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Corporate Information

Board of Directors	Ali Raza D. Habib Abbas D. Habib Anwar Haji Karim Faiz N. Abdulali Hasnain A. Habib Imtiaz Alam Hanfi Murtaza H. Habib Qumail R. Habib Syed Mazhar Abbas Tariq Iqbal Khan	<i>Chairman</i> <i>Chief Executive & Managing Director</i> <i>Executive Director</i>
Audit Committee	Faiz N. Abdulali Ali Raza D. Habib Anwar Haji Karim Syed Mazhar Abbas	<i>Chairman</i> <i>Member</i> <i>Member</i> <i>Member</i>
Company Secretary	Mahmood S. Allarakhia	
Statutory Auditors	KPMG Taseer Hadi & Co. Chartered Accountants	
Legal Advisor	Liaquat Merchant Associates Advocates and Corporate Legal Consultants	
Registered Office	126-C, Old Bahawalpur Road, Multan	
Principal Office	2nd Floor, Mackinnons Building, I.I. Chundrigar Road, Karachi	
Share Registrar	M/s. Gangjees Registrar Services (Pvt) Ltd. 413, Clifton Centre, Khayaban-e-Roomi, Block - 5, Clifton, Karachi-75600.	
Website	www.bankalhabib.com	



Directors' Report

The Directors are pleased to present the Fifteenth Annual Report together with the audited financial statements for the year ended December 31, 2005.

Al-Hamdolillah, the performance of the Bank during the year remained satisfactory and the operating results for the year and appropriations are as follows:

	(Rupees in '000)
Profit for the year before tax	2,022,008
Taxation	(557,949)
Profit for the year after tax	1,464,059
Unappropriated Profit brought forward	11,715
Transfer from surplus on revaluation of fixed assets	7,391
Profit available for Appropriations	1,483,165
Appropriations:	
Transfer to Statutory Reserve	(292,812)
Issue of Bonus Shares (Interim) @ 20%	(365,184)
Reserve for issue of Bonus Shares (Final) @ 20%	(438,222)
	(1,096,218)
Unappropriated Profit carried forward	386,947
Earnings per share (after tax)	Rs. 6.68

For the year ended December 31, 2005, the Directors propose a final cash dividend of 15% i.e. Rs. 1.50 per share and also 20 bonus shares for every 100 shares held which is in addition to Interim Bonus of 20% already issued in October 2005.

Performance Review

During the year under review, the economy continued to grow due to domestic demand, continuity of policies, and a robust financial sector. This growth was achieved despite a sustained increase in international oil prices and a gradual tightening of monetary policy to contain inflationary pressures.

Your Bank, Al-Hamdolillah also did well, with deposits increasing by Rs. 13.6 billion from Rs. 62.2 billion to Rs. 75.8 billion while advances increased by Rs. 7.9 billion from Rs. 47.4 billion to Rs. 55.3 billion as compared to the previous year. Foreign Trade Business of the Bank also showed a substantial growth of Rs. 46.3 billion, bringing the total foreign trade business for the year to Rs. 177.7 billion as compared to Rs. 131.4 billion of previous year. Pre-tax profit for the year was higher by Rs. 982.829 million as compared to previous year due to enhanced core banking income attributed to growth in advances, trade related business and improved yield on investments and advances.



During the year the Bank opened 26 branches, increasing the branch network to 100 across the country and we thank Allah Almighty for enabling us to achieve this milestone. These branches are mostly located in residential-cum-commercial areas and will provide “Banking at the Doorstep”. In August 2005, the Bank established a Brokerage House – M/s. AL Habib Capital Markets (Private) Limited (AHCML) – which started its operations in December 2005 as a corporate member of Karachi Stock Exchange and the audited consolidated accounts of the Bank and the Subsidiary company AHCML appear on page no. 59. Our Bank’s first Islamic Banking branch, which started functioning in January 2005 is now fully operational.

Pakistan Credit Rating Agency Limited (PACRA) has maintained the Bank’s long term and short term entity ratings at AA (Double A) and A1+ (A One plus), respectively. These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payments of financial commitments.

In August 2005 twenty percent (20%) Interim Bonus Issue was proposed by the directors which was approved by the shareholders in the Extraordinary General Meeting of the Bank held on October 03, 2005 thereby increasing the paid-up capital of the Bank to Rs. 2.2 billion.

Future Outlook

It is expected that the economy would continue to grow at a satisfactory pace due to expansion in major sectors of the economy, strong business sentiments, higher development-related Government spending and prudent policy measures. In this changing environment the Bank, Insha-Allah, will also progress in all areas of its operations and continue with the branch expansion program in 2006.

Earthquake - 2005

The unfortunate calamity that struck our country on the morning of October 8, 2005 caused huge loss of lives and left thousands homeless. The devastating effect of this earthquake will be remembered by generations to come. In order to share in the relief efforts, the Bank contributed Rs. 10 million to the President’s Relief Fund for Earthquake Victims while the staff of the Bank also donated one day’s salary to the President’s Fund.

Audit Committee

The Audit Committee of the Bank comprises the following members:

Mr. Faiz N. Abdulali	Chairman
Mr. Ali Raza D. Habib	
Mr. Anwar Haji Karim	
Syed Mazhar Abbas	

Auditors

The present auditors Messrs KPMG Taseer Hadi & Company, Chartered Accountants, retire and offer themselves for reappointment. As suggested by the Audit Committee, the Board of Directors has recommended their reappointment as auditors of the Bank for the year ending December 31, 2006, at a fee to be mutually agreed.



Risk Management Framework

The Bank already has a risk management framework commensurate with the size of the Bank and the nature of its business. This framework has been developed over the years and continues to be refined and improved. Its salient features are summarized below:

- Credit risk is managed through the credit policies approved by the Board; a well-defined credit approval mechanism; prescribed documentation requirements; and post-disbursement administration, review, and monitoring of credit portfolios. Credit Risk Management Committee of the Board provides overall guidance in managing the Bank's credit risk.
- Market risk is managed through the fund management and interest rate risk management policies approved by the Board; approval of counterparty limits and dealer limits; specific senior management's approval for each investment; and regular review and monitoring of the investment portfolio by the Bank's Asset Liability Management Committee (ALCO). The fund management policy also provides guidance for managing the liquidity position of the Bank, which is monitored on daily basis by the Treasury and the Middle Office. Risk Management Committee of the Board provides supervision and guidance in managing the Bank's market and liquidity risks.
- Operational risk is mitigated through the audit policy approved by the Board, along with the policy on prevention of frauds and forgeries; operational manuals and procedures issued from time to time; a system of internal controls and dual authorization for important transactions and safe-keeping; and regular audit of the branches. Audit Committee of the Board provides overall guidance in managing the Bank's operational risks.

In order to comply with SBP's guidelines on risk management, the Bank has established a separate Risk Management Department, including a Middle Office that independently monitors and analyses the risks inherent in our treasury operations. The steps taken by the Department include : sensitivity testing of Government Securities portfolio; computation of portfolio duration and modified duration; analysis of forward foreign exchange gap positions; more detailed reporting of TFCs and equities portfolios; and development of improved procedures for equities trading and settlement; and monitoring of off-market foreign exchange rates and foreign exchange earnings. In addition, written policy and procedures on country risk management have also been developed and implemented.

The Bank is in the process of updating its risk management policies for liquidity risk, market risk, operational risk and credit risk, keeping in view SBP guidelines. This task is expected to be completed during 2006.

Statement on Corporate and Financial Reporting Framework

1. The financial statements, prepared by the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.



2. Proper books of account of the Bank have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of the financial statements, changes if any, have been adequately disclosed and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure therefrom, if any, has been adequately disclosed.
5. The system of internal controls is sound in design and has been effectively implemented and monitored.
6. There has been no material departure from the best practices of the corporate governance, as detailed in the listing regulations.
7. There are no doubts upon the Bank's ability to continue as a going concern.
8. Key operating and financial data for last six years is summarized below:

		2005	2004	2003	2002	2001	2000
Total customer deposits		75,796	62,170	46,178	34,240	24,697	17,822
Total advances		55,304	47,366	35,232	23,775	15,902	14,772
Foreign trade business		177,732	131,373	104,912	72,929	52,073	38,614
Profit before tax		2,022	1,039	1,513	619	551	403
Profit after tax		1,464	541	1,012	290	246	153
Shareholders' Equity		4,746	3,274	2,726	1,822	1,532	1,322
Earnings per share*	(Rs.)	6.68	2.47	4.61	1.32	1.12	0.70
Cash Dividend	(%)	15	–	10	–	5	–
Stock Dividend – Interim	(%)	20	–	–	–	–	–
Final	(%)	20	35	25	25	20	20
		40	35	25	25	20	20

* Earnings per share from 2000 to 2004 have been recalculated based on the existing paid up capital.

9. Value of investments of Provident Fund and Gratuity Fund Schemes for the financial year ended December 31, 2005 were as follows:

	Rs. '000
Provident Fund	198,926
Gratuity Fund	40,762



10. During the year 4 board meetings were held and the attendance of the Directors during the year was as follows:

Name of Director	Total Number of Board Meetings	Number of meetings attended
Mr. Ali Raza D. Habib	4	4
Mr. Abbas D. Habib	4	4
Mr. Faiz N. Abdulali	4	3
Mr. Imtiaz Alam Hanfi	4	4
Mr. Anwar Haji Karim	4	3
Mr. Qumail R. Habib	4	4
Mr. Tariq Iqbal Khan	4	—
Mr. Murtaza H. Habib	4	4
Syed Mazhar Abbas	4	4
Mr. Hasnain A. Habib	4	4

11. The pattern of shareholding and additional information regarding pattern of shareholding is given on Pages 57-58.
12. No trades in the shares of the Bank were carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children.

General

We are grateful to our customers for their continuous support, to the State Bank of Pakistan for its continued guidance and to our foreign and local correspondent banks for their valuable services. We also thank all our staff members for their sincere and dedicated services, which enabled the Bank to achieve these results.

On behalf of the Board of Directors

Karachi: February 16, 2006

ALI RAZA D. HABIB
Chairman



Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2005

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the Code in the following manner:

1. The Bank encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes eight (8) independent non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Bank, except for the nominee director of National Investment Trust (NIT).
3. All the directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the year.
5. The Bank's "Statement of Ethics and Business Practices", has been signed by all the directors and employees.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and Executive Director has been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors of the Bank are well conversant with their duties and responsibilities and have attended the Orientation course organized by the State Bank of Pakistan.
10. The Chief Financial Officer, Company Secretary and Head of Internal Audit were appointed prior to the enforcement of the Code of Corporate Governance. However, next appointment of the aforesaid positions, if any, including remuneration, terms and conditions of employment, after its determination by the Chief Executive Officer, will be referred to the Board of Directors.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.



12. The financial statements of the Bank were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee comprising of four (4) non-executive directors as members including the Chairman of the Committee.
16. Meetings of the Audit Committee were held once in every quarter prior to approval of interim and final results of the Bank as required by the Code. The terms of reference of the committee were revised in accordance with the requirement of the Code and advised to the committee for compliance.
17. The Bank has an effective internal audit division that is manned by experienced and qualified personnel. The audit team is conversant with the policies and procedures of the Bank and is involved in the internal audit function on a full time basis.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all the other material principles contained in the Code have been complied with.

On behalf of the Board of Directors

Karachi: February 16, 2006

ALI RAZA D. HABIB
Chairman



Statement on Internal Controls

The Management of the Bank is responsible for establishing the Internal Control System with the main objectives of ensuring effectiveness and efficiency of operations; reliability of financial reporting; safeguarding of assets; and compliance with applicable laws and regulations. The Internal Control System has evolved over the years, as it is an ongoing process and is included in the Bank's policies, procedures, financial limits etc., as detailed in various manuals, circulars, and instructions issued by the Bank. This system continues to be reviewed, refined and improved from time to time and immediate corrective action is taken to minimize risks which are inherent in banking business and operations.

The Internal Control Systems are reviewed by the Internal Auditors as well as External Auditors and their findings and recommendations are reported to the management and to the Audit Committee of the Board, and corrective action is taken to address control deficiencies and for improving procedures and systems as they are identified. The Board, acting through the Audit Committee, provides supervision and overall guidance in improving the effectiveness of the Internal Control System.

While the Internal Control System is effectively implemented and monitored, there are inherent limitations in the effectiveness of any system, including the possibility of human error or system failure and circumvention or overriding of controls. Accordingly, even an effective Internal Control System can only provide reasonable but not absolute assurance that the system's objectives will be achieved.

During the year under review, we have endeavoured to follow guidelines issued by State Bank of Pakistan on internal controls and to incorporate these guidelines in the Bank's existing internal control system for evaluation and management of significant risks and we will endeavor to further improve our Internal Control System during 2006.

MAHMOOD S. ALLARAKHIA
Chief Financial Officer

I.A.K. TAREEN
Head of Internal Audit



Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Bank AL Habib Limited to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank's personnel and review of various documents prepared by the Bank to comply with the Code.

As part of the audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance effective as at 31 December 2005.

