

## Director's Review

On behalf of the Board of Directors, I am pleased to present the unconsolidated condensed interim financial statements for the nine months period ended September 30, 2007.

### FINANCIAL PERFORMANCE

The financial results of the bank are summarized below:

	<b>(Rs. in '000)</b>
Profit after tax	9,212,560
Appropriations relating to Statutory Reserve of the bank	921,256
Earnings per share rupees (Basic & Diluted)	<u>13.35</u>

During the nine months period ended September 30, 2007, Bank's performance has substantially improved driven by balance sheet growth of 11 per cent over December 31, 2006. Bank's earnings also correspond to the balance sheet growth as its current period profit before tax increased by Rs. 2.7 billion (23 per cent) from the corresponding period of the last year.

### OUTLOOK

Banking sector in Pakistan has seen significant tightening in operating environment during the period. Loan growth has been slow since December 2006 while Deposit costs have continued to rise. The Gross Loan to Deposit ratio has declined from over 75% to below 70% as a result of Monetary Tightening and cautious approach by the banks towards Consumer Loans.

The 3-year medium term strategy envisages domestic market to be the primary driver of the HBL. In international operations, focus will be on key selected market with the objective of improving Returns on Assets and Equity. Consistent growth in retail deposits remains the primary strategy to expand balance sheet. The target is to increase its market share through new products, improving physical and technological infrastructure and centralized processing. The Consumer Bank is being revamped and is expected to ensure that the bank is able to grow both loans while improving spreads. Other areas of growth in the economy are expected to be infrastructure projects, currently in the planning stage. HBL is well placed to serve these customers due to its active Corporate Banking, treasury and Investment Banking.

R. Zakir Mahmood  
President & Chief Executive Officer  
Karachi

**Habib Bank Limited**  
**Unconsolidated Condensed Interim Balance Sheet**  
**As at September 30, 2007**

	Note	(Unaudited) September 30, 2007	(Audited) December 31, 2006 (Restated) (Rupees in '000)
<b>ASSETS</b>			
Cash and balances with treasury banks		53,366,897	46,244,803
Balances with other banks		25,733,879	23,532,165
Lendings to financial institutions		2,079,672	6,550,128
Investments	6	177,947,540	115,822,511
Advances	7	327,454,611	335,985,458
Other assets		19,810,905	17,447,808
Operating fixed assets		13,106,660	11,802,870
Deferred tax asset		3,242,320	2,764,261
		622,742,484	560,150,004
<b>LIABILITIES</b>			
Bills payable		6,935,904	5,577,429
Borrowings from financial institutions	9	31,752,633	49,980,794
Deposits and other accounts	10	506,563,870	439,724,335
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Other liabilities		18,751,701	14,521,645
Deferred tax liabilities		-	-
		564,004,108	509,804,203
<b>NET ASSETS</b>		<b>58,738,376</b>	<b>50,345,801</b>
<b>REPRESENTED BY:</b>			
<b>Shareholders' equity</b>			
Share capital		6,900,000	6,900,000
Reserves		18,140,777	16,817,472
Unappropriated profit		26,253,236	19,281,940
		51,294,013	42,999,412
Surplus on revaluation of assets - net of deferred tax	11	7,444,363	7,346,389
		58,738,376	50,345,801
<b>CONTINGENCIES AND COMMITMENTS</b>	12		

The annexed notes 1 to 20 form an integral part of these unconsolidated condensed interim financial information.

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

**Director**

**Director**

**Director**

**Habib Bank Limited**  
**Unconsolidated Condensed Interim Profit and Loss Account (Unaudited)**  
**For the nine months period ended September 30, 2007**

