

DIRECTORS' REVIEW

The Board of Directors is pleased to present the Accounts for the Quarter ended September 30, 2005.

FINANCIAL PERFORMANCE

The financial results of Group are summarized as below:

| | <u>(Rs '000)</u> | |
|---|---|---------|
| Profit after tax | 2,593,471 | |
| Share of (profit) attributable to minority interest | <u>(5,141)</u> | |
| Profit attributable to shareholders | 2,588,330 | |
| Appropriation relating to Statutory Reserves | <table border="1"><tr><td style="text-align: center;">384,915</td></tr></table> | 384,915 |
| 384,915 | | |
| Earning per share (Basic and diluted) | 3.75 | |

The pre-tax profit of the Group significantly increased by Rs 1.9 billion, representing a growth of 102% over the corresponding period last year. Growth in business volumes, coupled with effective cost controls and spread management were the primary factors behind the increase in the overall profitability. The net interest income registered an increase of Rs 3.1 billion (94.02%) over the same period last year. This is mainly because of the increase in the market rates. However, we expect that in subsequent period, net interest income will remain under pressure due to impact of increase in the deposit rate in line with the market trend. The total administrative expenses showed an increase of Rs 142 million which is lower than the increase of Rs. 321 million in the corresponding period last year due to the VSS-related savings of Rs 135 million during the current period.

During nine months period deposits and advances increased by Rs 12 billion (3%) and Rs 21 billion (8%) respectively from the base of December 04. Deposits volume as at September 30, 2005 is diluted, because of the withdrawal on the eve of Ramadan.

OUTLOOK

Group is poised to continue its growth in future, as its investment in technology would enhance operational efficiencies and improve customer service. We continue our drive for diversification in revenue base through growth in existing loans portfolio as well as launching innovative products. This is evident from 44% growth in volumes of Consumer Assets financing since December 31, 2004 and successful launch of Value Debit Cards. We are also focusing vigorously towards Corporate financing and emerging overseas markets.

On behalf of the Board of Directors

R. Zakir Mahmood
President & Chief Executive Officer

Karachi, October 20, 2005

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

| | (Unaudited) September 30, 2005 | (Audited) December 31, 2004 |
|---|--------------------------------------|-----------------------------------|
| Note | (Rupees in '000) | |
| ASSETS | | |
| Cash and balances with treasury banks | 38,195,668 | 31,970,290 |
| Balances with other banks | 27,376,798 | 33,386,118 |
| Lendings to financial institutions | 3,137,355 | 3,755,039 |
| Investments | 4 129,780,356 | 134,540,558 |
| Advances | 5 279,403,495 | 258,306,053 |
| Other assets | 15,057,254 | 11,935,142 |
| Operating fixed assets | 10,964,926 | 11,110,314 |
| Deferred tax asset - net | 948,039 | 1,978,144 |
| | <u>504,863,891</u> | <u>486,981,658</u> |
| LIABILITIES | | |
| Bills payable | 7,438,051 | 7,601,766 |
| Borrowings from financial institutions | 6 24,356,423 | 29,196,284 |
| Deposits and other accounts | 7 416,335,667 | 404,629,059 |
| Sub-ordinated loans | - | - |
| Liabilities against assets subject to finance lease | - | - |
| Other liabilities | 20,247,271 | 14,090,772 |
| Deferred tax liabilities | - | - |
| | <u>468,377,412</u> | <u>455,517,881</u> |
| NET ASSETS | <u><u>36,486,479</u></u> | <u><u>31,463,777</u></u> |
| REPRESENTED BY: | | |
| Minority Interest | 271,064 | 275,702 |
| Shareholders' equity | | |
| Share capital | 6,900,000 | 6,900,000 |
| Other tier 1 capital | - | - |
| Capital reserves | 2,297,684 | 2,644,052 |
| Unappropriated profit and other reserves | 19,505,527 | 13,546,636 |
| | <u>28,703,211</u> | <u>23,090,688</u> |
| Surplus on revaluation of assets - net of tax | 8 7,512,204 | 8,097,387 |
| | <u><u>36,486,479</u></u> | <u><u>31,463,777</u></u> |
| CONTINGENCIES AND COMMITMENTS | 9 | |