Karachi: February 16, 2006

KPMG Taseer Hadi & Co.
Chartered Accountants



Auditors' Report to the Members

We have audited the annexed balance sheet of Bank AL Habib Limited as at 31 December 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 year then ended, in which are incorporated the unaudited certified returns from the branches except for 12 branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than sixty percent of the total loans and advances of the Bank, we report that:

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2005, and its true balance of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Karachi: February 16, 2006

KPMG Taseer Hadi & Co.
Chartered Accountants



Balance Sheet as at 31 December 2005

	Note	2005 (Rupees in '000)	2004
ASSETS			
Cash and Balances with Treasury Banks	6	7,582,661	6,239,421
Balances with Other Banks	7	1,088,891	4,287,685
Lendings to Financial Institutions	8	3,352,747	2,471,000
Investments	9	19,757,665	14,413,794
Advances	10	55,303,779	47,366,953
Other Assets	11	1,939,964	1,130,340
Operating Fixed Assets	12	2,475,834	1,526,360
Deferred Tax Assets	13	—	—
		91,501,541	77,435,553
LIABILITIES			
Bills Payable	14	1,464,648	1,344,637
Borrowings from Financial Institutions	15	6,275,868	7,975,185
Deposits and Other Accounts	16	75,795,858	62,170,628
Sub-ordinated loans	17	1,349,460	1,350,000
Liabilities against assets subject to finance lease	18	345,011	138,395
Other Liabilities	19	769,856	336,700
Deferred Tax Liabilities	13	254,746	295,596
		86,255,447	73,611,141
Net Assets		5,246,094	3,824,412
REPRESENTED BY :			
Share Capital	20	2,191,112	1,352,539
Reserves		2,167,736	1,910,091
Unappropriated Profit		386,947	11,715
		4,745,795	3,274,345
Surplus on Revaluation of Assets - net of deferred tax	21	500,299	550,067
		5,246,094	3,824,412
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes 1 to 44 form an integral part of these financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

ANWAR HAJI KARIM
Director

FAIZ N. ABDULALI
Director



Profit and Loss Account for the year ended 31 December 2005

	Note	2005 (Rupees in '000)	2004
Mark-up /Return/Interest Earned	23	4,935,626	2,432,106
Mark-up/Return/Interest Expensed	24	(2,143,510)	(962,119)
Net Mark-up/return/Interest Income		2,792,116	1,469,987
(Provision) / Reversal against non-performing loans and advances	10.3	(73,817)	15,090
Provision for diminution in the value of investment	9.14	(1,513)	–
Bad Debts written off directly		–	–
Net Mark-up/Return/Interest Income after provisions		2,716,786	1,485,077
NON MARK-UP/INTEREST INCOME			
Fees, Commission and Brokerage Income		508,744	390,328
Dividend Income		38,820	16,234
Income from dealing in foreign currencies		300,795	202,837
Other Income	25	187,705	260,403
Total non-markup/Interest Income		1,036,064	869,802
		3,752,850	2,354,879
NON MARK-UP/INTEREST EXPENSES			
Administrative Expenses	26	(1,728,389)	(1,314,947)
Other Assets written off		–	–
Other Charges	27	(2,453)	(753)
Total non-markup/Interest expenses		(1,730,842)	(1,315,700)
Extra ordinary/unusual items		–	–
PROFIT BEFORE TAXATION		2,022,008	1,039,179
Taxation – Current	28	(685,514)	(345,064)
– Prior years		143,857	(100,000)
– Deferred		(16,292)	(53,104)
		(557,949)	(498,168)
PROFIT AFTER TAXATION		1,464,059	541,011
Unappropriated Profit brought forward		11,715	44,928
Transfer from surplus on revaluation of fixed assets - net of tax		7,391	7,367
		19,106	52,295
Profit available for appropriation		1,483,165	593,306
APPROPRIATIONS			
Transfer to:			
Statutory Reserve		(292,812)	(108,202)
General Reserve		–	–
Issue of Bonus Shares (interim) @ 20% (2004: Nil)		(365,184)	–
Reserve for issue of bonus shares (final) @ 20% (2004: @ 35%)		(438,222)	(473,389)
		(1,096,218)	(581,591)
Unappropriated Profit carried forward		386,947	11,715
Basic / diluted earnings per share (Rupees)	29	6.68	2.47

The annexed notes 1 to 44 form an integral part of these financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
Chief Executive and
Managing Director

ANWAR HAJI KARIM
Director

FAIZ N. ABDULALI
Director



Cash Flow Statement for the

	2005	2004
	(Rupees in '000)	
Cash Flow From Operating Activities		
Profit before Taxation	2,022,008	1,039,179
Dividend Income	(38,820)	(16,234)
	1,983,188	1,022,945
Adjustments for Non-Cash Charges		
Depreciation	104,968	57,610
Amortisation	72,548	74,172
Gain on disposal of operating fixed assets	(5,203)	(8,926)
Financial charges on leased assets	18,022	5,406
Charge for compensated absences	10,398	7,500
Provision for diminution in the value of investment	1,513	-
Provision / (Reversal) Against non-performing loans and advances	73,817	(15,090)
	276,063	120,672
	2,259,251	1,143,617
(Increase) / Decrease in Operating Assets		
Lendings to financial institutions	(881,747)	(2,001,374)
Advances	(8,010,643)	(12,120,349)
Other Assets (excluding advance taxation)	(831,200)	(307,926)
	(9,723,590)	(14,429,649)
Increase / (Decrease) in Operating Liabilities		
Bills Payable	120,011	119,880
Borrowings from financial institutions	(1,699,317)	1,184,511
Deposits and other accounts	13,625,230	15,992,580
Other Liabilities	337,647	(37,974)
	12,383,571	17,258,997
	4,919,232	3,972,965
Income tax paid	(451,834)	(386,354)
Net cash flows from operating activities (Balance Carried Forward)	4,467,398	3,586,611

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*



year ended 31 December 2005

	Note	2005 (Rupees in '000)	2004
Net cash flows from operating activities (Balance Brought Forward)		4,467,398	3,586,611
Cash Flow From Investing Activities			
Net Investments		(5,444,902)	(727,289)
Dividend received		38,820	16,754
Investments in operating fixed assets		(811,350)	(260,529)
Payment of non refundable deposits for the acquisition of properties		(47,500)	(89,513)
Sale Proceeds of property and equipment disposed-off		7,274	9,991
Net cash flow from investing activities		(6,257,658)	(1,050,586)
Cash Flow From Financing Activities			
Sub-ordinated loans		(540)	1,350,000
Payments of lease obligations		(64,466)	(16,262)
Dividend paid		(288)	2,079
Net cash flow from financing activities		(65,294)	1,335,817
(Decrease) / Increase in Cash and Cash Equivalents		(1,855,554)	3,871,842
Cash and Cash Equivalents at the Beginning of the Year		10,527,106	6,655,264
Cash and Cash Equivalents at the End of the Year	30	8,671,552	10,527,106

The annexed notes 1 to 44 form an integral part of these financial statements.

ANWAR HAJI KARIM
Director

FAIZ N. ABDULALI
Director



Notes to the Financial Statements for the year ended 31 December 2005

1. STATUS AND NATURE OF BUSINESS

Bank AL Habib Limited (the Bank) was incorporated in Pakistan on 15 October 1991 as a public limited company under the Companies Ordinance 1984, having its registered office at 126-C, Old Bahawalpur Road, Multan with principal place of business being in Karachi. Its shares are listed on all the Stock Exchanges in Pakistan. It is a scheduled bank principally engaged in the business of commercial banking with a network of 100 branches (2004 : 74 branches) operating throughout the country (including Karachi Export Processing Zone branch and Islamic Banking branch).

2. BASIS OF PRESENTATION

In accordance with the Islamic Banking System, trade related modes of financing include purchase of good by the Bank from its customers and simultaneous re-sale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

3. 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. Approved accounting standards comprise of such International Accounting 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 requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives shall take precedence.

The Securities and Exchange Commission of Pakistan has approved and notified the adoption of International Accounting Standard 39, Financial Instruments: Recognition and Measurement and International Accounting Standard 40, Investment Property. The requirements of these standards have not been followed in preparation of these financial statements as the State Bank of Pakistan vide BSD Circular No. 10 dated 26 August 2002 has deferred the implementation of these standards for the banks in Pakistan till further instructions.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention as modified by revaluation of leasehold land and buildings and valuation of certain investments at fair value.

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current future periods.

Judgements made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 43.



5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and Cash equivalents

Cash and cash equivalents, for the purpose of cash flow statement, represent cash and balances with treasury banks, balances with other banks in current and deposit accounts.

5.2 Investments

In accordance with BSD Circular No. 10 and 14 dated 13 July 2004 and 24 September 2004 respectively, issued by the State Bank of Pakistan, the bank classifies its investment portfolio into 'Held for Trading', 'Held to Maturity' and 'Available for Sale' securities as follows:

Held for trading

These are investments acquired principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin.

Held to maturity

These are investments with fixed or determinable payments and fixed maturity and the Bank has the positive intent and ability to hold them till maturity.

Available for sale

These are investments which do not fall under the held for trading and held to maturity categories.

Quoted securities where ready quotes are available on Reuters Page (PKRV) or Stock Exchange, other than investments classified as held to maturity and investments in associates, are valued at fair value. Investments classified as held to maturity are carried at amortised cost.

Investment in subsidiary, associate and unquoted securities are carried at cost less impairment loss, if any.

The difference between the face value and purchase price is amortised over the remaining life of the investment using effective yield method, in order to determine amortised cost.

The surplus / deficit arising as a result of revaluation at fair value on trading portfolio is taken to income and that relating to the available for sale portfolio is kept in a separate account and shown below equity.

Gains or losses on disposals of investments are dealt with through the profit and loss account in the year in which they arise.

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised using the trade date method of accounting.

5.3 Repurchase agreements

The Bank enters into purchase / (sale) of investments under agreements to resell / (repurchase) investments at a certain date in the future at a fixed price. Investments purchased subject to commitment to resell them at the future dates are not recognised. The amounts paid are recognised in lending to financial institutions.

The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for investments. The proceeds from the sale of the investments are reported in borrowings from financial institutions.

The difference between the purchase / (sale) and resell / (repurchase) consideration is recognised on a time proportion basis over the period of the transaction and is included in mark-up / return / interest earned or expensed.

5.4 Advances

Advances are stated net of provisions for non performing advances. Specific and General provisions for non performing advances are determined keeping in view the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Advances are written-off when they are considered irrecoverable.



5.5 Operating fixed assets

Tangible - owned

Lease hold land are stated at revalued amounts. Buildings on lease hold land are stated at revalued amount less accumulated depreciation. All other operating fixed assets are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged to income applying the straight line method by taking into consideration the estimated useful lives of the related assets. Gains or losses on disposal of fixed assets are included in income currently.

Maintenance and repairs are charged to profit and loss account as and when incurred. Cost incurred on renovations are capitalised as leasehold improvements.

The surplus on revaluation of fixed assets (net of deferred taxation) to the extent of the incremental depreciation charged on the revalued assets is transferred to retained earnings.

Tangible - Leased

Assets subject to finance lease are accounted for by recording the assets and related liability. These are stated at lower of fair value and the present value of minimum lease payments at the inception of lease less accumulated depreciation. Financial charges are allocated over the period of lease term so as to provide a constant periodic rate of financial charge on the outstanding liability. Depreciation is charged on the basis similar to the owned assets.

Intangible assets - owned

Intangible assets are stated at cost less accumulated amortisation. Amortisation is based on straight line method by taking into consideration the estimated useful life.

Capital work in progress

Capital work in progress is stated at cost.

5.6 Taxation

Current

Provision for taxation is based on taxable income at the current rates of taxation after taking into account applicable exemptions and rebates, as permissible under the Income Tax Ordinance, 2001.

Deferred

Deferred tax is provided using the balance sheet liability method providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available and the credits can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

5.7 Staff retirement benefits

Defined Benefit Plan - Employees' Gratuity Fund

The Bank operates an approved gratuity fund scheme for all its confirmed employees, which is administered by the Board of Trustees. The Bank's costs are determined based on an actuarial valuation using Projected Unit Credit Method. Net cumulative un-recognized actuarial gains / losses relating to previous reporting period in excess of the higher of 10% of present value of defined benefit obligation or 10% of the fair value of plan assets are recognized as income or expense over the estimated working lives of the employees.



Defined Contribution Plan - Employees' Provident Fund

The Bank operates an approved Provident Fund Scheme for all its regular permanent employees, administered by the Board of Trustees. Equal monthly contributions are made both by the Bank and its employees to the fund at the rate of 10% of the basic salary in accordance with the terms of the scheme.

5.8 Revenue recognition

Mark-up income and expense are recognized on a time proportion basis taking into account effective yield on the instrument, except in case of advances classified under the Prudential Regulations issued by the State Bank of Pakistan on which mark-up is recognized on receipt basis.

Fee, commission and brokerage income are recognized as services are performed.

Dividend income is recognized at the time of book closure of the company declaring dividend when the Bank's right to receive has been established.

5.9 Foreign currencies

Foreign currency transactions are translated into rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. The fair value of forward cover taken from the State Bank of Pakistan for foreign currency deposits is added / deducted from value of foreign currency deposits. Outstanding forward foreign exchange contracts and foreign bills purchased excluding swap contracts are valued at the market rates applicable to the respective maturities. However, premium on swap contracts is amortized over the period of swap and the movement in ready rates since the initiation of swap is also accounted for. Exchange gains and losses are included in income currently.

5.10 Dividends

Dividend is recognized as a liability in the period in which it is declared.

5.11 Provision for guarantee claims and other off balance sheet obligations

Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists for the Bank to settle the obligation. Expected recoveries are recognized by debiting customer's account. Charge to profit and loss account is stated net-of expected recoveries.

Other provisions are recognised when the Bank has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

5.12 Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

5.13 Employees' compensated absences

Employees' entitlement to annual leave is recognized when they accrue to employees. A provision is made for estimated liability for annual leave as a result of services rendered by the employee against unavailed leaves upto the date of balance sheet.

5.14 Off-setting

Financial assets and financial liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognized amount and the Bank intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.