	Note	Nine months ended		Quarter ended	
		January 01 to September 30, 2007	January 01 to September 30, 2006 (Restated)	July 01 to September 30, 2007	July 01 to September 30, 2006 (Restated)
----- (Rupees in '000) -----					
Mark-up / return / interest earned	13	35,420,772	31,090,383	12,866,735	11,426,707
Mark-up / return / interest expensed	14	13,173,022	9,070,134	4,924,759	3,135,622
Net mark-up / interest income		22,247,750	22,020,249	7,941,976	8,291,085
Provision against non-performing loans and advances - net		1,216,324	1,922,928	442,515	50,886
Provision against off-balance sheet obligations and others		(54,626)	-	18,908	-
(Reversal) against diminution in value of investments	6.2	(56,495)	(36,677)	(14,633)	(3,557)
Bad debts written off directly		-	-	-	-
		1,105,203	1,886,251	446,790	47,329
Net mark-up / interest income after provisions		21,142,547	20,133,998	7,495,186	8,243,756
<b>Non mark-up / interest income</b>					
Fee, commission and brokerage income		2,057,474	2,176,976	666,484	720,673
Income / gain on investments	15	777,360	250,883	242,570	132,029
Income from dealing in foreign currencies		1,050,428	915,911	123,216	431,692
Other income		2,040,308	1,466,140	611,404	561,850
Total non-mark-up / interest income		5,925,570	4,809,910	1,643,674	1,846,244
		27,068,117	24,943,908	9,138,860	10,090,000
<b>Non mark-up / interest expense</b>					
Administrative expenses	16	12,252,112	12,586,329	4,039,978	3,756,450
Other provisions / write offs - net		(51,454)	156,160	27,272	8,648
Other charges		8,491	17,438	705	96
Total non mark-up / interest expenses		12,209,149	12,759,927	4,067,955	3,765,194
<b>Profit before taxation</b>		14,858,968	12,183,981	5,070,905	6,324,806
Taxation - current		6,192,678	5,098,924	2,555,384	2,433,309
Taxation - prior periods		-	-	-	-
Taxation - deferred		(546,270)	(797,890)	(120,923)	(156,862)
		5,646,408	4,301,034	2,434,461	2,276,447
<b>Profit after taxation</b>		9,212,560	7,882,947	2,636,444	4,048,359
				(Rupees)	(Rupees)
Basic and diluted earnings per share		13.35	11.42	3.82	5.87

The annexed notes 1 to 20 form an integral part of these unconsolidated condensed interim financial information.

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

**Director**

**Director**

**Director**

**Habib Bank Limited**  
**Unconsolidated Condensed Interim Cash Flow Statement (Unaudited)**  
**For the nine months period ended September 30, 2007**

	September 30, 2007	September 30, 2006
	(Rupees in '000)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	14,858,968	12,183,981
Less: Dividend income and fair value adjustments of associated and joint ventures companies	(546,750)	(330,063)
Gain on sale of investments - net	(230,610)	(32,384)
	(777,360)	(362,447)
	14,081,608	11,821,534
<b>Adjustment for non-cash charges:</b>		
Depreciation / amortization / adjustments	789,531	597,629
Reversal of provision against diminution in the value of investments	(56,495)	(36,677)
Provision against non-performing loans and advances - net of reversals	1,216,324	1,922,928
Amortisation of premium on investments	245,664	274,103
Gain on sale of property and equipment - net	(39,032)	65,314
Miscellaneous provisions	(209,051)	(30,545)
	1,946,941	2,792,752
	16,028,549	14,614,286
<b>(Increase) / decrease in operating assets</b>		
Government securities	(59,459,628)	11,612,054
Lendings to financial institutions	4,470,456	(7,571,968)
Loans and advances	7,556,779	(2,750,120)
Other assets - net	(1,855,426)	953,812
	(49,287,819)	2,243,778
<b>Increase / (decrease) in operating liabilities</b>		
Deposits and other accounts	66,839,535	(5,356,818)
Borrowings from financial institutions	(18,228,161)	1,915,084
Bills payable	1,358,475	(2,711,518)
Other liabilities - net	4,384,481	6,023,970
	54,354,330	(129,282)
	21,095,060	16,728,782
Income tax paid - net	(6,323,186)	(7,859,739)
<b>Net cash flows from operating activities</b>	14,771,874	8,869,043
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investments in securities, associates and joint venture companies	(3,198,170)	(6,339)
Repatriation from / (Investment in) subsidiary companies	242,747	(200,000)
Dividend income received	539,597	157,927
Fixed capital expenditure	(2,145,726)	(947,889)
Proceeds from sale of fixed assets	91,437	88,412
Exchange adjustment on translation of balances in foreign branches	402,049	191,165
<b>Net cash flows in (from) investing activities</b>	(4,068,066)	(716,724)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend Paid	(1,380,000)	-
<b>Net cash flows from financing activities:</b>	(1,380,000)	-
Increase in cash and cash equivalents during the period	9,323,808	8,152,319
Cash and cash equivalents at beginning of the period	69,776,968	55,186,142
Effects of exchange rate changes on cash and cash equivalents	-	1,132,867
	69,776,968	56,319,009
Cash and cash equivalents at end of the period	79,100,776	64,471,328

The annexed notes 1 to 20 form an integral part of these unconsolidated condensed interim financial information.