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

R. Zakir Mahmood
President and Chief Executive Officer

Ahmad Waqar
Director

M. Ismail Qureshi
Director

Shaukat Hayat Durrani
Director

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

| | Nine months ended | | Quarter ended | |
|--|--|--|-------------------------------------|-------------------------------------|
| | January 01 to September 30, 2005 | January 01 to September 30, 2004 | July 01 to September 30, 2005 | July 01 to September 30, 2004 |
| | ----- (Rupees in '000) ----- | | | |
| Mark-up / return / interest earned | 21,694,997 | 12,474,782 | 8,360,735 | 4,567,127 |
| Mark-up / return / interest expensed | 4,898,513 | 3,253,776 | 1,882,002 | 1,227,868 |
| Net mark-up / interest income | 16,796,484 | 9,221,006 | 6,478,733 | 3,339,259 |
| Provision against non-performing loans and advances - net | 1,234,864 | 2,122,701 | 846,694 | 936,949 |
| Provision against off-balance sheet obligations | 128,851 | 251,311 | - | - |
| Reversal of provision against diminution in value of investments | (16,554) | (179,308) | (10,532) | (39,133) |
| Bad debts written off directly | - | - | - | - |
| | 1,347,161 | 2,194,704 | 836,162 | 897,816 |
| Net mark-up / interest income after provisions | 15,449,323 | 7,026,302 | 5,642,571 | 2,441,443 |
| Non mark-up / interest income | | | | |
| Fee, commission and brokerage income | 2,089,245 | 1,954,415 | 788,837 | 745,437 |
| Income / gain on sale of investments | 753,660 | 2,294,003 | (25,924) | 1,090,371 |
| Dividend income including share of profit of joint ventures | 333,140 | 687,451 | 113,097 | 278,933 |
| Income from dealing in foreign currencies | 884,625 | 700,093 | 340,299 | 277,243 |
| Other income | 1,345,869 | 1,439,944 | 433,755 | 433,578 |
| Total non-mark-up / interest income | 5,406,539 | 7,075,906 | 1,650,064 | 2,825,562 |
| | 20,855,862 | 14,102,208 | 7,292,635 | 5,267,005 |
| Non mark-up / interest expense | | | | |
| Administrative expenses | 12,213,179 | 9,943,334 | 3,553,140 | 3,410,802 |
| Other provisions - net | (9,572) | 96,697 | 11,539 | 10,293 |
| Other charges | 42,356 | 5,144 | 649 | 797 |
| Total non mark-up / interest expenses | 12,245,963 | 10,045,175 | 3,565,328 | 3,421,892 |
| PROFIT BEFORE TAXATION | 8,609,899 | 4,057,033 | 3,727,307 | 1,845,113 |
| Taxation - current | 1,652,645 | 378,751 | 1,502,617 | 129,317 |
| - prior periods | (44,387) | (6,450) | 41 | 11,463 |
| - deferred | 1,047,695 | 598,047 | (368,822) | 131,660 |
| | 2,655,953 | 970,348 | 1,133,836 | 272,440 |
| PROFIT AFTER TAXATION | 5,953,946 | 3,086,685 | 2,593,471 | 1,572,673 |
| Share of profit attributable to minority interest | (18,243) | (10,192) | (5,141) | (3,529) |
| PROFIT ATTRIBUTABLE TO SHAREHOLDERS | 5,935,703 | 3,076,493 | 2,588,330 | 1,569,144 |
| Basic and Diluted earnings per share | 11.47 | 5.94 | 3.75 | 2.27 |
| | (----- 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

