							
		16,731,337	794,455	17,525,792	21,398,951	-	21,398,951
		1,619,041	-	1,619,041	1,622,989	-	1,622,989
		2,855,320	-	2,855,320	4,571,042	-	4,571,042
		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>
<b>Available-for-sale securities (AFS)</b>							
<i>Federal Government Securities</i>							
		48,427,759	10,184,222	58,611,981	47,250,726	8,367,090	55,617,816
		965,837	-	965,837	905,446	-	905,446
	4.1	25,477,109	-	25,477,109	23,722,271	-	23,722,271
		599,993	-	599,993	899,993	-	899,993
		853,937	-	853,937	1,114,367	-	1,114,367
		6,426,583	-	6,426,583	5,010,295	-	5,010,295
<i>Fully paid-up ordinary shares:</i>							
		1,299,704	-	1,299,704	1,619,112	-	1,619,112
		355,807	-	355,807	355,791	-	355,791
		6,420,458	-	6,420,458	6,592,468	-	6,592,468
		3,537	-	3,537	3,537	-	3,537
		279,472	-	279,472	189,466	-	189,466
		86,792	-	86,792	82,112	-	82,112
		91,196,988	10,184,222	101,381,210	87,745,584	8,367,090	96,112,674
		112,379	(9,238)	103,141	738,037	(15,278)	722,759
		<u>91,309,367</u>	<u>10,174,984</u>	<u>101,484,351</u>	<u>88,483,621</u>	<u>8,351,812</u>	<u>96,835,433</u>
		63,300	-	63,300	63,300	-	63,300
		3,614,763	-	3,614,763	3,733,949	-	3,733,949
		2,226,700	-	2,226,700	2,203,115	-	2,203,115
		<u>118,701,411</u>	<u>10,969,439</u>	<u>129,670,850</u>	<u>122,357,384</u>	<u>8,351,812</u>	<u>130,709,196</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>29,759,084</u>	<u>28,848,157</u>
	272,149,631	249,447,254
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>12,730,267</u>	<u>11,837,563</u>
	23,815,182	21,638,030
Provision against non-performing advances		
- Specific	(24,970,553)	(26,442,724)
- General	<u>(1,126,126)</u>	<u>(863,890)</u>
	<u>279,757,621</u>	<u>250,612,460</u>

5.1 Advances include Rs. 35,994.216 million (2004: Rs 38,468.111 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) -----				
<b>Pakistan</b>				
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
<b>Overseas operations</b>		8,377,009	7,305,248	7,305,248
<b>General Provision</b>		-	1,126,126	1,126,126
<b>Total</b>		<u>35,994,216</u>	<u>26,096,679</u>	<u>26,096,679</u>

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

	<b>Balance as at June 30, 2005</b>	<b>Maximum total amount of loans and advances including temporary advances granted during the period</b>
	<b>(Rupees in '000) **</b>	
Debts due by directors or executives of the Bank 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 Bank 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 Bank to its executives as per their terms of employment)		
** (Maximum amount has been arrived at by reference to month end balance)		

<b>June 30, 2005</b>	<b>December 31, 2004</b>
<b>(Rupees in '000)</b>	

**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	<u>10,872,042</u>	<u>8,329,748</u>
	25,971,307	23,105,629

**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	2,024,462	2,613,141
	2,313,796	2,962,349
	3,513,796	3,518,929
	<u>29,485,103</u>	<u>26,624,558</u>

**7 DEPOSITS AND OTHER ACCOUNTS**

**Customers**

Fixed deposits	81,322,059	61,611,013
Savings deposits	238,488,804	238,625,324
Current accounts - non-remunerative	88,386,476	81,462,310
	<u>408,197,339</u>	<u>381,698,647</u>

**Financial institutions**

Remunerative deposits	2,891,997	2,891,983
Non-remunerative deposits	1,194,223	1,741,940
	4,086,220	4,633,923
	<u>412,283,559</u>	<u>386,332,570</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>
<b>8.1 Surplus on revaluation of fixed assets</b>			
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 unappropriated profit / (loss) 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>
<b>8.2 Surplus / (deficit) on revaluation of investments</b>			
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: related deferred tax asset		50,368	50,743
		<u>153,509</u>	<u>773,502</u>

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
	<b>(Rupees in '000)</b>	
<b>9 CONTINGENCIES AND COMMITMENTS</b>		
<b>9.1 Direct credit substitutes</b>	16,785,699	16,326,865
<b>9.2 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
Government	10,538,551	10,043,176
Financial institutions	452,626	421,610
Others	3,219,814	3,502,908
	<u>14,210,991</u>	<u>13,967,694</u>
<b>9.3 Trade-related commitments</b>		
Credit cash	75,672,284	60,328,860
Credit documentary acceptance	9,373,815	6,946,098
Credit acceptance	8,943,523	10,179,249
	<u>93,989,622</u>	<u>77,454,207</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.

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
	<b>(Rupees in '000)</b>	
<b>9.5 Other contingencies</b>		
Claims against the Bank not acknowledged as debts	40,142,958	41,826,303
<b>9.6 Commitments in respect of forward foreign exchange contracts</b>		
Purchase	35,583,503	41,686,319
Sale	29,591,091	33,126,909
<b>9.7 Commitments for acquisition of operating fixed assets</b>	54,392	132,285

**9.8** The Bank 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 2001, 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 Bank has related party relationship with its associated undertakings, subsidiary companies, 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:

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
	<b>(Rupees in '000)</b>	
Balances outstanding as at the period / year end		
- Borrowings from related parties	6,360,582	6,933,316
- Deposits from retirement benefit funds	90,494	218,510
- Deposits from other related parties	-	-
- Payable to staff welfare fund	-	-
- Receivable from defined benefit plan *	3,956,759	3,584,238
- Balances with related parties	387,861	450,502
- Other contingencies and commitments	32,506	17,660
- Guarantees favouring related parties	-	24,687
- Acceptances from related parties	10,264	34,730

\* (It includes an amount receivable on account of investments transferred to staff retirement benefit funds at encashable value)

	<b>June 30, 2005</b>	<b>June 30, 2004</b>
	<b>(Rupees in '000)</b>	
Profit / Expense for the period		
- Dividend and other remittances received during the period	59,092	13,000
- Interest paid during the period	64,958	46,277
- Modaraba management fees	4,000	3,974
- Interest income for the period	7,236	1,971
- Other income	-	-
- Other expense	16,521	10,107

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 in this respect.

**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 633 million and is included in administrative expenses.

## **12 CORRESPONDING FIGURES**

Corresponding figures have been reclassified, where necessary, for the purpose of comparison. Significant reclassifications relate to changes arising as a consequence of change in accounting policy as explained in note 3.1.

## **13 DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on 19th July 2005 by the Board of Directors of the Bank.

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

**Sajid Zahid**  
Director

**Arif Mansur**  
Director

**Shaukat Hayat Durrani**  
Director