5.15 Impairment

The carrying amount of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

	2005	2004
	(Rupees in '000)	
6. CASH AND BALANCES WITH TREASURY BANKS		
In hand		
Local currency	1,957,357	1,577,310
Foreign currencies	302,395	263,963
With State Bank of Pakistan in:		
Local currency current account	6.1	3,698,694
Local currency current account-Islamic Banking	6.2	7,804
Foreign currency deposit account		
Cash reserve account	339,359	312,185
Special Cash Reserve account	6.3	1,018,078
Local US Dollar collection account	6.4	24,533
With National Bank of Pakistan in:		
Local currency current account	234,441	201,325
	<u>7,582,661</u>	<u>6,239,421</u>

- 6.1 This represents statutory cash reserve maintained under Section 22 of the Banking Companies Ordinance, 1962.
- 6.2 This represents statutory cash reserve maintained by Islamic Banking Branch in accordance with BPD Circular No. 01 dated 01 January 2003 issued by Islamic Banking department of the State Bank of Pakistan.
- 6.3 This represents special cash reserve maintained against foreign currency deposits mobilised under FE 25 Circular issued by the State Bank of Pakistan and is remunerated at the rate declared by State Bank of Pakistan on monthly basis.
- 6.4 This represents US Dollar settlement account opened with the State Bank of Pakistan in accordance with FE Circular No. 2 dated 19 February 2004 and is remunerated at the rate declared by State Bank of Pakistan on monthly basis.

	2005	2004
	(Rupees in '000)	
7. BALANCES WITH OTHER BANKS		
In Pakistan		
In current accounts	138,366	44,067
In deposit accounts	7.1	2,500
Outside Pakistan		
In current accounts	573,357	291,349
In deposit accounts	7.2	3,949,769
	<u>1,088,891</u>	<u>4,287,685</u>

- 7.1 This carries mark-up at the rate of 4.00% per annum (2004: 2.00%) maturing in October 2006.
- 7.2 These carry mark-up ranging from 3.16% to 4.44% per annum (2004: 1.50% to 2.28%).



2005 **2004**
(Rupees in '000)

8. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings		–	900,000
Certificates of Investment	8.1	1,800,000	425,000
Repurchase agreement lendings (Reverse Repo)	8.2	1,552,747	1,146,000
		3,352,747	2,471,000

8.1 These are certificates of investment of financial institutions carrying profit rates ranging from 9.73% to 11.00% (2004: 5.70% to 6.50%) and have a maturity period of upto three months.

8.2 These are short term lendings to different financial institutions secured against Government and listed securities carrying mark-up ranging from 8.30% to 8.40% per annum (2004: 3.20% to 5.90%) and have a maturity period of upto two months.

8.3 Securities held as collateral against lendings to financial Institutions

	2005			2004		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	(Rupees in '000)					
Market Treasury Bills	1,552,747	–	1,552,747	–	–	–
Pakistan Investment Bonds	–	–	–	1,000,000	–	1,000,000
Shares of listed companies	–	–	–	146,000	–	146,000
	1,552,747	–	1,552,747	1,146,000	–	1,146,000



9. INVESTMENTS

9.1 Investments by type	2005			2004		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
	(Rupees in '000)					
<i>Available for sale securities</i>						
Market Treasury Bills	5,245,132	–	5,245,132	–	–	–
Pakistan Investment Bonds	1,718,570	–	1,718,570	2,080,184	301,503	2,381,687
Ordinary shares of listed companies and closed end mutual funds	385,451	–	385,451	241,903	–	241,903
Ordinary shares of unlisted companies	35,700	–	35,700	35,700	–	35,700
Term Finance Certificates						
– Listed	24,814	–	24,814	–	–	–
Open ended mutual funds	380,757	–	380,757	330,001	–	330,001
S.W.I.F.T.	1,657	–	1,657	1,896	–	1,896
	7,792,081	–	7,792,081	2,689,684	301,503	2,991,187
<i>Held to maturity securities</i>						
Market Treasury Bills	7,526,139	510,189	8,036,328	6,775,306	299,620	7,074,926
Federal Investment Bonds	–	–	–	101,267	–	101,267
Pakistan Investment Bonds	2,463,871	–	2,463,871	2,970,179	–	2,970,179
Term Finance Certificates						
– Listed	375,064	–	375,064	479,997	–	479,997
– Unlisted	270,618	–	270,618	174,995	–	174,995
Unlisted WAPDA Bonds	600,074	–	600,074	600,101	–	600,101
	11,235,766	510,189	11,745,955	11,101,845	299,620	11,401,465
<i>Associated company</i>						
- Habib Sugar Mills Ltd.	21,142	–	21,142	21,142	–	21,142
<i>Subsidiary company</i>						
- AL Habib Capital Markets (Pvt) Ltd.	200,000	–	200,000	–	–	–
Provision for diminution in the value of investment	(1,513)	–	(1,513)	–	–	–
	19,247,476	510,189	19,757,665	13,812,671	601,123	14,413,794



	Note	2005 (Rupees in '000)	2004
9.2 Investments by segment			
<i>Federal Government Securities</i>			
– Market Treasury Bills	9.4	13,281,460	7,074,926
– Federal Investment Bonds		–	101,267
– Pakistan Investment Bonds	9.5	4,182,441	5,351,866
		17,463,901	12,528,059
<i>Fully paid-up ordinary shares and closed end mutual funds</i>			
– Listed companies and closed end mutual funds	9.6	385,451	241,903
– Unlisted companies	9.7	35,700	35,700
		421,151	277,603
<i>Term Finance Certificates</i>			
– Listed	9.8	399,878	479,997
– Unlisted	9.8	270,618	174,995
		670,496	654,992
<i>Provincial Government Securities</i>			
Unlisted WAPDA Bonds	9.9	600,074	600,101
<i>Others</i>			
– Associated company	9.10	21,142	21,142
– Subsidiary company	9.11	200,000	–
– Open ended mutual funds	9.12	380,757	330,001
– S.W.I.F.T.	9.13	1,657	1,896
		603,556	353,039
Less: <i>Provision for diminution in the value of investment</i>	9.14	(1,513)	–
		19,757,665	14,413,794

- 9.3 The market value of held to maturity securities at 31 December 2005 amounted to Rs.11,722 million.
- 9.4 Market Treasury Bills carry yield ranging from 8.23% to 8.76% per annum (2004: 1.98% to 5.79%) having maturity upto one year.
- 9.5 Pakistan Investment Bonds are for a period of 3, 5 and 10 years with yields ranging from 6.00% to 14.00% per annum (2004: 6.00% to 13.00%). Pakistan Investment Bonds having a face value of Rs. 5 million are pledged with Controller of Military Accounts, Karachi as a security deposit for extending banking facilities on account of regimental funds vis-à-vis private fund accounts.



9.6 Particulars of Investment in shares and closed end mutual funds - Listed - Available for sale

The par value of these shares / certificates is Rs. 10 each.

<u>No. of ordinary shares</u>		<u>Name of Companies</u>	<u>2005</u>	<u>2004</u>
<u>2005</u>	<u>2004</u>			
			(Rupees in '000)	
7,839,500	7,839,500	Pakistan Strategic Allocation Fund	91,722	76,827
301,875	143,750	International Industries Ltd.	47,666	40,106
1,597,500	1,597,500	The Hub Power Co. Ltd.	38,340	51,280
210,000	–	Engro Chemicals Pakistan Ltd.	34,535	–
198,136	–	Fauji Fertilizer Co. Ltd.	27,145	–
400,000	–	Pakistan Telecommunications Co. Ltd.	26,160	–
110,000	100,000	Pak Suzuki Motor Co. Ltd.	22,880	14,100
21,000	16,800	Shell Pakistan Ltd.	16,632	8,660
110,000	–	Cherat Cement Co. Ltd.	9,708	–
200,000	–	Kot Adu Power Co. Ltd.	9,700	–
1,000,000	1,000,000	ABAMCO Composite Fund	9,550	8,500
371,175	353,500	Standard Chartered Modaraba	8,017	10,958
200,000	–	Fauji Fertilizer Bin Qasim Ltd.	7,630	–
83,160	–	Nishat Chunian Ltd.	7,102	–
35,100	–	Packages Ltd.	7,090	–
75,000	–	Lucky Cement Ltd.	6,292	–
262,000	262,000	Sitara Energy Ltd.	4,716	7,336
20,000	27,100	Attock Refinery Ltd.	4,160	3,415
35,000	36,000	Tri-Pack Films Ltd.	2,063	2,520
100,000	100,000	PICIC Investment Fund	1,820	1,530
22,540	19,600	Atlas Battery Ltd.	1,688	2,156
50,000	50,000	Suzuki Motorcycle Pakistan Ltd.	835	1,325
–	46,000	Pakistan State Oil Co. Ltd.	–	13,190
			385,451	241,903

9.7 Particulars of Investment in Shares - Unlisted - Available for sale

<u>No. of ordinary shares</u>		<u>Name of Companies</u>		
<u>2005</u>	<u>2004</u>			
30	30	Khushhali Bank Ltd. Formed as per the directive of the Government of Pakistan to provide micro finance in rural areas for alleviating poverty. The par value per share is Rs. 1,000,000 Break-up value Rs. 1,022,003 per share. Chief Executive Officer: Mr. Ghalib Nishter	30,000	30,000
569,958	569,958	Pakistan Export Finance Guarantee Agency Ltd. A Joint venture between Asian Development Bank and thirteen commercial banks in Pakistan. The per value per share is Rs. 10 Break-up value Rs. 7.34 per share. Chief Executive Officer Mr. S.M. Zaeem.	5,700	5,700
			35,700	35,700



9.8 Particulars of Investment in Term Finance Certificates

No. of Certificates		Redeemable Value per certificate	Maturity Date	Name of Companies	2005	2004
2005	2004				(Rupees in '000)	
<i>Listed-Held to Maturity</i>						
-	4,600	-	June-2005	Dewan Salman Fibre Ltd.	-	5,741
2,000	2,000	5,000.00	Sept-2006	First Dawood Investment Bank Ltd.	10,000	10,000
-	5,000	-	Jan - 2005	Packages Ltd.	-	25,000
7,928	7,928	2,497.98	June-2007	Sui Southern Gas Co. Ltd.	19,804	33,007
10,000	10,000	5,000.00	July-2006	Orix Leasing Pakistan Ltd.	50,000	50,000
-	17,200	-	Nov-2007	Engro Chemicals Pakistan Ltd.	-	85,914
5,000	5,000	4,995.00	Apr-2008	Jahangir Siddiqui & Co. Ltd.	24,975	24,985
15,000	15,000	4,998.07	Nov-2012	Bank Alfalah Ltd.	74,971	75,000
1,070	1,070	4,998.08	Aug-2012	United Bank Ltd. - 1st issue	5,348	5,350
4,000	4,000	4,999.00	Sep-2013	United Bank Ltd. -2nd issue	20,000	20,000
9,000	9,000	4,999.00	Feb-2013	Prime Commercial Bank Ltd.	44,991	45,000
20,000	20,000	4,999.00	Feb-2013	Askari Commercial Bank Ltd.-I	99,980	100,000
5,000	-	4,999.00	Nov-2013	Soneri Bank Ltd.	24,995	-
					375,064	479,997
<i>Listed-Available for sale</i>						
5,000	-	5,000.00	Oct-2013	Askari Commercial Bank Ltd-II	24,814	-
					399,878	479,997
<i>Unlisted-Held to maturity</i>						
10	-	10,000,000.00	July-2012	Reliance Export	100,000	-
35,000	35,000	4,874.80	Feb-2011	Pakistan International Airlines Corp.	170,618	174,995
					270,618	174,995

These Term Finance Certificates are redeemable in half-yearly instalments and carry rate of return ranging from 7.50% to 13.50% per annum (2004: 6.10% to 16.00% per annum). The certificates of Bank Alfalah Limited, United Bank Limited, Soneri Bank Limited, Prime Commercial Bank Limited and Askari Commercial Bank Limited are subordinated.

9.9 Particulars of Investment in WAPDA Bonds - Unlisted - Held to maturity

No. of Certificates		Redeemable Value per certificate	Maturity Date	Name of Company	2005	2004
2005	2004				(Rupees in '000)	
120,000	120,000	5,000.00	Mar-2008	Water and Power Development Authority	600,074	600,101

These Bonds are redeemable at the end of the tenor and carry rate of return equal to the State Bank of Pakistan discount rate less 0.25% per annum (2004: SBP's discount rate less 0.25%)



9.10 Particulars of Investment in associate company - Listed

<u>No. of shares</u>		<u>Name of Company</u>	2005	2004
2005	2004		(Rupees in '000) .	
2,003,999	2,003,999	Habib Sugar Mills Ltd. Market value Rs. 92.785 million (2004: Rs. 93.687 million) The par value per share is Rs. 5. Chief Executive: Mr. Raeesul Hasan	<u>21,142</u>	<u>21,142</u>

9.11 Particulars of investment in subsidiary company - Unlisted

<u>No. of shares</u>		<u>Name of Company</u>	2005	2004
2005	2004		(Rupees in '000)	
20,000,000	–	AL Habib Capital Markets (Pvt.) Ltd. 66.67% of share capital of company is owned by the Bank. The par value per share is Rs. 10. Break up value per share Rs. 9.84. Chief Executive: Mr. Aftab Q. Munshi	<u>200,000</u>	–

9.12 Particulars of Investment in open ended mutual funds - Available for sale

<u>No. of units</u>		<u>Book Value per unit</u>	<u>Name of Funds</u>	2005	2004
2005	2004			(Rupees in '000)	
1,916,754	2,704,425	84.27	Dawood Money Market Fund	<u>200,684</u>	280,221
421,660	375,000	88.93	Faysal Balanced Growth Fund	<u>53,277</u>	39,525
22,499	20,000	444.46	Atlas Stock Market Fund	<u>14,148</u>	10,255
200,000	–	50.00	Alfalaha GHP Value Fund	<u>10,238</u>	–
1,000,000	–	100.00	Faysal Income and Growth Fund	<u>102,410</u>	–
				<u>380,757</u>	<u>330,001</u>

9.13 Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T) allocated shares based on the financial contribution from network based services by the Bank. Based on the Bank's financial contribution in the year 2002, 12 shares were allocated to the Bank at the rate of EUR 1,950 per share.