Ahmad Waqar
Director

M. Ismail Qureshi
Director

Shaukat Hayat Durrani
Director

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

| | Nine months ended | | Quarter ended | |
|---|--|--|-------------------------------------|-------------------------------------|
| | January 01 to September 30, 2005 | January 01 to September 30, 2004 | July 01 to September 30, 2005 | July 01 to September 30, 2004 |
| | ----- (Rupees in '000) ----- | | | |
| PROFIT ATTRIBUTABLE TO SHAREHOLDERS | 5,935,703 | 3,076,493 | 2,588,330 | 1,569,144 |
| Unappropriated profit / (accumulated loss) brought forward | 1,468,964 | (13,028,813) | 4,177,515 | (13,028,813) |
| | 7,404,667 | (9,952,320) | 6,765,845 | (11,459,669) |
| APPROPRIATIONS AND TRANSFERS: | | | | |
| Transferred from : | | | | |
| Surplus on revaluation of fixed assets | | | | |
| Current period - net of tax | 63,185 | 55,143 | 20,376 | 12,628 |
| Transferred to: | | | | |
| Statutory reserve | (1,040,541) | (615,299) | (384,915) | (313,829) |
| Capital reserve | - | - | - | - |
| General reserve | - | (2,460,893) | - | (1,257,815) |
| Reserves set aside as per regulatory requirements of overseas joint ventures | (39,997) | (55,444) | (13,992) | (10,128) |
| | (1,080,538) | (3,131,636) | (398,907) | (1,581,772) |
| Unappropriated profit / (accumulated loss) carried forward | 6,387,314 | (13,028,813) | 6,387,314 | (13,028,813) |

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

R. Zakir Mahmood
President and Chief Executive Officer

Ahmad Waqar
Director

M. Ismail Qureshi
Director

Shaukat Hayat Durrani
Director

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

| | September 30, 2005 | September 30, 2004 |
|---|-----------------------|-----------------------|
| | (Rupees in '000) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit before taxation | 8,609,899 | 4,057,033 |
| Less: Dividend income including share of profit of joint ventures | (333,140) | (687,451) |
| Profit from investment securities | (753,660) | (2,294,003) |
| | (1,086,800) | (2,981,454) |
| | 7,523,099 | 1,075,579 |
| Adjustment for non-cash charges | | |
| Depreciation | 604,300 | 595,700 |
| Reversal of provision against diminution in the value of investments | (16,554) | (179,308) |
| Provision against non-performing loans and advances - net of reversals | 1,234,864 | 2,122,701 |
| Amortisation of premium on investments | 315,211 | 312,010 |
| Profit on sale of fixed assets | (10,952) | (18,628) |
| Miscellaneous provisions | (263,054) | 591,008 |
| | 1,863,815 | 3,423,483 |
| | 9,386,914 | 4,499,062 |
| (Increase) / decrease in operating assets | | |
| Government securities | 3,023,469 | 13,109,516 |
| Lendings to financial institutions | 617,684 | 9,451,831 |
| Loans and advances | (22,332,305) | (41,247,500) |
| Other assets - net | (3,638,103) | (1,278,479) |
| | (22,329,255) | (19,964,632) |
| Increase / (decrease) in operating liabilities | | |
| Deposits and other accounts | 11,706,608 | 21,023,029 |
| Borrowings from financial institutions | (4,839,861) | 3,368,628 |
| Bills payable | (163,715) | (383,751) |
| Other liabilities - net | 6,741,672 | (20,833) |
| | 13,444,704 | 23,987,073 |
| | 502,363 | 8,521,503 |
| Dividend Paid | (345,000) | - |
| Income tax refunded / (paid) | (1,053,476) | (711,720) |
| Net cash flows from operating activities | (896,113) | 7,809,783 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net investments in held to maturity and available-for-sale securities and joint ventures | 1,842,951 | 4,591,809 |
| Dividend income received | 103,640 | 453,515 |
| Fixed capital expenditure | (469,200) | (608,945) |
| Proceeds from sale of fixed assets | 21,145 | 44,308 |
| Net cash flows from investing activities | 1,498,536 | 4,480,687 |
| Exchange adjustment on translation of balances in foreign branches, subsidiaries and joint ventures | (386,365) | 362,043 |
| Decrease in cash and cash equivalents during the period | 216,058 | 12,652,513 |
| Cash and cash equivalents at beginning of the period | 66,948,443 | 47,080,110 |
| Effects of exchange rate changes on cash and cash equivalents | (1,592,035) | 871,849 |
| | 65,356,408 | 47,951,959 |
| Cash and cash equivalents at end of the period | 65,572,466 | 60,604,472 |