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

Director

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**Habib Bank Limited**  
**Unconsolidated Condensed Interim Changes in Equity (Unaudited)**  
**For the nine months period ended September 30, 2007**

Share Capital	RESERVES				Total	
	Exchange Translation Reserve	Statutory	General	Unappropriated profit		
(Restated)						
----- (Rupees in '000) -----						
Balance as at December 31, 2005 - reported	6,900,000	1,539,181	7,787,094	6,073,812	9,822,330	32,122,417
Effect of change in accounting policy with respect to subsidiaries and jointly controlled entities	-	-	-	-	(539,984)	(539,984)
	6,900,000	1,539,181	7,787,094	6,073,812	9,282,346	31,582,433
Profit for the period ended September 30, 2006	-	-	-	-	7,882,947	7,882,947
Transferred from surplus on revaluation of fixed assets	-	-	-	-	36,195	36,195
Effect of translation of net investment in foreign branches	-	191,165	-	-	-	191,165
Total recognized income and expense for the period	-	191,165	-	-	7,919,142	8,110,307
Transferred to statutory reserves	-	-	788,295	-	(788,295)	-
Balance as at September 30, 2006	6,900,000	1,730,346	8,575,389	6,073,812	16,413,193	39,692,740
Profit for the period from October to December 31, 2006	-	-	-	-	4,167,402	4,167,402
Exchange translation released on disposal of investments	-	(55,709)	-	-	-	(55,709)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	30,663	30,663
Effect of translation of net investment in foreign branches	-	(145,684)	-	-	-	(145,684)
Total recognized income and expense for the period	-	(201,393)	-	-	4,198,065	3,996,672
Transferred to statutory reserves	-	-	639,318	-	(639,318)	-
Cash dividend paid at Rs. 1 per share	-	-	-	-	(690,000)	(690,000)
Balance as at December 31, 2006	6,900,000	1,528,953	9,214,707	6,073,812	19,281,940	42,999,412
Profit for the period ended September 30, 2007	-	-	-	-	9,212,560	9,212,560
Transferred from surplus on revaluation of fixed assets	-	-	-	-	59,992	59,992
Effect of translation of net investment in foreign branches	-	402,049	-	-	-	402,049
Total recognized income and expense for the period	-	402,049	-	-	9,272,552	9,674,601
Transferred to statutory reserves	-	-	921,256	-	(921,256)	-
Cash dividend paid at Rs. 2 per share	-	-	-	-	(1,380,000)	(1,380,000)
Balance as at September 30, 2007	6,900,000	1,931,002	10,135,963	6,073,812	26,253,236	51,294,013

The annexed notes 1 to 20 form an integral part of these unconsolidated condensed interim financial information.

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

**Director**

**Director**

**Director**

## **Habib Bank Limited**

### **Notes to the Unconsolidated Condensed Interim Financial Information (Unaudited) For the nine months period ended September 30, 2007**

#### **1 THE BANK 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.

#### **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, directives issued by the Securities Exchange Commission of Pakistan and the State Bank of Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards as notified under the provisions of the Companies Ordinance, 1984. 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 requirements 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'.

The State Bank of Pakistan, vide its BSD Circular No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments Recognition and Measurement and International Accounting Standard 40, Investment Property for banking companies till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

During 2005, the Securities and Exchange Commission of Pakistan notified the Islamic Financial Accounting Standard 1 issued by the Institute of Chartered Accountants of Pakistan relating to accounting for Murabaha transactions undertaken by a bank, effective from financial periods beginning on or after January 01, 2006. The standard has not been adopted by stand alone Islamic branches of conventional banks pending resolution of certain issues e.g. invoicing of goods, recording of inventories, concurrent application with other approved accounting standards in place for conventional banks, etc. Pakistan Banks Association has taken up the matter with the State Bank of Pakistan.