9.14 Particulars of Provision for diminution in the value of Investment

	2005	2004
	(Rupees in '000)	
Opening balance	–	–
Charge for the year	<u>1,513</u>	–
Closing balance	<u>1,513</u>	–



		2005	2004
		(Rupees in '000)	
10. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		50,556,118	43,087,102
Bills discounted and purchased (excluding Treasury Bills)			
Payable in Pakistan		1,940,593	1,557,031
Payable outside Pakistan		3,029,289	2,892,848
		4,969,882	4,449,879
		55,526,000	47,536,981
Provision for non-performing advances - Note 10.2		(222,221)	(170,028)
		55,303,779	47,366,953
10.1 Particulars of advances:			
10.1.1 In local currency		48,103,382	44,325,291
In foreign currencies		7,200,397	3,041,662
		55,303,779	47,366,953
10.1.2 Short Term (for upto one year)		44,973,932	39,062,871
Long Term (for over one year)		10,329,847	8,304,082
		55,303,779	47,366,953
10.2 Advances include Rs. 383.393 million (2004: Rs. 206.405 million) which have been placed under non-performing status as detailed below:			
Category of Classification	Domestic	Provision Required	Provision Held
		(Rupees in '000)	
Substandard	975	98	98
Doubtful	66,288	23,325	23,325
Loss	316,130	171,729	171,729
	383,393	195,152	195,152
General provision – Note 10.2.1		–	27,069
		195,152	222,221
10.2.1 The Prudential Regulations issued by the State Bank of Pakistan effective from 01 January 2004 require banks to maintain a general reserve of atleast 1.50% of the consumer portfolio which is fully secured and 5.00% of the consumer portfolio which is unsecured to protect the Bank from the risk associated with the economic cyclical nature of this business. The Bank created the general provision for secured and unsecured consumer portfolio amounting to Rs. 27.069 million.			



10.3 Particulars of provision against non-performing advances:

	2005			2004		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	100,028	70,000	170,028	212,470	100,000	312,470
Charge for the year	146,498	–	146,498	44,997	–	44,997
Reversals	(29,750)	(42,931)	(72,681)	(30,087)	(30,000)	(60,087)
	116,748	(42,931)	73,817	14,910	(30,000)	(15,090)
Amount Written Off 10.4	(21,624)	–	(21,624)	(127,352)	–	(127,352)
Closing balance	195,152	27,069	222,221	100,028	70,000	170,028

10.4 Particulars of write offs:

		2005	2004
		(Rupees in '000)	
10.4.1	Against provisions	21,624	127,352
	Directly charged to profit and loss account	–	–
		21,624	127,352
10.4.2	Write-offs of Rs. 500,000 and above	21,624	127,352
	Write-offs of below Rs. 500,000	–	–
		21,624	127,352

This includes Rs. 7.754 million being net-off loss on receivables owing to discrepant import bill settled between the Bank and negotiating bank.

10.5 Detail of loans written-off of Rs. 500,000 and above:

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended 31 December 2005 is given in Annexure 1.

10.6 Particulars of Loans and Advances to Directors, Associated Companies, etc.

	Balance as at 31 Dec. 2005	*Maximum total amount of advances including temporary advances granted during the year
	(Rupees in '000)	
(i) Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons.	265,358	265,358
(ii) 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.	260,000	277,227

* The maximum amount has been calculated by reference to month end balances.



		2005	2004
		(Rupees in '000)	
11. OTHER ASSETS			
Income/Mark-up accrued in local currency		1,088,692	549,769
Income/Mark-up accrued in foreign currency		11,882	1,674
Advances, deposits, advance rent and other prepayments		178,703	115,814
Advance taxation (payments less provisions)		–	4,424
Deferred costs	11.1	76,390	132,192
Unrealized gain on forward foreign exchange contracts		–	22,042
Stationery and stamps on hand		32,394	24,525
Receivable from SBP/Government of Pakistan		405,995	145,077
Non refundable deposits	11.2	137,687	99,037
Others		8,221	35,786
		<u>1,939,964</u>	<u>1,130,340</u>

11.1 This represents renovation costs incurred on Bank premises before 31 December 2003, being accounted for as deferred cost and amortised over a period of five years. From 2004 renovation costs representing major renewals and improvements are capitalized as improvements to buildings and depreciated over the remaining useful lives of buildings.

11.2 This represents non refundable deposits paid in relation to acquisition of some Bank's properties. These are being written off over the periods ranging from 10 to 20 years (being estimated useful lives of related properties).

		2005	2004
		(Rupees in '000)	
12. OPERATING FIXED ASSETS			
Capital work-in-progress	12.1	196,805	36,969
Property and equipment	12.2	2,276,049	1,484,396
Intangible assets	12.3	2,980	4,995
		<u>2,475,834</u>	<u>1,526,360</u>

12.1 Capital work-in-progress

Civil works		111,849	24,153
Advance payment towards property and equipments		80,847	10,115
Consultants fee and other charges		4,109	2,701
		<u>196,805</u>	<u>36,969</u>



12.2 Property and equipment

	Cost/Revalued Amount			Depreciation			Book value		Rate of depreciation %
	As at 1 Jan. 2005	Revaluation Surplus/ (Deficit)	Additions/ (Deletions)/ Adjustments	As at 31 Dec. 2005	As at 1 Jan. 2005	Charge (Deletions)/ Adjustments	As at 31 Dec. 2005	as at 31 Dec. 2005	
(Rupees in '000)									
<i>Owned</i>									
Leasehold land	248,250	-	172,596	618,866	-	-	-	618,866	-
Buildings on leasehold land	1,035,336	-	420,502 (198,020)	1,257,818	29,723	34,059	63,782	1,194,036	2.00 - 6.67
Improvements to leasehold buildings	24,341	-	16,036	40,377	609	1,618	2,227	38,150	5
Furniture and fixtures	101,416	-	31,393 (1,035)	131,774	35,590	10,766 (917)	45,439	86,335	10
Electrical, office and computer equipments	61,425	-	4,173 (5,087)	60,511	55,084	2,984 (4,884)	53,184	7,327	20
Vehicles	3,233	-	854 (521)	3,566	2,324	518 (514)	2,328	1,238	20
	1,474,001	-	645,554 (6,643)	2,112,912	123,330	49,945 (6,315)	166,960	1,945,952	
<i>Leased</i>									
Electrical, office and computer equipments	100,968	-	182,539 (225)	283,282	10,097	38,447 (67)	48,477	234,805	20
Vehicles	47,616	-	70,521 (1,963)	116,174	4,762	16,576 (456)	20,882	95,292	20
	148,584	-	253,060 (2,188)	399,456	14,859	55,023 (523)	69,359	330,097	
2005	1,622,585	-	898,614 (8,831)	2,512,368	138,189	104,968 (6,838)	236,319	2,276,049	
2004	815,213	441,312	553,217 (7,898) (179,259)	1,622,585	266,151	57,610 (6,313) (179,259)	138,189	1,484,396	

12.3 Intangible assets

	Cost			Amortisation			Book value		Rate of amortisation %
	As at 1 Jan. 2005	Additions	(Deletions)	As at 31 Dec. 2005	As at 1 Jan. 2005	Charge	As at 31 Dec. 2005	as at 31 Dec. 2005	
(Rupees in '000)									
Computer software	45,499	5,960	-	51,459	40,504	7,975	48,479	2,980	50
2004	35,509	9,990	-	45,499	33,860	6,644	40,504	4,995	50

Various computer software procured by the Bank have been fully amortised and continue to remain in the Bank's use.



12.4 Disposals / deletions of fixed assets during the year with original cost or book value in excess of Rupees one million or two hundred fifty thousand respectively (whichever is less):

Particulars	Cost	Book Value	Sale Price	Mode of disposal	Particulars of purchaser
Electrical, office and computer equipments	1,360	12	20	Tender	Computer Aid, S/28, 2nd Floor, Rafi Plaza Hall Road, Lahore.

(Rupees in '000)

12.5 During the year no assets were disposed-off to the Chief Executive or a director or an executive or a shareholder holding not less than ten percent of the voting shares of the Bank or any related party.

12.6 In 2004 leasehold land and buildings were revalued by M/s Iqbal A. Nanjee & Co. on the basis of market value which resulted in net surplus of Rs. 441.312 million over the book value of the assets as on 01 January 2004.

Had there been no revaluation, the net book value of specific classes of property, plant and equipment would have amounted to:

	Net Book Value	
	2005	2004
Leasehold land	431,023	60,407
Buildings on leasehold land	929,803	811,096
	1,360,826	871,503

(Rupees in '000)

13. DEFERRED TAX ASSETS / (LIABILITIES)

Deferred tax debits arising in respect of:

– General provision for loan loss	9,474	24,500
– Provision for compensated absences	6,264	–
– Difference between accounting book value of leased assets and lease liabilities	5,220	1,635
	20,958	26,135

Deferred tax credits arising in respect of:

– Difference between accounting book value of owned fixed assets and tax base	(100,540)	(85,445)
– Surplus on revaluation of fixed assets	(124,982)	(128,962)
– Surplus on revaluation of securities	(50,182)	(107,324)
	(275,704)	(321,731)
	(254,746)	(295,596)



		2005	2004
		(Rupees in '000)	
14. BILLS PAYABLE			
	In Pakistan	<u>1,464,648</u>	<u>1,344,637</u>
15. BORROWINGS FROM FINANCIAL INSTITUTIONS			
	In Pakistan	<u>6,199,058</u>	7,975,185
	Outside Pakistan	<u>76,810</u>	–
		<u>6,275,868</u>	<u>7,975,185</u>
15.1 Particulars of borrowings from financial institutions			
	In local currency	<u>6,199,058</u>	7,975,185
	In foreign currency	<u>76,810</u>	–
		<u>6,275,868</u>	<u>7,975,185</u>
15.2 Details of borrowings from financial Institutions			
	Secured		
	Borrowings from State Bank of Pakistan		
	Under export refinance scheme	15.3 <u>5,533,900</u>	7,375,797
	Under Long Term Financing for		
	Export Oriented Projects	15.4 <u>154,969</u>	–
	Repurchase agreement borrowings	15.5 <u>510,189</u>	599,388
		<u>6,199,058</u>	<u>7,975,185</u>
	Unsecured		
	Overdrawn Nostros	<u>76,810</u>	–
		<u>6,275,868</u>	<u>7,975,185</u>
15.3	These borrowings carry mark-up rates ranging from 3.50% to 7.50% per annum (2004: 1.50% to 3.50%) and are secured against promissory notes, undertakings in favour of the Bank and export documents, payable quarterly at the time of partial payment or upon maturity of loan, whichever is earlier.		
15.4	This represents Borrowings from State Bank of Pakistan under Long Term Finance for Export Oriented Projects at rate of 5.00% (2004: NIL) having maturity period of upto seven years and six months.		
15.5	This represents repurchase agreement borrowings from other banks at rates ranging from 6.00% to 7.50% per annum (2004: 1.00% to 5.00%) having a maturity period of upto one month.		



	2005	2004
	(Rupees in '000)	
16. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	17,670,702	9,092,671
Savings deposits	16,670,626	16,496,790
Current accounts - Remunerative	15,951,090	15,322,376
Current accounts - Non-remunerative	24,112,578	20,044,933
	74,404,996	60,956,770
Financial Institutions		
Remunerative deposits	1,171,981	1,126,323
Non-remunerative deposits	218,881	87,535
	1,390,862	1,213,858
	75,795,858	62,170,628
16.1 Particulars of deposits		
In local currency	68,801,419	55,837,868
In foreign currencies	6,994,439	6,332,760
	75,795,858	62,170,628
17. SUB-ORDINATED LOANS		
Term Finance Certificates (TFCs)	1,349,460	1,350,000

The Bank has raised sub-ordinated loan by way of issuing rated, listed and un-secured subordinated term finance certificates as Tier II capital in the light of guidelines issued by the State Bank of Pakistan to support the Bank's growth and improvement in capital adequacy ratio. The salient features of this instrument are as follows:

Total issue	Rupees 1,350 million
Rating	AA-
Rate	Payable six monthly on January 15 and July 15 at average six months KIBOR plus 150 bps
Floor	3.50%
Ceiling	10.00%
Repayment	8 Years
Redemption	6-78th month: 0.25%
	84th month: 33.25%
	90th month: 33.25%
	96th month: 33.25%
Maturity Date	15 July 2012



18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2005			2004		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
Not later than one year	142,093	30,188	111,905	45,675	12,339	33,336
Later than one year but not later than five years	261,137	28,031	233,106	118,680	13,621	105,059
	403,230	58,219	345,011	164,355	25,960	138,395

(Rupees in '000)

18.1 The Bank has entered into various lease agreements for computers, office equipments and vehicles. Lease rentals include financial charges at the rate of 10.00% - 10.25% (2004: 10.00%) per annum which have been used as discounting factor and are payable monthly. The Bank has the option to purchase the assets upon completion of lease period and has intention to exercise it.