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

R. Zakir Mahmood
President and Chief Executive Officer

Ahmad Waqar
Director

M. Ismail Qureshi
Director

Shaukat Hayat Durrani
Director

HABIB BANK LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE NINE MONTHS ENDED SEPTEMBER 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 | - | - | - | - | - | - | 3,076,493 | 3,076,493 |
| Issue of right shares during the period | 8,000,000 | (8,000,000) | - | - | - | - | - | - |
| Share of statutory reserves of joint ventures | - | - | - | 55,444 | - | - | (55,444) | - |
| Transferred from surplus on revaluation of fixed assets to accumulated losses for: - Current period - net of tax | - | - | - | - | - | - | 55,143 | 55,143 |
| Transferred to statutory reserves | - | - | - | - | 615,299 | - | (615,299) | - |
| Transferred to general reserves | - | - | - | - | - | 2,460,893 | (2,460,893) | - |
| Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies | - | - | 362,043 | - | - | - | - | 362,043 |
| Balance as at September 30, 2004 | 20,178,495 | - | 1,386,939 | 665,955 | 5,486,040 | 5,573,812 | (13,028,813) | 20,262,428 |
| Profit for the period attributable to shareholders | - | - | - | - | - | - | 2,589,103 | 2,589,103 |
| Reduction in share capital | (13,278,495) | - | - | - | - | - | 13,278,495 | - |
| Share of statutory reserves of joint ventures | - | - | - | 19,630 | - | - | (19,630) | - |
| 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 | - | - | - | - | - | - | 12,629 | 12,629 |
| Transferred to statutory reserves | - | - | - | - | 517,820 | - | (517,820) | - |
| Transferred to general reserves | - | - | - | - | - | 500,000 | (500,000) | - |
| Final cash dividend | - | - | - | - | - | - | (345,000) | (345,000) |
| Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies | - | - | 540,405 | - | - | - | - | 540,405 |
| 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 | - | - | - | - | - | - | 5,935,703 | 5,935,703 |
| Share of statutory reserves of joint ventures | - | - | - | 39,997 | - | - | (39,997) | - |
| Transferred from surplus on revaluation of fixed assets to unappropriated profit for: - Current period - net of tax | - | - | - | - | - | - | 63,185 | 63,185 |
| Transferred to statutory reserves | - | - | - | - | 1,040,541 | - | (1,040,541) | - |
| Effect of translation of net investment in foreign branches, subsidiaries and joint venture companies | - | - | (386,365) | - | - | - | - | (386,365) |
| Balance as at September 30, 2005 | 6,900,000 | - | 1,540,979 | 756,705 | 7,044,401 | 6,073,812 | 6,387,314 | 28,703,211 |

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

R. Zakir Mahmood
President and Chief Executive Officer

Ahmad Waqar
Director

M. Ismail Qureshi
Director

Shaikat Hayat Durrani
Director

Habib Bank Limited and Subsidiary Companies
Notes to the Financial Statements (Unaudited)
For the nine months ended September 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 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.