#### **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, 2006, except for the changes 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 investments in subsidiaries and jointly controlled entities from "fair value basis through profit and loss account" to the "cost" basis. This change in accounting policy has been made to comply with the requirements of the circular issued by the State Bank of Pakistan. This circular requires to record investments in subsidiaries and jointly controlled entities at cost in unconsolidated financial statements.

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

#### **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 financial statements of the Bank for the year ended December 31, 2006.

#### **5 FINANCIAL RISK MANAGEMENT**

The financial risk management objective and policies adopted by Bank are consistent with that disclosed in the financial statements of the Bank for the year ended December 31, 2006.

## 6 INVESTMENTS

Note	September 30, 2007			December 31, 2006			
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total	
----- (Rupees in '000) -----							
<b>Held-to-maturity securities (HTM)</b>							
<i>Federal Government Securities</i>							
- Pakistan investment bonds	6.1	12,363,786	-	12,363,786	14,782,250	-	14,782,250
<i>Overseas Government securities</i>		224,014	-	224,014	224,382	-	224,382
<i>Debentures and Corporate Debt Instruments</i>		-	-	-	121,825	-	121,825
		<u>12,587,800</u>	<u>-</u>	<u>12,587,800</u>	<u>15,128,457</u>	<u>-</u>	<u>15,128,457</u>
<b>Available-for-sale securities (AFS)</b>							
<i>Federal Government Securities</i>							
- Market treasury bills		113,770,650	7,452,575	121,223,225	35,891,929	21,337,072	57,229,001
- Pakistan investment bonds		5,114,308	-	5,114,308	987,349	-	987,349
- Government of Pakistan Guaranteed Bonds		11,041,062	-	11,041,062	20,196,055	-	20,196,055
- Government of Pakistan bonds (US Dollar / Euro)		1,654,858	-	1,654,858	864,805	-	864,805
<i>Overseas Government securities</i>		8,161,570	-	8,161,570	6,163,192	-	6,163,192
<i>Fully paid-up ordinary shares:</i>							
- Listed companies		3,110,335	-	3,110,335	1,662,002	-	1,662,002
- Unlisted companies		452,642	-	452,642	455,613	-	455,613
<i>Debentures and Corporate Debt Instruments</i>							
- Listed securities		513,311	-	513,311	510,926	-	510,926
- Unlisted securities		7,643,104	-	7,643,104	6,826,795	-	6,826,795
<i>NIT units</i>		37,280	-	37,280	30,208	-	30,208
<i>Preference shares</i>		200,000	-	200,000	171,667	-	171,667
<i>Other investments</i>		825,958	-	825,958	183,414	-	183,414
		<u>152,525,078</u>	<u>7,452,575</u>	<u>159,977,653</u>	<u>73,943,955</u>	<u>21,337,072</u>	<u>95,281,027</u>
<b>Investment in subsidiary companies - Unlisted</b>		2,712,452	-	2,712,452	2,752,080	-	2,752,080
<b>Investment in associates and joint venture companies - Listed</b>		2,669,635	-	2,669,635	2,660,947	-	2,660,947
		<u>170,494,965</u>	<u>7,452,575</u>	<u>177,947,540</u>	<u>94,485,439</u>	<u>21,337,072</u>	<u>115,822,511</u>

6.1 The market value of investment classified as held-to-maturity (HTM) and investment in listed associates and Joint Venture is as follows:

	September 30, 2007		December 31, 2006	
	Cost	Market Value	Cost	Market Value
----- (Rupees in '000) -----				
- Investment Classified as HTM	12,587,800	10,715,000	15,128,457	12,538,391
- Investment in Listed Associates and Joint Venture	2,669,635		2,660,947	5,967,123

## 6.2 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 are as follows:

	September 30, 2007	December 31, 2006
----- (Rupees in '000) -----		
Opening balance	518,932	562,065
Reversed during the period / year	(56,495)	(13,697)
Amount written off	(26,593)	(29,436)
Closing balance	<u>435,844</u>	<u>518,932</u>