2005 2004
(Rupees in '000)

19. OTHER LIABILITIES

Mark-up /Return/Interest payable in local currency	437,512	179,819
Mark-up/Return/Interest payable in foreign currencies	5,704	2,302
Accrued expenses	27,882	17,578
Provision for compensated absences	17,898	7,500
Advance payments	7,242	6,025
Current Taxation (Provision less payments)	85,399	-
Unclaimed dividends	6,592	6,880
Unrealized Loss on forward foreign exchange contracts	7,078	-
Branch adjustment account	47,620	30,652
Special exporters accounts in foreign currencies	69,090	43,755
Others	57,839	42,189
	769,856	336,700



		2005		2004	
		(Rupees in '000)			
20. SHARE CAPITAL					
Authorised Capital					
	2005	2004			
	(Number)				
	<u>300,000,000</u>	<u>300,000,000</u>	Ordinary shares of Rs.10 each	<u>3,000,000</u>	<u>3,000,000</u>
Issued, subscribed and paid up capital					
	2005	2004			
	(Number)				
	<u>30,000,000</u>	30,000,000	Ordinary shares fully paid in cash	<u>300,000</u>	300,000
	<u>189,111,296</u>	<u>105,253,940</u>	Issued as bonus shares	<u>1,891,112</u>	<u>1,052,539</u>
	<u>219,111,296</u>	<u>135,253,940</u>		<u>2,191,112</u>	<u>1,352,539</u>

20.1 Issued, subscribed and paid-up capital at year-end includes 3,644,546 ordinary shares of Rs. 10 each (2004: 2,249,720 shares) held by the associated undertaking.

20.2 After the balance sheet date, cash dividends at 15% were proposed by Board of Directors. The dividend has not been provided for in these financial statements.

		2005		2004	
		(Rupees in '000)			
21. SURPLUS ON REVALUATION OF ASSETS - NET					
Surplus on revaluation of securities - net of tax		<u>206,674</u>		249,051	
Surplus on revaluation of fixed assets - net of tax		<u>293,625</u>		301,016	
		<u>500,299</u>		<u>550,067</u>	
21.1 Federal Government securities		<u>144,219</u>		306,639	
Quoted shares		<u>51,088</u>		17,234	
Other securities		<u>61,549</u>		32,502	
Related deferred tax liability		<u>(50,182)</u>		(107,324)	
		<u>206,674</u>		<u>249,051</u>	



	2005	2004
	(Rupees in '000)	
21.2 Surplus on revaluation of fixed assets	429,978	441,312
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax	(7,391)	(7,367)
Related deferred tax liability	(3,980)	(3,967)
	(11,371)	(11,334)
	418,607	429,978
Less: Related deferred tax liability on:		
Revaluation of fixed assets	128,962	132,929
Incremental depreciation charged during the year transferred to profit and loss account	(3,980)	(3,967)
	124,982	128,962
	293,625	301,016

22. CONTINGENCIES AND COMMITMENTS

22.1 Direct Credit Substitutes

Acceptances	5,673,637	2,614,550
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22.2 Transaction-related Contingent Liabilities

Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credit related to particular transactions issued in favour of:

– Government	2,398,648	2,035,970
– Financial Institutions	85,787	84,971
– Others	1,429,259	822,642

22.3 Trade-related Contingent Liabilities

Letters of credit	16,227,514	12,575,375
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22.4 Other contingencies

The income tax assessments of the Bank have been finalized upto tax year 2004 (accounting year ended 31 December 2003). The Income Tax Department has filed appeals against the appellate order relating to the assessment years 1995-96, 2000-2001, 2001-2002, 2002-2003 and Tax years 2003 and 2004 before the Income Tax Appellate Tribunal (ITAT) on which the tax liability, if any, of Rs. 40 million may arise. The Bank, based on the earlier decisions at ITAT level in previous years and the tax advisors opinion is confident of a favourable outcome and expects that no additional liability would arise.



	2005	2004
	(Rupees in '000)	
22.5 Commitments in respect of forward lending		
Commitments to extend credit	345,000	400,000
22.6 Commitments in respect of forward exchange contracts		
Purchase	3,445,614	3,361,224
Sale	5,884,600	5,922,139
The maturities of above contracts are spread over a period of one year.		
22.7 Commitments for the acquisition of operating fixed assets	158,039	93,246
22.8 Commitments in respect of operating leases		
Not later than one year	60,608	144,607
Later than one year and not later than five years	3,519	64,386
	64,127	208,993
The Bank has entered into operating lease arrangements whereby equipment and vehicles acquired on lease. The lease rentals are payable over a period upto 36 months.		
22.9 Other commitments		
Investment towards capital of Habib Asset Management Limited - Paid up capital Rs. 30 million	10,500	–

23. MARK-UP / RETURN / INTEREST EARNED

On loans and advances to:		
– Customers	3,378,651	1,612,592
– Financial institutions	54,785	25,223
On investments	1,264,619	686,815
On deposits with financial institutions	60,590	28,661
On securities purchased under resale agreements	154,472	51,553
On call money lendings	22,509	27,262
	4,935,626	2,432,106



	2005	2004
	(Rupees in '000)	
24. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	1,604,922	790,599
Securities sold under repurchase agreements	52,515	22,806
Sub-ordinated loan - TFCs	115,433	30,369
Borrowing from State Bank of Pakistan:		
– under Export Refinance Scheme	323,001	113,672
– under Long-Term Financing for Export Oriented Projects	270	–
Other short term borrowings	47,369	4,673
	<u>2,143,510</u>	<u>962,119</u>
25. OTHER INCOME		
Gain on sale of Government Securities	76	89,972
Gain on sale of listed shares and mutual funds	27,488	62,082
Gain on transfer of membership rights of KSE card to subsidiary company	28,250	–
Gain on disposal of operating fixed assets	5,203	8,926
Miscellaneous income (rent of lockers, recovery of fax, telephone, telex, courier charges etc.)	126,688	99,423
	<u>187,705</u>	<u>260,403</u>
26. ADMINISTRATIVE EXPENSES		
Salaries, allowances etc.		446,912
Charge for defined benefit plan	32.5	9,333
Contribution to defined contribution plan		19,827
Charge for compensated absences		7,500
Non-executive directors' fees, allowances and other expenses		87
Rent, taxes, insurance, electricity etc.		182,121
Legal and professional charges		32,822
Communications		65,605
Repairs and maintenance		43,526
Rentals of operating leases		131,849
Financial charges on leased assets		5,406
Security charges		34,063
Stationery and printing		41,012
Advertisement and publicity		19,474
Donations	26.1	7,780
Auditors' remuneration	26.2	760
Depreciation	12.2	57,610
Amortisation		74,172
Vehicle running expenses		35,183
Commission and brokerage		29,039
Subscriptions and publications		11,695
Clearing charges (NIFT)		11,532
Others		47,639
		<u>1,314,947</u>
	<u>1,728,389</u>	



2005 2004
(Rupees in '000)

26.1 The details of donations in excess of Rupees One hundred thousand are given below:

President Relief Fund for Earthquake Victims-2005	10,000	–
Beautification of I.I. Chundrigar Road - a social welfare project	7,500	–
Shaukat Khanum Memorial Hospital and Research Centre	125	125
Habib Medical Trust	925	925
Jinnah Foundation (Memorial) Trust	200	200
Rahmatbai Habib Widows & Orphans Trust	900	900
Habib Poor Fund	900	900
The Kidney Centre	–	100
Rahmatbai Habib Food & Clothing Trust	900	900
Layton Rehmatullah Benevolent Trust	100	100
Bait-ul-Sukoon Trust	500	125
Hussaini Blood Bank	–	500
Habib Education Trust	900	900
The Society for the Prevention and Cure of Blindness	125	125
Al-Sayyeda Benevolent Trust	925	925
Aga Khan Hospital & Medical College Foundation	650	650

None of the directors or their spouse had any interest in the above donees.

		2005	2004
		(Rupees in '000)	
26.2	Auditors' remuneration		
	Audit fee	650	500
	Fee for half yearly review, audit of provident and gratuity fund, special certifications and sundry advisory services	450	200
	Out of pocket expenses	30	60
		1,130	760
27.	OTHER CHARGES		
	Penalties imposed by State Bank of Pakistan	2,453	753
28.	TAXATION		
	For the year		
	– Current	685,514	345,064
	– Deferred	16,292	53,104
		701,806	398,168
	For prior year	(143,857)	100,000
		557,949	498,168



	2005	2004
	(Rupees in '000)	
28.1 Relationship between tax expense and accounting profit		
Profit before taxation	<u>2,022,008</u>	<u>1,039,179</u>
Tax at the applicable rate of 38% (2004: 41%)	768,363	426,063
Tax effect of:		
– Expenses that are not deductible in determining taxable Income	8,812	38,551
– Dividend income taxed at reduced rate	(12,811)	(5,844)
– Capital gain on sale of quoted shares being exempt from tax	(10,445)	(25,454)
– General provision against advances	–	(12,300)
– Prior year provision for taxation	(143,857)	100,000
– Others	(52,113)	(22,848)
	<u>557,949</u>	<u>498,168</u>
29. EARNINGS PER SHARE - BASIC AND DILUTED		
Profit for the year	<u>1,464,059</u>	<u>541,011</u>
Weighted average number of ordinary shares (Numbers)	<u>219,111,296</u>	<u>219,111,296</u>
Basic and diluted earnings per share (Rupees)	<u>6.68</u>	<u>2.47</u>
30. CASH AND CASH EQUIVALENTS		
Cash and Balance with Treasury Banks	7,582,661	6,239,421
Balance with Other Banks	1,088,891	4,287,685
	<u>8,671,552</u>	<u>10,527,106</u>
31. STAFF STRENGTH	Numbers	Numbers
Total number of employees at the end of the year	<u>1,809</u>	<u>1,462</u>
32. DEFINED BENEFIT PENSION PLAN - EMPLOYEES' GRATUITY FUND		
32.1 General description		
The benefits under the gratuity scheme are payable on retirement at the age of 60 or on earlier cessation of service as under:		
<i>Number of years of eligible service completed:</i>	<i>Amount of gratuity payable:</i>	
– Less than 5 years	Nil	
– 5 years or more but less than 10 years	1/3rd of basic salary for each year served	
– 10 years or more but less than 15 years	2/3rd of basic salary for each year served	
– 15 years or more	Full basic salary for each year served	



32.2 Principal actuarial assumptions

The last actuarial valuation of the scheme was carried out on 31 December 2005 and the key assumptions used for actuarial valuation were as follows:

	2005	2004
Discount rate	9.00% p.a.	8.00% p.a.
Expected rate of increase in salary in future years	8.00% p.a.	7.00% p.a.
Expected rate of return on plan assets	9.00% p.a.	8.00% p.a.
Withdrawal rate before normal retirement age	Moderate	Moderate

32.3 Reconciliation of payable to defined benefit plan

	2005	2004
	(Rupees in '000)	
Present value of defined benefit obligations	108,992	80,524
Fair value of plan assets	(63,902)	(54,399)
Net actuarial losses not recognized	(45,090)	(26,125)
	<u>—</u>	<u>—</u>

32.4 Movement in payable to defined benefit plan

Opening Balance	—	—
Charge for the year	14,713	9,333
Contribution to the fund during the year	(14,713)	(9,333)
	<u>—</u>	<u>—</u>

32.5 Charge for defined benefit plan

Current service cost	11,462	8,292
Interest cost	6,589	3,467
Expected return on plan assets	(4,629)	(2,830)
Amortisation of actuarial losses	1,291	404
	<u>14,713</u>	<u>9,333</u>

32.6 Actual return on plan assets

	<u>3,504</u>	<u>2,921</u>
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33. REMUNERATION OF CHIEF EXECUTIVE, EXECUTIVE DIRECTOR AND EXECUTIVES

(Rupees in '000)

	Chief Executive		Executive Director		*Executives	
	2005	2004	2005	2004	2005	2004
Managerial remuneration	4,000	3,600	2,400	2,150	90,844	56,889
Contribution to provident fund	400	360	240	215	7,244	4,194
Charge for defined benefit plan	194	146	117	87	4,395	2,306
Rent and house maintenance	1,600	1,440	960	860	36,337	22,756
Utilities	829	773	242	215	9,320	5,689
Bonus	1,000	667	600	400	21,979	8,834
Medical	73	34	23	49	2,410	1,613
Others	–	–	–	–	532	1,034
	8,096	7,020	4,582	3,976	173,061	103,315
Number of persons	1	1	1	1	111	67

The Chief Executive, Executive Director and Executives are also provided with the Bank maintained cars in accordance with the terms of employment.

* Executives mean employees, other than the Chief Executive and Executive Director whose basic salary exceeds five hundred thousand rupees in a financial year.



34. MATURITIES OF ASSETS AND LIABILITIES

(Rupees in '000)

	2005				
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
Assets					
Cash and balances with treasury banks	7,582,661	7,582,661	–	–	–
Balances with other banks	1,088,891	1,086,391	2,500	–	–
Lendings to financial institutions	3,352,747	3,352,747	–	–	–
Investments	19,757,665	1,638,369	12,386,841	3,086,977	2,645,478
Advances	55,303,779	17,240,995	27,732,937	9,154,740	1,175,107
Other assets	1,939,964	1,534,304	221,213	112,420	72,027
Operating fixed assets	2,475,834	133,936	133,708	605,650	1,602,540
	91,501,541	32,569,403	40,477,199	12,959,787	5,495,152
Liabilities					
Bills payable	1,464,648	1,464,648	–	–	–
Borrowings from financial institutions	6,275,868	4,216,615	1,904,284	41,164	113,805
Deposits and other accounts*	75,795,858	70,871,591	3,029,359	1,872,278	22,630
Sub-ordinated loan - TFCs	1,349,460	270	270	2,696	1,346,224
Liabilities against assets subject to finance lease	345,011	24,809	87,097	233,105	–
Other liabilities	769,856	373,418	364,707	24,490	7,241
Deferred tax liabilities	254,746	–	–	254,746	–
	86,255,447	76,951,351	5,385,717	2,428,479	1,489,900
	5,246,094	(44,381,948)	35,091,482	10,531,308	4,005,252
Net Assets					
Share capital	2,191,112				
Reserves	2,167,736				
Unappropriated profit	386,947				
Surplus on revaluation of assets	500,299				
	5,246,094				

* Savings deposits, treasurers' call and current deposits have been reported under three months maturity. However, they are not expected to be payable within three months period.