| 4 INVESTMENTS | Note | September 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> | | | | | | | |
| | | 16,108,457 | - | 16,108,457 | 21,398,951 | - | 21,398,951 |
| | | 1,610,368 | - | 1,610,368 | 1,622,989 | - | 1,622,989 |
| | | 2,580,471 | - | 2,580,471 | 4,571,042 | - | 4,571,042 |
| | | 281,690 | - | 281,690 | 280,417 | - | 280,417 |
| | | <u>20,580,986</u> | <u>-</u> | <u>20,580,986</u> | <u>27,873,399</u> | <u>-</u> | <u>27,873,399</u> |
| <i>Overseas Government securities</i> | | | | | | | |
| | | 2,580,471 | - | 2,580,471 | 4,571,042 | - | 4,571,042 |
| | | 281,690 | - | 281,690 | 280,417 | - | 280,417 |
| | | <u>20,580,986</u> | <u>-</u> | <u>20,580,986</u> | <u>27,873,399</u> | <u>-</u> | <u>27,873,399</u> |
| Available-for-sale securities (AFS) | | | | | | | |
| <i>Federal Government Securities</i> | | | | | | | |
| | | 52,880,811 | 5,930,914 | 58,811,725 | 47,250,726 | 8,367,090 | 55,617,816 |
| | | 950,040 | - | 950,040 | 905,446 | - | 905,446 |
| | 4.1 | 24,165,641 | - | 24,165,641 | 24,203,445 | - | 24,203,445 |
| | | 599,993 | - | 599,993 | 899,993 | - | 899,993 |
| | | 852,709 | - | 852,709 | 1,114,367 | - | 1,114,367 |
| | | 6,982,646 | - | 6,982,646 | 5,666,681 | - | 5,666,681 |
| | | 1,257,039 | - | 1,257,039 | 1,619,112 | - | 1,619,112 |
| | | 355,802 | - | 355,802 | 355,791 | - | 355,791 |
| | | 30,000 | - | 30,000 | 30,000 | - | 30,000 |
| | | 13,045,877 | - | 13,045,877 | 13,799,168 | - | 13,799,168 |
| | | 3,537 | - | 3,537 | 3,537 | - | 3,537 |
| | | 234,055 | - | 234,055 | 189,466 | - | 189,466 |
| | | 86,792 | - | 86,792 | 82,112 | - | 82,112 |
| | | 101,444,942 | 5,930,914 | 107,375,856 | 96,119,844 | 8,367,090 | 104,486,934 |
| | | 187,816 | (4,551) | 183,265 | 738,037 | (15,278) | 722,759 |
| | | <u>101,632,758</u> | <u>5,926,363</u> | <u>107,559,121</u> | <u>96,857,881</u> | <u>8,351,812</u> | <u>105,209,693</u> |
| | | 63,300 | - | 63,300 | 63,300 | - | 63,300 |
| | | 1,576,949 | - | 1,576,949 | 1,394,166 | - | 1,394,166 |
| | | <u>123,853,993</u> | <u>5,926,363</u> | <u>129,780,356</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:

| | September 30, 2005 | December 31, 2004 |
|-----------------------------------|-----------------------|----------------------|
| | (Rupees in '000) | |
| Opening balance | 655,870 | 904,172 |
| Reversed during the period / year | (16,554) | (151,218) |
| Amount written off | (8,118) | (97,084) |
| Closing balance | <u>631,198</u> | <u>655,870</u> |

5 ADVANCES

Loans, cash credits, running finances, etc.

| | | |
|---|--------------------|--------------------|
| In Pakistan | 235,552,246 | 220,599,097 |
| Outside Pakistan | <u>42,529,060</u> | <u>41,387,378</u> |
| | 278,081,306 | 261,986,475 |
| Net investment in finance lease - in Pakistan | 10,810,265 | 6,833,790 |
| Bills discounted and purchased (excluding Government treasury bills) | | |
| Payable in Pakistan | <u>11,132,232</u> | <u>9,800,467</u> |
| Payable outside Pakistan | <u>11,813,660</u> | <u>12,978,982</u> |
| | 22,945,892 | 22,779,449 |
| Provision against non-performing advances | | |
| - Specific | (31,021,220) | (32,429,771) |
| - General | <u>(1,412,748)</u> | <u>(863,890)</u> |
| | <u>279,403,495</u> | <u>258,306,053</u> |