## 7 ADVANCES

	Note	September 30, 2007	December 31, 2006
----- (Rupees in '000) -----			
Loans, cash credits, running finances, etc:			
In Pakistan		282,790,779	291,263,669
Outside Pakistan		33,136,423	24,889,593
		<u>315,927,202</u>	<u>316,153,262</u>
Net investment in finance lease - in Pakistan		8,260,312	10,722,288
Bills discounted and purchased (excluding Government treasury bills)			
Payable in Pakistan		6,715,836	9,843,364
Payable outside Pakistan		16,363,890	18,079,105
		<u>23,079,726</u>	<u>27,922,469</u>
Provision against non-performing advances	7.2	(19,812,629)	(18,812,561)
		<u>327,454,611</u>	<u>335,985,458</u>
<b>Fully provided non-performing advances classified as loss for more than five years</b>			
In Pakistan		5,621,825	6,622,757
Outside Pakistan		492,000	493,578
		<u>6,113,825</u>	<u>7,116,335</u>
Provision	7.3	(6,113,825)	(7,116,335)
		<u>-</u>	<u>-</u>

7.1 Advances include Rs. 31,409 million (2006: Rs. 26,921.974 million) which have been placed under non-performing status, other than those accounts classified as loss and fully provided for more than five years which have been placed in separate category:

Category of Classification	September 30, 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	707,643	-	707,643	-	-	-	707,643	-	707,643
Substandard	6,429,981	509,683	6,939,664	686,406	-	686,406	5,743,575	509,683	6,253,258
Doubtful	3,277,926	197,514	3,475,440	1,193,482	98,757	1,292,239	2,084,444	98,757	2,183,201
Loss	15,031,180	5,255,890	20,287,070	11,431,649	5,244,700	16,676,349	3,599,531	11,190	3,610,721
	<u>25,446,730</u>	<u>5,963,087</u>	<u>31,409,817</u>	<u>13,311,537</u>	<u>5,343,457</u>	<u>18,654,994</u>	<u>12,135,193</u>	<u>619,630</u>	<u>12,754,823</u>
<b>General Provision</b>									
	-	-	-	985,100	172,535	1,157,635	-	-	-
	<u>25,446,730</u>	<u>5,963,087</u>	<u>31,409,817</u>	<u>14,296,637</u>	<u>5,515,992</u>	<u>19,812,629</u>	<u>12,135,193</u>	<u>619,630</u>	<u>12,754,823</u>

## 7.2 Particulars of provision for non-performing financing

	September 30, 2007						December 31, 2006		
	Specific		General		Total	Specific		General	Total
	----- (Rupees in '000) -----								
Opening balance	17,508,675	1,303,886	18,812,561	26,395,473	1,446,712	27,842,185			
Exchange adjustment	33,049	(14,212)	18,837	58,897	(22,376)	36,521			
Charge for the year period / year	1,674,942	56,751	1,731,693	3,089,097	34,465	3,123,562			
Reversals	(37,037)	(188,790)	(225,827)	(107,554)	(154,915)	(262,469)			
	<u>1,637,905</u>	<u>(132,039)</u>	<u>1,505,866</u>	<u>2,981,543</u>	<u>(120,450)</u>	<u>2,861,093</u>			
Amounts written off	(690,851)	-	(690,851)	(4,810,903)	-	(4,810,903)			
Other movements	166,216	-	166,216	(7,116,335)	-	(7,116,335)			
Closing balance	<u>18,654,994</u>	<u>1,157,635</u>	<u>19,812,629</u>	<u>17,508,675</u>	<u>1,303,886</u>	<u>18,812,561</u>			

## 7.3 Particulars of provision against fully provided non-performing advances classified as loss for more than five years

	September 30, 2007	December 31, 2006
----- (Rupees in '000) -----		
Opening balance	7,116,335	-
Exchange adjustment	(1,578)	-
Reversal	(289,542)	-
Transferred during period / year	(166,214)	7,116,335
Write off	(545,176)	-
	<u>6,113,825</u>	<u>7,116,335</u>



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

	September 30, 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 Bank or any of them either severally or jointly with any other persons								
- in respect of directors	-	-	-	-	-	-	-	-
- in respect of executives *	538,152	572,510	342,765	58,477	253,864	333,004	196,000	148,877
- in respect of key management personnel	288,892	288,892	118,538	14,073	184,427	184,427	106,400	47,337
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	-	-	-	-	-	292,000	-	-
Debts due by								
- Retirement benefit funds	1,033,720	1,389,612	-	355,892	1,389,612	2,520,733	-	-

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

\* (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)

**8 OPERATING FIXED ASSETS**

**8.1 Addition to fixed assets**

The following additions have been made to tangible and intangible fixed assets during the period ended September 30, 2007:

	For the nine months period ended	
	September 30, 2007	September 30, 2006
Land	202,657	69,441
Building including related machinery	424,371	15,441
Furniture, fixtures and office equipments	1,014,748	471,309
Vehicles	13,614	43,784
Intangible assets	48,527	38,125
Capital work-in-progress	441,809	441,809
	<u>2,145,726</u>	<u>1,079,909</u>

**8.2 Disposal of fixed assets**

The following disposals have been made from tangible and intangible fixed assets during the period ended September 30, 2007:

Land	16,017	14,490
Building including related machinery	24,969	1,390
Furniture, fixtures and office equipments	185,079	114,664
Vehicles	60,432	104,095
	<u>286,497</u>	<u>234,639</u>

## 9 BORROWINGS FROM FINANCIAL INSTITUTIONS

	September 30, 2007	December 31, 2006
	(Rupees in '000)	
<b>Secured</b>		
Borrowings from State Bank of Pakistan under:		
Export refinance scheme	11,561,327	15,678,110
Locally manufactured machinery refinance scheme	6,747	9,145
Long term finance - export oriented projects	7,303,350	8,213,632
Repurchase agreement borrowings	7,427,686	21,285,463
	<u>26,299,110</u>	<u>45,186,350</u>

### Unsecured

In Pakistan:

    Interbank call money borrowing

Outside Pakistan:

    Overdrawn nostro accounts

    Borrowings of overseas branches

1,100,000	1,446,821
315,682	937,139
4,037,841	2,410,484
4,353,523	3,347,623
5,453,523	4,794,444
<u>31,752,633</u>	<u>49,980,794</u>

## 10 DEPOSITS AND OTHER ACCOUNTS

### Customers

Fixed deposits	155,611,553	120,890,875
Savings chequing account	171,417,000	168,057,000
Other savings account	60,697,953	51,054,296
Current accounts - non-remunerative	105,012,496	87,555,494
	<u>492,739,002</u>	<u>427,557,665</u>

### Financial institutions

Remunerative deposits	11,473,984	8,732,019
Non-remunerative deposits	2,350,884	3,434,651
	13,824,868	12,166,670
	<u>506,563,870</u>	<u>439,724,335</u>

**11 SURPLUS ON REVALUATION OF ASSETS - net of deferred tax**

	Note	September 30, 2007	December 31, 2006
		(Rupees in '000)	
Surplus arising on revaluation of:			
- fixed assets	11.1	7,283,008	7,334,729
- investments	11.2	161,355	11,660
Surplus on revaluation of assets - net of deferred tax		<u>7,444,363</u>	<u>7,346,389</u>

**11.1 Surplus on revaluation of fixed assets**

Surplus on revaluation of fixed assets as at January 1		7,989,613	7,950,982
Surplus on revaluation during the period / year		-	131,519
Surplus realised on disposal of revalued properties during the period / year		(23,631)	(18,517)
Transferred to accumulated profit in respect of incremental depreciation charged during the period / year - net of deferred tax		(36,361)	(48,341)
Related deferred tax liability of incremental depreciation charged during the period / year		<u>(19,579)</u>	<u>(26,030)</u>
Surplus on revaluation of fixed assets as at period / year end		7,910,042	7,989,613

Less: related deferred tax liability on:

- revaluation as at January 1
- revaluation of bank's properties recognised / (adjusted) during the period / year
- incremental depreciation charged during the period / year transferred to profit and loss account

	654,884	675,067
	(8,271)	5,847
	<u>(19,579)</u>	<u>(26,030)</u>
	627,034	654,884
	<u>7,283,008</u>	<u>7,334,729</u>

**11.2 Surplus / (deficit) on revaluation of available-for-sale investments**

Market treasury bills	(219,239)	(92,722)
Pakistan Investment Bonds	(123,871)	(142,457)
Listed securities	418,124	147,791
NIT units	26,167	19,096
Other investments	145,157	88,455
	246,338	20,163
Less: related deferred tax liability	<u>(84,983)</u>	<u>(8,503)</u>
	<u>161,355</u>	<u>11,660</u>