34.1 Liquidity risk reflects a bank's inability in raising funds to meet its commitments. The Bank's liquidity position is managed by the Asset Liability Management Committee (ALCO) which monitors liquidity ratios, depositors concentration, fund management and liquidity contingency plan.



35. YIELD / INTEREST RATE RISK

The bank's yield / interest rate sensitivity position, based on the earlier of contractual re-pricing or maturity date, is as follows:

(Rupees in '000)

	Effective Yield/ Interest Rate	Total	2005 Exposed to Yield / Interest rate risk				Not exposed to Yield/ Interest rate Risk
			Upto 3 months	Over 3 months to one year	Over 1 year to 5 years	Over 5 years	
On-balance sheet financial Instruments							
Assets							
Cash and balances with treasury banks	0.36%	7,582,661	1,042,611	-	-	-	6,540,050
Balances with other banks	3.79%	1,088,891	374,668	2,500	-	-	711,723
Lendings to financial institutions	7.27%	3,352,747	3,352,747	-	-	-	-
Investments	7.02%	19,757,665	1,638,369	12,386,841	2,320,769	2,386,979	1,024,707
Advances	6.69%	55,303,779	12,109,941	27,732,937	9,154,740	1,175,107	5,131,054
Other assets	-	1,508,198	-	-	-	-	1,508,198
		88,593,941	18,518,336	40,122,278	11,475,509	3,562,086	14,915,732
Liabilities							
Bills payable	-	1,464,648	-	-	-	-	1,464,648
Borrowings from financial institutions	5.15%	6,275,868	4,216,615	1,904,284	41,164	113,805	-
Deposits and other accounts	2.40%	75,795,858	46,540,132	3,029,359	1,872,278	22,630	24,331,459
Sub-ordinated loan - TFCs	10.00%	1,349,460	270	270	2,696	1,346,224	-
Liabilities against assets subject to finance lease	10.13%	345,011	24,809	87,097	233,105	-	-
Other Liabilities	-	581,885	-	-	-	-	581,885
		85,812,730	50,781,826	5,021,010	2,149,243	1,482,659	26,377,992
On-balance sheet gap		2,781,211	(32,263,490)	35,101,268	9,326,266	2,079,427	(11,462,260)
Total yield / interest risk sensitivity gap			(32,263,490)	35,101,268	9,326,266	2,079,427	
Cumulative yield / interest risk sensitivity gap				2,837,778	12,164,044	14,243,471	
Off-balance sheet financial Instruments							
Commitments to extend credit	9.27%	345,000	345,000	-	-	-	-

35.1 The interest rate risk arises from the fluctuation in the value of financial instrument consequent to the changes in market interest rates. The Bank's interest rates exposure comprises those originating from investing and lending activities. The Asset Liability Management Committee (ALCO) monitors and manages the interest rates risk with the objective of limiting the potential adverse effects on the profitability of the Bank arising from fluctuation in the market interest rates and mismatching or gaps in the amount of financial assets and financial liabilities in different maturity time bands.



36. CURRENCY RISK

(Rupees in '000)

	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Pakistan Rupee	78,747,947	78,666,689	2,438,986	2,520,244
United States Dollar	9,199,641	5,902,249	(3,072,378)	225,014
Great Britain Pound	229,368	722,712	503,068	9,724
Japanese Yen	3,753	18	(1,734)	2,001
Euro	381,838	517,989	149,555	13,404
Other Currencies	31,394	3,073	(17,497)	10,824
	<u>88,593,941</u>	<u>85,812,730</u>	<u>-</u>	<u>2,781,211</u>

36.1 Currency risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. The Bank's foreign exchange exposure comprises of forward contracts, purchase of foreign bills, foreign currency cash in hand, balances with banks abroad, foreign currency deposits and foreign currency placements with State Bank of Pakistan and other banks. The Bank manages its foreign exchange exposure by matching foreign currency assets and liabilities. The net open position is managed within the statutory limits as fixed by the State Bank of Pakistan. Counter party limits are also fixed to limit risk concentration.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2005		2004	
	Book value	Fair value	Book value	Fair value
	(Rupees in '000)			
On-balance sheet financial instruments				
Assets				
Cash and balances with treasury banks	7,582,661	7,582,661	6,239,421	6,239,421
Balances with other banks	1,088,891	1,088,891	4,287,685	4,287,685
Lendings to financial institutions	3,352,747	3,352,747	2,471,000	2,471,000
Investments	19,757,665	19,809,042	14,413,794	14,436,893
Advances	55,303,779	55,303,779	47,366,953	47,366,953
Other assets	1,508,198	1,508,198	719,598	719,598
	<u>88,593,941</u>	<u>88,645,318</u>	<u>75,498,451</u>	<u>75,521,550</u>
Liabilities				
Bills payable	1,464,648	1,464,648	1,344,637	1,344,637
Borrowings from financial institutions	6,275,868	6,275,868	7,975,185	7,975,185
Deposits and other accounts	75,795,858	75,795,858	62,170,628	62,170,628
Sub-ordinated loan - TFCs	1,349,460	1,349,460	1,350,000	1,350,000
Liabilities against assets subject to finance lease	345,011	345,011	138,395	138,395
Other liabilities	581,885	581,885	305,759	305,759
	<u>85,812,730</u>	<u>85,812,730</u>	<u>73,284,604</u>	<u>73,284,604</u>
Off-balance sheet financial instruments				
Forward purchase of foreign exchange	3,445,614	3,445,614	3,361,224	3,384,002
Forward sale of foreign exchange	5,884,600	5,884,600	5,922,139	5,922,875



Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The fair value of quoted investments is based on quoted market price. Fair value of unquoted equity investments is determined on the basis of break-up value of these investments as per the latest available audited financial statements. In the opinion of management, the fair value of the remaining financial assets and liabilities are not significantly different from their book value since assets and liabilities are either short term in nature or frequently re-priced, except for fixed term advances of over one year, staff loans and fixed term deposits of over one year.

In the opinion of management, the fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities.

38. CONCENTRATION OF CREDIT AND DEPOSITS

Credit Risk

Credit Risk is defined as the risk that parties with whom the Bank has entered into agreements do not fulfill their obligations to the Bank and that any collateral deposited does not cover the Bank's receivable claims. The Bank mitigates credit risk by monitoring credit exposures by continuously assessing the credit worthiness of counter parties.

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities or in the same geographical region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic political or other conditions. The Bank's major credit is concentrated in the textile sector which includes export of raw-cotton, ginning, spinning, textile made ups etc. which is adequately collateralized.



38.1 Segment by class of business

	Advances		Deposits		Contingencies and Commitments	
	Rupees in'000	%	Rupees in '000	%	Rupees in '000	%
Agriculture / Agri business	245,766	0.44	359,807	0.47	25,973	0.10
Automobiles and Transportation						
Equipment	1,781,089	3.22	4,178,277	5.51	1,454,171	5.63
Cement	121,654	0.22	13,832	0.02	161,362	0.63
Chemicals / Pharmaceuticals	936,398	1.69	367,612	0.49	506,504	1.96
Commerce and Trade	5,415,752	9.79	2,814,155	3.71	5,199,537	20.14
Electronics and Electrical appliances	866,565	1.57	92,822	0.12	51,990	0.20
Fertilizers	23,828	0.04	614,150	0.81	43,363	0.17
Food and Allied	1,720,485	3.11	134,287	0.18	1,037,533	4.02
Individuals	916,767	1.66	43,087,744	56.85	–	–
Investment Banks / Scheduled Banks	507,667	0.92	792,686	1.05	–	–
Iron and Steel	1,175,744	2.13	173,477	0.23	1,608,563	6.23
Manufacturing	2,912,522	5.27	510,198	0.67	–	–
Modarabas	416,042	0.75	128,719	0.17	–	–
Oil Refinery	641,858	1.16	276,322	0.36	19,123	0.07
Plastic products	263,709	0.48	32,715	0.04	287,302	1.11
Ready-made garments	1,064,747	1.92	37,839	0.05	168,409	0.65
Real estate/Construction	1,537,156	2.78	570,849	0.75	234,630	0.91
Rice processing and trading	646,022	1.17	4,107	0.01	38,470	0.15
Services (other than financial, hotelling and travelling)	697,709	1.26	1,786,814	2.36	543,396	2.11
Shoes and Leather garments	596,270	1.08	105,621	0.14	178,937	0.69
Sugar	946,911	1.71	93,714	0.12	330,242	1.28
Metal Products	841,590	1.52	20,943	0.03	228,353	0.89
Synthetic and Rayon	1,571,374	2.84	19,641	0.03	286,738	1.11
Textile	21,641,801	39.13	1,196,579	1.57	5,438,864	21.07
Spinning	10,605,159	19.17	570,652	0.75	2,754,018	10.67
Weaving	3,592,262	6.50	131,191	0.17	785,884	3.04
Composite	7,444,380	13.46	494,736	0.65	1,898,962	7.36
Telecommunication	225,430	0.41	104,793	0.14	20,278	0.08
Woolen	21,027	0.04	39,459	0.05	217,813	0.84
Public/Government	2,244,325	4.06	11,714,066	15.46	4,822,367	18.68
Others	5,323,571	9.63	6,524,630	8.61	2,910,927	11.28
	<u>55,303,779</u>	<u>100.00</u>	<u>75,795,858</u>	<u>100.00</u>	<u>25,814,845</u>	<u>100.00</u>



38.2 Segment by sector

	Advances		Deposits		Contingencies and Commitments	
	Rupees in'000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	2,244,325	4.06	11,714,066	15.45	4,822,367	18.68
Private	53,059,454	95.94	64,081,792	84.55	20,992,478	81.32
	<u>55,303,779</u>	<u>100.00</u>	<u>75,795,858</u>	<u>100.00</u>	<u>25,814,845</u>	<u>100.00</u>

39. GEOGRAPHICAL SEGMENT ANALYSIS

All of the branches of the Bank are located in Pakistan only.

40. ISLAMIC BANKING BUSINESS

The Bank is currently operating with one Islamic Banking branch. The key financial figures of Islamic Banking business at year end are as follows:

	2005	2004
	(Rupees in 000)	
Islamic Banking funds	100,000	—
Deposits and other accounts	68,143	—
Due to Head Office	516,334	—
Morabaha Financing	674,879	—

41. TRUST ACTIVITIES

The Bank provides services as a trustee to Dawood Money Market Fund. The market value of shares held by the Bank in safe custody on behalf of the fund amounted to Rs. 312.553 million (2004: Rs. 234.059 million).



42. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include major shareholders, associated companies with or without common directors, retirement benefit funds, directors and key management personnel and their close family members.

The Bank continues to have a policy whereby all transactions with related parties are entered into an arm's length prices using the comparable uncontrolled price method.

Transactions with related parties, other than those disclosed else where are summarized as follows:

	2005	2004
	(Rupees in '000)	
Associates		
Deposits		
Deposits at beginning of the year	122,056	246,195
Deposits received during the year	11,786,774	37,299,318
Deposits repaid during the year	(11,799,970)	(37,423,457)
Deposits at the end of the year	<u>108,860</u>	<u>122,056</u>
Insurance premium paid	43,165	38,637
Insurance claim received	6,585	4,882
Dividend Income	4,008	2,004
Dividend paid	-	12,958
Mark-up expensed	805	4,771
Mark-up earned	196	288
Subsidiary		
Deposits		
Deposits at beginning of the year	-	-
Deposits received during the year	300,000	-
Deposits repaid during the year	(213,897)	-
Deposits at the end of the year	<u>86,103</u>	<u>-</u>
Mark-up expensed	112	-
Mark-up earned	1	-



2005 2004
(Rupees in '000)

Other Related Parties

Deposits

Deposits at beginning of the year	10,405	18,145
Deposits received during the year	2,848,181	3,542,491
Deposits repaid during the year	(2,823,356)	(3,550,231)
Deposits at the end of the year	35,230	10,405

Advances

Advances outstanding at the beginning of the year	260,000	271,531
Advances given during the year	17,227	160,951
Advances repaid during the year	(17,227)	(172,482)
Advances outstanding at the end of the year	260,000	260,000
Mark-up expensed	23	367
Mark-up earned	14,711	7,034
Directors' fee	65	86

Key Management Personnel

Deposits

Deposits at beginning of the year	2,759	1,969
Deposits received during the year	220,887	216,976
Deposits repaid during the year	(199,245)	(216,186)
Deposits at the end of the year	24,401	2,759

Advances

Advances outstanding at the beginning of the year	6,313	1,541
Advances given during the year	9,397	5,465
Advances repaid during the year	(3,721)	(693)
Advances outstanding at the end of the year	11,989	6,313



	2005	2004
	(Rupees in '000)	
Salaries and allowances	46,728	34,696
Bonus	7,741	4,199
Compensated Absences	3,633	2,225
Contribution to defined contribution plan	2,300	1,805
Contribution to defined benefit plan	848	698
Mark-up earned	410	218
Mark-up expensed	26	123
Staff Provident Fund	23,659	18,021

The lending policy in case of related parties has been consistent with that of the Bank's overall credit policy and in line with the SBP's Prudential Regulations.

43. ACCOUNTING ESTIMATES AND JUDGEMENTS

Provision against non-performing loans and advances

The Bank reviews its loan portfolio to assess amount of non-performing loans and advances and provision required there against on a quarterly basis. The provision is made in accordance with Prudential Regulations issued by State Bank of Pakistan. The forced sales values are estimated by independent valuations of the assets mortgaged/pledged. The change in Prudential Regulations relating to increased percentage on debts classified as 'Substandard' and increased discounting of forced sale values would result in change in provision.

Held-to-maturity investments

The Bank follows the guidance provided in State Bank of Pakistan's circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past. There are various matters where Bank's view differs with the view taken by the income tax department and such amounts are shown as contingent liability.