5.1 Advances include Rs 41,953.618 million (2004: Rs 44,506.433 million) which have been placed under non-performing status as detailed below:

| Category of Classification | September 30, 2005 | | |
|-------------------------------------|------------------------------|--------------------|-------------------|
| | Non-performing advances | Provision Required | Provision Held |
| | ----- (Rupees in '000) ----- | | |
| Pakistan | | | |
| Other Assets Especially Mentioned | 1,435,263 | - | - |
| Substandard | 3,064,678 | 375,162 | 375,162 |
| Doubtful | 1,858,237 | 816,854 | 816,854 |
| Loss | <u>21,578,092</u> | <u>17,086,667</u> | <u>17,086,667</u> |
| | 27,936,270 | 18,278,683 | 18,278,683 |
| Overseas operations | 14,017,348 | 12,742,537 | 12,742,537 |
| General Provision - Domestic | - | 1,204,758 | 1,204,758 |
| - Overseas | - | 207,990 | 207,990 |
| Total | <u>41,953,618</u> | <u>32,433,968</u> | <u>32,433,968</u> |

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

| | Balance as at September 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 * | 213,920 | 213,920 |
| 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 | 352,000 | 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) | | |

| September 30, 2005 | December 31, 2004 |
|-----------------------|----------------------|
| (Rupees in '000) | |

6 BORROWINGS FROM FINANCIAL INSTITUTIONS

Secured

| | | |
|---|-------------------|-------------------|
| Borrowings from State Bank of Pakistan under | | |
| Export refinance scheme | 13,257,755 | 14,771,718 |
| Locally manufactured machinery refinance scheme | 10,579 | 4,163 |
| Export oriented Projects refinance scheme | 2,742 | - |
| Others | - | - |
| Repurchase agreement borrowings | 5,934,532 | 8,329,748 |
| | <u>19,205,608</u> | <u>23,105,629</u> |

Unsecured

In Pakistan

| | | |
|----------------------------------|---------|---------|
| International Development Agency | - | - |
| Interbank call money borrowing | 260,000 | 556,580 |
| | 260,000 | 556,580 |

Outside Pakistan

| | | |
|---------------------------------|-------------------|-------------------|
| Overdrawn nostro accounts | 213,119 | 349,208 |
| Borrowings of overseas branches | 4,677,696 | 5,184,867 |
| | 4,890,815 | 5,534,075 |
| | 5,150,815 | 6,090,655 |
| | <u>24,356,423</u> | <u>29,196,284</u> |

7 DEPOSITS AND OTHER ACCOUNTS

Customers

| | | |
|-------------------------------------|--------------------|--------------------|
| Fixed deposits | 110,167,103 | 74,439,968 |
| Savings deposits | 212,854,130 | 239,817,027 |
| Current accounts - non-remunerative | 84,489,502 | 84,067,896 |
| | <u>407,510,735</u> | <u>398,324,891</u> |

Financial institutions

| | | |
|---------------------------|--------------------|--------------------|
| Remunerative deposits | 5,362,054 | 2,891,984 |
| Non-remunerative deposits | 3,462,878 | 3,412,184 |
| | 8,824,932 | 6,304,168 |
| | <u>416,335,667</u> | <u>404,629,059</u> |