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(Rupees in '000)</b>	
<b>12 CONTINGENCIES AND COMMITMENTS</b>		
<b>12.1 Direct credit substitutes - financial guarantees</b>	9,496,768	10,934,318
<b>12.2 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
Government	515,355	721,858
Financial institutions	1,256,856	844,157
Others	35,365,197	29,631,964
	<u>37,137,408</u>	<u>31,197,979</u>
<b>12.3 Trade-related commitments</b>		
Credit cash	142,366,140	101,933,596
Credit documentary acceptances	13,330,338	12,342,582
Credit acceptances	6,179,326	6,164,470
	<u>161,875,804</u>	<u>120,440,648</u>
<b>12.4 Other contingencies</b>		
Claims against the Bank not acknowledged as debts	<u>45,262,227</u>	<u>44,310,527</u>
<b>12.5 Commitments in respect of forward lending</b>		
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>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(Rupees in '000)</b>	
<b>12.6 Commitments in respect of forward foreign exchange contracts</b>		
Purchase	36,965,662	52,873,507
Sale	42,189,360	44,960,985
<b>Commitments in respect of foreign currency options</b>		
Purchase	1,182,615	1,470,566
Sale	1,182,615	1,470,566
The above commitments have maturities falling within one year.		
<b>12.7 Commitments for acquisition of operating fixed assets / intangibles</b>	863,422	587,277

13	MARK-UP / RETURN / INTEREST EARNED	Note	For the nine months period ended	
			September 30, 2007	September 30, 2006
			(Rupees in '000)	
	<i>On loans and advances to:</i>			
	- Customers		26,055,392	23,014,729
	- Financial institutions		955,423	751,752
	<i>On investments:</i>			
	- Available-for-sale	13.1	6,905,981	5,082,073
	- Held-to-maturity		818,879	888,104
	On deposits with financial institutions		174,893	751,751
	On lendings to financial institutions		510,204	601,974
			35,420,772	31,090,383
13.1	During the period State Bank of Pakistan (SBP) made short payment of Rs 450 million on account of interest payment relating to Tax Bond for the period June 2005 to June 2007. Consequently, bank has reversed the above amount from the interest income for the period and is pursuing the claim with Government of Pakistan.			
14	MARK-UP / RETURN / INTEREST EXPENSED		For the nine months period ended	
			September 30, 2007	September 30, 2006
	Deposits		11,347,590	7,538,731
	Securities sold under repurchase agreement borrowings		454,899	284,784
	Other short term borrowings		1,088,935	1,196,672
	Long term borrowings		127,310	49,680
	Others		154,288	267
			13,173,022	9,070,134
15	INCOME / GAIN ON INVESTMENTS			
	Dividend income		546,750	218,499
	Gain on sale of securities		230,610	32,384
			777,360	250,883
16	During the period 777 (2006: 2,343) employees were separated with effect from January 13, 2007. In addition to payments under the staff retirement funds, an amount of Rs. 561 million (2006: 1,719 million) was paid under the separation scheme which is included in administrative expenses.			

## 17 RELATED PARTY TRANSACTIONS

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

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with un-related 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 7.4 to these financial statements.

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

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

	<b>September 30, 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	2,307,522	2,497,800
- Subsidiary companies	155,813	729,904
- Retirement benefit funds	144,930	235,383
- Companies in which Directors are interested	21,592	10,146
- Key Management Personnel	11,612	13,816
- Receivable from defined benefit plan	5,296,459	4,835,017
- Payable to defined benefit plan	-	15,769
- Acceptances during the period / year	2,852	5,766
- Other contingencies and commitments	-	2,354
<b>Placements with</b>		
- Subsidiary companies	3,646,001	2,949,279
	<b>For the nine months period ended</b>	
	<b>September 30, 2007</b>	<b>September 30, 2006</b>
	<b>(Rupees in '000)</b>	
<b>Profit / Expense for the period</b>		
<b>- Interest paid</b>		
- Joint Venture	79,681	67,580
- Subsidiary companies	-	1,390
- Retirement benefit funds	4,856	4,811
- Companies in which Directors are interested	7	3
- Key Management Personnel	116	138
<b>- Interest income</b>		
- Subsidiary companies	31,829	26,244
- Retirement benefit funds	73,068	60,486
- Companies in which Directors are interested	-	17,707
- Modaraba management fees	4,147	1,339
- Other expense - Subsidiaries and joint ventures	6,946	7,409