44. DATE OF AUTHORIZATION

These financial statements were authorized for issue in the Board of Directors meeting held on 16 February 2006.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

ANWAR HAJI KARIM
Director

FAIZ N. ABDULALI
Director



Annexure-1

**Statement showing written-off loans or any other financial relief
of five hundred thousand rupees or above provided
during the year ended December 31, 2005**

(Rupees in '000)

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's/ Husband's Name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written off	Other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Others	Total				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1.	M/s Grain Tech (Pvt) Ltd. 99/C, Model Town, Lahore.	Syed Mohammad Faisal Hasan (Director) (NIC No. 270-86-261277) Begum Feroza Mukhtar Hussain (Director) (NIC No. 270-30-260651) Mrs. Nosheen Faisal Hasan (Director) (NIC No. 270-87-431538)	Mr. Mukhtar Hussain Mr. Mukhtar Hussain Syed Mohammad Faisal Hasan	32,572	4,691	-	37,263	12,572	4,691	-	17,263
2.	M/s Ebramin (Pvt) Ltd. 2nd Floor, Bank House No. 1, Habib Square M.A. Jinnah Road, Karachi.	Mr. Gul Mohammad (Director) (NIC No. 517-44-108713) Mr. H.A. Sattar Mohammad (Director) (NIC No. 511-23-003912) Mr. A. Majid Hasham Panawala (Director) (NIC No. 501-27-057345) Mr. Ahmed Hasham Panawala (Director) (NIC No. 501-38-289689)	Mr. Abdul Sattar Motiwala Mr. Mohammad Mr. Hasham Panawala Mr. Hasham Panawala	2,153	1,493	-	3,646	-	1,446	-	1,446
3.	M/s Paramount Impex 38-Corner Chamber I.I. Chundrigar Road, Karachi.	Mr. Shoab Noman (Sole Proprietor) (NIC No. 520-63-193244)	Mr. Mehdi Hasan	602	-	-	602	602	-	-	602
4.	M/s Mahnoor Enterprises 116/87-88 Ghani Bukhari Road, Multan Cantt.	Mr. Arshad Baig (Sole Proprietor) (NIC No. 225-57-841643)	Mr. Zafar Baig	696	-	-	696	696	-	-	696
			Total	36,023	6,184	-	42,207	13,870	6,137	-	20,007

Note 1: The amount of principal written off was against the specific provision held by the bank.

Note 2: Interest / mark-up written off was against suspended mark-up.

Note 3: The above amounts are excluding Rs. 7.754 million being net-off loss on receivables owing to discrepant import bill settled between the Bank and negotiating bank.



Notice of Annual General Meeting

Notice is hereby given that the Fifteenth Annual General Meeting of Bank AL Habib Limited will be held at the Registered Office of the Bank located at 126-C, Old Bahawalpur Road, Multan, on Tuesday, March 14, 2006 at 12:00 noon to transact the following Business:

1. To receive and adopt the audited Annual Accounts and Consolidated Accounts of the Bank for the year ended December 31, 2005 together with the Directors' and Auditors' Report thereon.
2. To consider and approve cash dividend @ 15% i.e. Rs. 1.50 per share of Rs. 10/- each for the year ended December 31, 2005 as recommended by the Board of Directors.
3. To consider and approve the issue of 20% bonus shares as recommended by the Board of Directors in the proportion of twenty shares for every 100 shares held by the shareholders and in this regard to pass the following resolution:

"RESOLVED that a sum of Rs. 438,222,312 (Rupees Four Hundred Thirty Eight Million Two Hundred Twenty Two Thousand Three Hundred and Twelve only) out of the unappropriated profit be capitalized and distributed by issuing 43,822,231 fully paid ordinary shares of Rs. 10/- each as bonus shares in the proportion of 20 shares for every hundred shares held, to those members whose name appears in the register of members as at the close of business on March 04, 2006 and that the shares so distributed shall be treated for all purposes as an increase in the paid-up capital of the Bank.

FURTHER RESOLVED that the bonus shares so distributed shall rank pari passu in all respect with the existing shares of the Bank.

FURTHER RESOLVED that the Directors be and are hereby authorized to consolidate all fractions of bonus shares and sell in the Stock Market and pay the proceeds of sale when realized to a charitable trust.

FURTHER RESOLVED that the Directors be and are hereby authorized and empowered to give effect to this resolution and to do or cause to be done all acts, deeds and things that may be necessary or required for the issue, allotment and distribution of 43,822,231 shares".

4. To appoint Auditors for the year 2006 and to fix their remuneration. Messrs KPMG Taseer Hadi & Co., Chartered Accountants, being eligible offer themselves for re-appointment.
5. To consider any other business of the Bank with the permission of the Chair.

SPECIAL BUSINESS:

1. To increase the Authorized Capital of the Bank from Rupees Three Billion to Rupees Five Billion and pass the following Special Resolutions:

"RESOLVED that the Authorized Capital of the Bank be and is hereby increased from Rs. 3,000,000,000 (Rupees Three Billion) to Rs. 5,000,000,000 (Rupees Five Billion) by the creation of 200,000,000 Ordinary Shares of Rs. 10/- each".

FURTHER RESOLVED that the figures and words "Rs. 3,000,000,000 (Rupees Three Billion) divided into 300,000,000 (Three Hundred Million) ordinary shares of Rs. 10/- each appearing in clause V of the Memorandum of Association and in Article 4 of the Articles of Association of the Bank be and hereby substituted by the figures and words Rs. 5,000,000,000 (Rupees Five Billion) divided into 500,000,000 (Five Hundred Million) ordinary shares of Rs. 10/- each".



2. To enhance the remuneration payable to Directors for attending Board of Directors Meeting from Rs. 2,500/- to Rs. 10,000/- and to fix the remuneration payable to a Director for attending Sub-committee Meeting of the Board at Rs. 10,000/- and pass the following Special Resolutions:

“RESOLVED that the remuneration payable to Directors, for attending Board Meeting be and is hereby increased from Rs. 2,500/- (Rupees Two Thousand Five Hundred) to Rs. 10,000/- (Rupees Ten Thousand) and the remuneration payable to a Director for attending Sub-committee meeting of the Board be and is hereby fixed at Rs. 10,000/- (Rupees Ten Thousand) per meeting”.

“FURTHER RESOLVED that the figure Rs. 2,500/- (Rupees Two Thousand Five Hundred) appearing in Article 106 of Articles of Association be and is hereby substituted by the figure Rs. 10,000/- (Rupees Ten Thousand) and in the first line after the words Board Meeting additional words Sub-committee meeting of the Board be and is hereby added”.

A Statement of Material Facts under Section 160(1)(b) of the Companies Ordinance, 1984 relating to the aforesaid Special Business to be transacted at the said Annual General Meeting (AGM) is sent with Notice of the AGM to all shareholders.

By order of the Board

MAHMOOD S. ALLARAKHIA
Company Secretary

Karachi: February 16, 2006

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy must be a member of the Bank. Proxy forms in order to be effective, must be received at the Registered Office of the Bank located at 126-C, Old Bahawalpur Road, Multan, duly stamped and signed not less than 48 hours before the meeting.
2. The CDC accounts/sub account holders are requested to bring with them their computerized National ID Cards along with participant(s) ID Number and their account numbers at the time of attending the Annual General Meeting in order to facilitate identification of the respective shareholders. In case of corporate entity, the Board of Directors' Resolution/Power of Attorney with specimen signatures be produced at the time of meeting.
3. The share transfer books of the Bank will remain closed from March 06, 2006 to March 14, 2006, both days inclusive. Members are requested to promptly communicate any change in their address to our Share Registrar M/s. Gangjees Registrar Services (Pvt.) Ltd., located at 413 Clifton Centre, Khyaban-e-Roomi, Kehkashan, Block-5, Clifton, Karachi-75600.



Statement Under Section 160 of the Companies Ordinance, 1984

February 16, 2006

To all Members of the Bank

1. As recommended by the Board of Directors in their meeting held on February 16, 2006 it is proposed to increase the Authorized Capital of the Bank from Rs. 3,000,000,000 to Rs. 5,000,000,000 to meet the future requirements of paid-up capital subject to the approval of Securities & Exchange Commission of Pakistan.
2. It is proposed that the remuneration payable to Directors for attending Board of Directors Meeting be increased from Rs. 2,500/- to Rs. 10,000/-. Further a Director who attends a Sub-committee Meeting, it is proposed that the remuneration be fixed at Rs. 10,000/- per meeting.

MAHMOOD S. ALLARAKHIA
Company Secretary



Pattern of Shareholding as at December 31, 2005

Number of Shareholders	Size of Shareholding				Total Shares Held
404	From	1	To	100	18,805
992	From	101	To	500	307,312
921	From	501	To	1,000	692,448
2,738	From	1,001	To	5,000	8,568,762
277	From	5,001	To	10,000	1,991,518
132	From	10,001	To	15,000	1,655,029
53	From	15,001	To	20,000	926,398
55	From	20,001	To	25,000	1,251,420
25	From	25,001	To	30,000	689,885
14	From	30,001	To	35,000	454,783
37	From	35,001	To	40,000	1,369,263
36	From	40,001	To	50,000	1,615,920
12	From	50,001	To	60,000	657,033
70	From	60,001	To	80,000	4,929,909
33	From	80,001	To	100,000	2,988,739
38	From	100,001	To	150,000	4,799,340
23	From	150,001	To	200,000	3,995,585
26	From	200,001	To	250,000	5,838,474
12	From	250,001	To	300,000	3,385,392
9	From	300,001	To	350,000	2,870,155
12	From	350,001	To	600,000	4,967,496
23	From	600,001	To	1,000,000	18,650,344
38	From	1,000,001	To	38,440,000	146,487,146
5,980					219,111,156

Categories of Shareholders	Number of Shareholders	Number of Shares Held	Percentage
Individuals	5,855	132,921,242	60.66
Investment Companies	6	3,913	0.00
Insurance Companies	6	17,836,771	8.14
Joint Stock Companies	71	16,915,728	7.72
Financial Institutions	13	39,298,978	17.94
Modaraba Companies	7	5,239,646	2.39
Mutual Funds	2	74,910	0.03
Foreign Companies	9	5,515,290	2.52
Others	11	1,304,678	0.60
TOTAL	5,980	219,111,156	100.00



Pattern of Shareholding as at December 31, 2005

Additional Information

Shareholders' Category	Number of Shareholders	Number of Shares Held
Associated Company		
Habib Sugar Mills Ltd.	1	3,644,546
NIT		
National Investment Trust National Bank of Pakistan, Trustee Department	1	38,440,746
Directors		
Ali Raza D. Habib	1	2,051,602
Faiz N. Abdulali	1	2,632,500
Qumail R. Habib	1	2,875,973
Anwar Haji Karim	1	2,434,568
Tariq Iqbal Khan (NIT Nominee)	—	—
Murtaza H. Habib	1	2,290,289
Syed Mazhar Abbas	1	3,644
Hasnain A. Habib	1	3,471,103
Imtiaz Alam Hanfi	1	1,011
Chief Executive Officer		
Abbas D. Habib	1	7,372,473
Directors' Spouses and Minor Children		
Mrs. Razia A. Raza Habib W/o Mr. Ali Raza D. Habib	1	912,960
Mrs. Niamet Fatima W/o Mr. Abbas D. Habib	1	912,960
Master Qasim Abbas Habib S/o Mr. Abbas D. Habib (Joint A/c)	1	182,586
Executives	6	38,832
Banks, Development Financial Institutions, Insurance Companies, Investment Companies, Non-Banking Financial Institutions, Modarabas and Mutual Funds	33	24,013,472
Joint Stock Companies and Corporations	70	13,271,182
Individuals	5,837	107,740,741
Others	20	6,819,968
	5,980	219,111,156



Consolidated Financial Statements

Bank AL Habib Limited

and

AL Habib Capital Markets (Private) Limited

(Subsidiary Company)



Bank AL Habib Limited and its Subsidiary Company Directors' Report on Audited Consolidated Financial Statements

The Directors are pleased to present the Audited Consolidated Financial Statements of Bank AL Habib Limited and the Banks' Brokerage Subsidiary M/s. AL Habib Capital Markets (Private) Limited for the year ended December 31, 2005.

	(Rupees in '000)
Profit for the year before tax	1,994,959
Taxation	(555,199)
Profit for the year after tax	1,439,760
Share of loss attributable to minority interest	2,030
Profit attributable to share holders	1,441,790
Unappropriated Profit brought forward	21,460
Transfer from surplus on revaluation of fixed assets - net of tax	7,391
Profit available for Appropriations	1,470,641
Appropriations:	
Transfer to Statutory Reserve	(292,812)
Issue of Bonus Shares (Interim) @ 20%	(365,184)
Reserve for issue of Bonus Shares (Final) @ 20%	(438,222)
	(1,096,218)
Unappropriated Profit carried forward	374,423
Earnings per share (after tax)	Rs. 6.58

Pattern of Shareholding

The pattern of shareholding as at December 31, 2005 is annexed with the financial statements of Bank AL Habib Limited.

Karachi: February 16, 2006

ALI RAZA D. HABIB
Chairman



Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Bank AL Habib Limited and its subsidiary company (the 'Group') as at 31 December 2005 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, (here-in-after referred to as the 'financial statements') for the year ended 31 December 2005. The financial statements of AL Habib Capital Markets (Private) Limited were reviewed by us in accordance with the International Standard on Review Engagements 2400.