| 8 SURPLUS ON REVALUATION OF ASSETS - net of tax | Note | September 30, 2005 | December 31, 2004 |
|---|------|-----------------------|----------------------|
| | | (Rupees in '000) | |
| Surplus arising on revaluation of: | | | |
| - fixed assets | 8.1 | 7,260,939 | 7,323,885 |
| - investments | 8.2 | 251,265 | 773,502 |
| Surplus on revaluation of assets - net of tax | | <u>7,512,204</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 unappropriated profit / (loss) in respect of incremental depreciation charged during the period / year - net of deferred tax | | (61,128) | (50,513) |
| Related deferred tax liability of incremental depreciation charged during the period / year | | (37,466) | (35,102) |
| Surplus on revaluation of fixed assets as at period / year end | | <u>7,926,826</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 | | (37,466) | (35,102) |
| disposal of revalued properties reversed during the period / year | | (301) | (263) |
| | | <u>665,887</u> | <u>703,687</u> |
| | | <u>7,260,939</u> | <u>7,323,885</u> |
| | | | |
| 8.2 Surplus / (deficit) on revaluation of investments | | | |
| Market treasury bills | | (48,079) | (76,106) |
| Pakistan Investment Bonds | | (144,980) | (67,980) |
| Listed securities | | 292,040 | 806,412 |
| NIT units | | 17,888 | 15,163 |
| Other investments | | 66,396 | 45,270 |
| | | 183,265 | 722,759 |
| Add: related deferred tax asset | | 68,000 | 50,743 |
| | | <u>251,265</u> | <u>773,502</u> |

| | September 30, 2005 | December 31, 2004 |
|---|-------------------------------|------------------------------|
| | (Rupees in '000) | |
| 9 CONTINGENCIES AND COMMITMENTS | | |
| 9.1 Direct credit substitutes | 20,520,853 | 16,326,865 |
| 9.2 Transaction-related contingent liabilities | | |
| Guarantees in favour of: | | |
| Government | 10,946,986 | 10,063,520 |
| Financial institutions | 490,047 | 489,271 |
| Others | 3,567,600 | 3,593,771 |
| | <u>15,004,633</u> | <u>14,146,562</u> |
| 9.3 Trade-related commitments | | |
| Credit cash | 74,515,604 | 61,022,626 |
| Credit documentary acceptance | 14,212,775 | 7,031,799 |
| Credit acceptance | 12,048,913 | 11,784,616 |
| | <u>100,777,292</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.

| | September 30, 2005 | December 31, 2004 |
|---|-------------------------------|------------------------------|
| | (Rupees in '000) | |
| 9.5 Other contingencies | | |
| Claims against the Group not acknowledged as debts | 39,730,012 | 41,844,592 |
| 9.6 Commitments in respect of forward foreign exchange contracts | | |
| Purchase | 39,563,241 | 42,004,160 |
| Sale | 32,248,144 | 33,444,750 |
| 9.7 Commitments for acquisition of operating fixed assets | 52,263 | 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 197.536 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 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:

| | September 30, 2005 | December 31, 2004 |
|--|-------------------------------|------------------------------|
| | (Rupees in '000) | |
| Balances outstanding as at the period / year end | | |
| - Borrowings from related parties | 2,054,385 | 6,700,394 |
| - Deposits from retirement benefit funds | 100,275 | 218,510 |
| - Payable to staff welfare fund | - | - |
| - Receivable from defined benefit plan * | 4,045,129 | 3,584,238 |
| - Balances with related parties | 352,000 | 224,000 |
| - Other contingencies and commitments | - | - |

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

| | September 30, 2005 | September 30, 2004 |
|-----------------------------------|-------------------------------|-------------------------------|
| | (Rupees in '000) | |
| Profit / Expense for the period | | |
| - Interest paid during the period | 88,478 | 54,620 |
| - Modaraba management fees | 6,000 | 6,707 |
| - Interest income for the period | 14,352 | - |
| - 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 2,202 employees opted for the separation. The Bank has incurred additional cost of Rs 1,574 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 695 million and is included in administrative expenses.

12 CORRESPONDING FIGURES

Corresponding figures have been reclassified, where necessary, for the purpose of comparison.

13 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 20th October 2005 by the Board of Directors of the Bank.

R. Zakir Mahmood
President and Chief Executive Officer

Ahmad Waqar
Director

M. Ismail Qureshi
Director

Shaukat Hayat Durrani
Director