### 17.1 Key management personnel

Key Management Personnel comprises Member of Management Committee, Regional Management, Country Managers and Senior Executives:

	For the nine months period ended	
	September 30, 2007	September 30, 2006
	(Rupees in '000)	
Managerial remuneration (including allowances)	998,709	873,196
Contribution to provident and benevolent fund	13,661	11,782
Number of persons	134	166

17.2 The Bank operates a short-term employee benefit scheme which includes cash award / special bonus for all employees. Under this scheme, the bonus for all Executives, including the Chief Executive Officer is determined on the basis of employees' evaluation and the Bank's performance during the period. The amount for the period amounted to Rs. 317 million (2006: Rs. 286 million).

17.3 In September 2007, the bank introduced a Staff Retention Incentive Scheme for selected employees. Under the scheme, the employees are committed to continue employment with the bank for a minimum period of three years and the bank advances money by way of bonus to executives to purchase shares of Habib Bank Limited (HBL) to be held for a period of three years. The cost is being accrued over the vesting period, which amounted to Rs. 24 million.

### 18. SEGMENT DETAIL WITH RESPECT TO BUSINESS ACTIVITIES

	For the nine months period ended September 30, 2007					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	Total
	------(Rupees in million)-----					
Net interest and non-markup income	18,062	4,813	411	2,890	1,998	28,174
Total expenses including provision	5,989	1,408	58	1,720	4,140	13,315
Net income (loss)	12,073	3,405	353	1,170	(2,142)	14,859
Segment assets (gross)	117,915	245,000	182,940	84,258	18,992	649,105
Segment non-performing loans	6,763	9,734	-	6,455	14,571	37,523
Segment provision required including general provision	4,354	3,023	-	5,587	13,398	26,362
Segment liabilities including equity	381,090	104,990	11,885	52,381	72,397	622,743
Segment return on net asset (%)	8.49%	9.20%	6.42%	4.26%	1.04%	-
Segment cost of funds (%)	2.48%	7.38%	6.42%	1.31%	-	-
	-----					
	For the nine months period ended September 30, 2006					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	Total
	------(Rupees in million)-----					
Net interest and non-markup income	18,871	4,424	441	2,889	316	26,941
Total expenses including provision	6,650	1,949	71	1,865	4,111	14,646
Net income (loss)	12,221	2,475	370	1,024	(3,795)	12,295
Segment assets (gross)	145,282	214,046	71,608	71,578	40,785	543,299
Segment non-performing loans	4,641	5,080	-	7,814	18,807	36,342
Segment provision required including general provision	3,207	3,882	-	7,251	15,083	29,423
Segment liabilities including equity	329,962	69,815	23,619	39,990	50,490	513,876
Segment return on net asset (%)	9.74%	9.76%	6.47%	7.40%	3.96%	-
Segment cost of funds (%)	2.81%	7.70%	6.47%	3.51%	0.34%	-

**19. ISLAMIC BANKING BRANCH**

Financial figures of the Islamic Banking Branch, are as follows:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(Rupees in '000)</b>	
<b>ASSETS</b>		
Cash and balances with treasury banks	8,791	10,052
Murabaha	8,581	34,800
Ijara	25,674	26,070
Other assets	25,547	4,358
	<u>68,593</u>	<u>75,280</u>
<b>LIABILITIES</b>		
Borrowings from financial institutions	-	-
Bills payable	-	-
Deposit and other accounts	20,341	9,259
Other liabilities	38	24,011
	<u>20,379</u>	<u>33,270</u>
<b>NET ASSETS</b>	<u><u>48,214</u></u>	<u><u>42,010</u></u>
<b>REPRESENTED BY:</b>		
Islamic Banking Fund / Certificate Capital	50,000	50,000
Unappropriated / Unremitted profit	<u>(1,786)</u>	<u>(7,990)</u>
	<u>48,214</u>	<u>42,010</u>
Surplus on revaluation of assets	-	-
	<u><u>48,214</u></u>	<u><u>42,010</u></u>

The commitment in respect of letters of credit of Islamic Banking branch of Habib Bank Limited amounted to Rs. 0.053 million (2006: Rs. 0.057 million).

**20. DATE OF AUTHORISATION FOR ISSUE**

These unconsolidated condensed interim financial statements were authorised for issue in the Board of Directors meeting held on October 17, 2007.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**