These financial statements are the responsibility of the Bank's management. Our responsibility is to express our opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements examined by us present fairly the financial position of Bank AL Habib Limited and its subsidiary company as at 31 December 2005 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Karachi: February 16, 2006

KPMG Taseer Hadi & Co.
Chartered Accountants



Consolidated Balance Sheet as at 31 December 2005

	Note	2005 (Rupees in '000)	2004
ASSETS			
Cash and Balances with Treasury Banks	6	7,582,667	6,239,421
Balances with Other Banks	7	1,088,891	4,287,685
Lendings to Financial Institutions	8	3,352,747	2,471,000
Investments	9	19,636,711	14,423,539
Advances	10	55,368,841	47,366,953
Other Assets	11	1,972,544	1,130,340
Operating Fixed Assets	12	2,536,357	1,526,360
Deferred Tax Assets	13	—	—
		91,538,758	77,445,298
LIABILITIES			
Bills Payable	14	1,464,648	1,344,637
Borrowings from Financial Institutions	15	6,275,868	7,975,185
Deposits and Other Accounts	16	75,728,689	62,170,628
Sub-ordinated loans	17	1,349,460	1,350,000
Liabilities against assets subject to finance lease	18	348,006	138,395
Other Liabilities	19	788,550	336,700
Deferred Tax Liabilities	13	251,997	295,596
		86,207,218	73,611,141
Net Assets		5,331,540	3,834,157
REPRESENTED BY :			
Share Capital	20	2,191,112	1,352,539
Reserves		2,167,736	1,910,091
Unappropriated Profit		374,423	21,460
Minority interest		97,970	—
		4,831,241	3,284,090
Surplus on Revaluation of Assets - net of deferred tax	21	500,299	550,067
		5,331,540	3,834,157
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes 1 to 44 form an integral part of these financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

ANWAR HAJI KARIM
Director

FAIZ N. ABDULALI
Director



Consolidated Profit and Loss Account for the year ended 31 December 2005

	Note	2005 (Rupees in '000)	2004
Mark-up /Return/Interest Earned	23	4,935,964	2,432,106
Mark-up/Return/Interest Expensed	24	(2,143,167)	(962,119)
Net Mark-up/Return/Interest Income		2,792,797	1,469,987
(Provision) / Reversal against non-performing loans and advances	10.3	(73,817)	15,090
Provision for diminution in the value of investment	9.15	(1,513)	–
		(75,330)	15,090
Net Mark-up/Return/Interest Income after provisions		2,717,467	1,485,077
NON MARK-UP/INTEREST INCOME			
Fees, Commission and Brokerage Income		508,889	390,328
Dividend Income		38,820	12,226
Income from dealing in foreign currencies		300,795	202,837
Other Income	25	158,536	260,403
Total non mark-up/Interest income		1,007,040	865,794
		3,724,507	2,350,871
NON MARK-UP/INTEREST EXPENSES			
Administrative Expenses	26	(1,737,136)	(1,314,947)
Other Charges	27	(2,453)	(753)
Total non mark-up/Interest expenses		(1,739,589)	(1,315,700)
		1,984,918	1,035,171
Share of profit of associate		10,041	8,898
PROFIT BEFORE TAXATION		1,994,959	1,044,069
Taxation – Current	28	(685,514)	(345,064)
– Prior years		143,857	(100,000)
– Deferred		(13,542)	(53,104)
		(555,199)	(498,168)
PROFIT AFTER TAXATION		1,439,760	545,901
Attributable to:			
Equity holders of parent		1,441,790	545,901
Minority interest		(2,030)	–
		1,439,760	545,901
Basic / diluted earnings per share (Rupees)	29	6.58	2.49

The annexed notes 1 to 44 form an integral part of these financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

ANWAR HAJI KARIM
Director

FAIZ N. ABDULALI
Director



Consolidated Cash Flow Statement for the

	2005	2004
	(Rupees in '000)	
Cash Flow From Operating Activities		
Profit before Taxation	1,994,959	1,044,069
Dividend Income	(38,820)	(12,226)
	1,956,139	1,031,843
Adjustments for Non-Cash Charges		
Depreciation	106,321	57,610
Amortisation	73,298	74,172
Gain on disposal of operating fixed assets	(5,203)	(8,926)
Financial charges on leased assets	18,193	5,406
Charge for compensated absences	10,398	7,500
Share of profit from associate	(10,041)	(8,898)
Provision for diminution in the value of investment	1,513	-
Provision / (Reversal) against non-performing loans and advances	73,817	(15,090)
	268,296	111,774
	2,224,435	1,143,617
(Increase) / Decrease in Operating Assets		
Lendings to financial institutions	(881,747)	(2,001,374)
Advances	(8,075,705)	(12,120,349)
Other Assets (excluding advance taxation)	(805,514)	(307,926)
	(9,762,966)	(14,429,649)
Increase / (Decrease) in Operating Liabilities		
Bills Payable	120,011	119,880
Borrowings from financial institutions	(1,699,317)	1,184,511
Deposits and other accounts	13,558,061	15,992,580
Other Liabilities	384,317	(33,446)
	12,363,072	17,263,525
	4,824,541	3,977,493
Income tax paid	(451,872)	(386,354)
Net cash flows from operating activities (Balance Carried Forward)	4,372,669	3,591,139

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*



year ended 31 December 2005

	Note	2005 (Rupees in '000)	2004
Net cash flows from operating activities (Balance Brought Forward)		4,372,669	3,591,139
Cash Flow From Investing Activities			
Net Investments		(5,425,116)	(727,289)
Dividend received		38,820	12,226
Investments in operating fixed assets		(835,898)	(260,529)
Payment of non refundable deposits for the acquisition of properties		(47,500)	(89,513)
Sale Proceeds of property and equipment disposed-off		7,274	9,991
Net cash flow from investing activities		(6,262,420)	(1,055,114)
Cash Flow From Financing Activities			
Issue of shares		100,000	–
Sub-ordinated loans		(540)	1,350,000
Payments of lease obligations		(64,969)	(16,262)
Dividend paid		(288)	2,079
Net cash flow from financing activities		34,203	1,335,817
(Decrease) / Increase in Cash and Cash Equivalents		(1,855,548)	3,871,842
Cash and Cash Equivalents at the Beginning of the Year		10,527,106	6,655,264
Cash and Cash Equivalents at the End of the Year	30	8,671,558	10,527,106

The annexed notes 1 to 44 form an integral part of these financial statements.

ANWAR HAJI KARIM
Director

FAIZ N. ABDULALI
Director



Consolidated Statement of Changes in Equity for the year ended 31 December 2005

	Share Capital	Reserves			Unappro- priated Profit	Total	Minority Interest	Total Equity	
		Reserve for issue of Bonus Shares	Statutory Reserve	Special Reserve					General Reserve
(Rupees in '000)									
Balance as at 01 Jan. 2004	1,082,031	270,508	662,000	126,500	540,000	49,783	2,730,822	-	2,730,822
<i>Change in equity for 2004</i>									
Transfer from surplus on revaluation of fixed assets - net of tax (note 21.2)	-	-	-	-	-	7,367	7,367	-	7,367
Profit for the year	-	-	-	-	-	545,901	545,901	-	545,901
Total recognised income and expense for the year	-	-	-	-	-	553,268	553,268	-	553,268
Transfer to statutory reserve	-	-	108,202	-	-	(108,202)	-	-	-
Transfer to Reserve for issue of Bonus Shares	-	473,389	-	-	-	(473,389)	-	-	-
Issue of bonus shares	270,508	(270,508)	-	-	-	-	-	-	-
Balance as at 31 Dec. 2004	1,352,539	473,389	770,202	126,500	540,000	21,460	3,284,090	-	3,284,090
<i>Change in equity for 2005</i>									
Transfer from surplus on revaluation of fixed assets - net of tax (note 21.2)	-	-	-	-	-	7,391	7,391	-	7,391
Profit for the year	-	-	-	-	-	1,441,790	1,441,790	(2,030)	1,439,760
Total recognised income and expense for the year	-	-	-	-	-	1,449,181	1,449,181	(2,030)	1,447,151
Transfer to statutory reserve	-	-	292,812	-	-	(292,812)	-	-	-
Transfer to Reserve for issue of Bonus Shares - interim	-	365,184	-	-	-	(365,184)	-	-	-
Transfer to Reserve for issue of Bonus Shares - final	-	438,222	-	-	-	(438,222)	-	-	-
Issue of bonus shares	838,573	(838,573)	-	-	-	-	-	-	-
Issue of shares	-	-	-	-	-	-	-	100,000	100,000
Balance as at 31 Dec. 2005	2,191,112	438,222	1,063,014	126,500	540,000	374,423	4,733,271	97,970	4,831,241

The annexed notes 1 to 44 form an integral part of these financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

ANWAR HAJI KARIM
Director

FAIZ N. ABDULALI
Director



Notes to the Consolidated Financial Statements for the year ended 31 December 2005

1. STATUS AND NATURE OF BUSINESS

The group consists of:

- Bank AL Habib Limited (Holding Company)
- AL Habib Capital Markets (Private) Limited (Subsidiary Company)

Bank AL Habib Limited (the Bank) was incorporated in Pakistan on 15 October 1991 as a public limited company under the Companies Ordinance 1984, having its registered office at 126-C, Old Bahawalpur Road, Multan, with principal place of business being in Karachi. Its shares are listed on all the Stock Exchanges in Pakistan. It is a scheduled bank principally engaged in the business of commercial banking with a network of 100 branches (2004 : 74 branches) operating throughout the country (including Karachi Export Processing Zone branch and Islamic Banking branch). The bank has invested in 66.67% shares of AL Habib Capital Markets (Private) Limited. The principal objective of the company is to engage in the business of equity, money market and foreign exchange brokerage, equity research and corporate financial advisory and consultancy services. AL Habib Capital Markets (Private) Limited (the Company) was incorporated in Pakistan as a (Private) Limited Company on 23 August 2005 under the Companies Ordinance, 1984 and started operations from 14 December 2005.

2. BASIS OF PRESENTATION

In accordance with the Islamic Banking System, trade related modes of financing include purchase of goods by the Bank from its customers and simultaneous re-sale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

3. 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. Approved accounting standards comprise of such International Accounting 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 requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives shall take precedence.

The Securities and Exchange Commission of Pakistan has approved and notified the adoption of International Accounting Standard 39, Financial Instruments: Recognition and Measurement and International Accounting Standard 40, Investment Property. The requirements of these standards have not been followed in preparation of these financial statements as the State Bank of Pakistan vide BSD Circular No. 10 dated 26 August 2002 has deferred the implementation of these standards for the banks in Pakistan till further instructions.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention as modified by revaluation of leasehold land and buildings, valuation of certain investments and derivative financial instruments at fair value.



The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 43.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of consolidation

Subsidiaries are those companies in which the bank directly or indirectly controls, beneficially owns or hold more than 50% of the shares or otherwise has the power to elect and appoint more than 50% of its directors. The financial statements of the subsidiary are included in the consolidated financial statements from the date the control commences until the date the control ceases. In preparing consolidated financial statements, the financial statements of the bank and subsidiary are combined on a line by line basis by adding together like items of assets, liabilities, equity, income and expenses. Significant intercompany transactions have been eliminated.

The Bank has the following subsidiary and associate:

Subsidiary	Percentage of shareholding
AL Habib Capital Markets (Private) Limited	66.67 percent

Associate

Habib Sugar Mills Limited	6.19 percent
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Investment in associate is accounted for under equity method of accounting.

5.2 Cash and Cash equivalents

Cash and cash equivalents, for the purpose of cash flow statement, represent cash and balances with treasury banks, balances with other banks in current and deposit accounts.

5.3 Investments

In accordance with BSD Circular No. 10 and 14 dated 13 July 2004 and 24 September 2004 respectively, issued by the State Bank of Pakistan, the bank classifies its investment portfolio into 'Held for Trading', 'Held to Maturity' and 'Available for Sale' securities as follows:

Held for trading

These are investments acquired principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin.

Held to maturity

These are investments with fixed or determinable payments and fixed maturity and the bank has the positive intent and ability to hold them till maturity.



Available for sale

These are investments which do not fall under the held for trading or held to maturity categories. Quoted securities where ready quotes are available on Reuters Page (PKRV) or Stock Exchange, other than investments classified as held to maturity are valued at market value. Investments classified as held to maturity are carried at amortised cost.

Investment in unquoted securities are carried at cost less impairment loss, if any.

The difference between the face value and purchase price is amortised over the remaining life of the investment using the effective yield method, in order to determine amortised cost.

The surplus / deficit arising as a result of revaluation at fair value on trading portfolio is taken to income and that relating to the available for sale portfolio is kept in a separate account and shown below equity.

Gains or losses on disposals of investments are dealt with through the profit and loss account in the year in which they arise.

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised using the trade date method of accounting.

5.4 Repurchase agreements

The Bank enters into purchase / (sale) of investments under agreements to resell / (repurchase) investments at a certain date in the future at a fixed price. Investments purchased subject to commitment to resell them at the future dates are not recognised. The amounts paid are recognised in lending to financial institutions.

The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for investments. The proceeds from the sale of the investments are reported in borrowings from financial institutions.

The difference between the purchase / (sale) and resell / (repurchase) consideration is recognised on a time proportion basis over the period of the transaction and is included in mark-up / return / interest earned or expensed.

5.5 Advances

Advances are stated net of provisions for non performing advances. Specific and General provisions for non performing advances are determined keeping in view the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Advances are written-off when they are considered irrecoverable.

5.6 Operating fixed assets

Tangible - owned

Lease hold land are stated at revalued amounts. Buildings on lease hold land are stated at revalued amount less accumulated depreciation. All other operating fixed assets are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged to income applying the straight line method by taking into consideration the estimated useful lives of the related assets. Gains or losses on disposal of fixed assets are included in income currently.

Maintenance and repairs are charged to profit and loss account as and when incurred. Costs incurred on renovations are capitalised as leasehold improvements. Previously, these were accounted for as deferred cost and written off over a period of five years.

The surplus on revaluation of fixed assets (net of deferred taxation) to the extent of the incremental depreciation charged on the revalued assets is transferred to retained earnings.



Tangible - leased

Assets subject to finance lease are accounted for by recording the assets and related liability. These are stated at lower of fair value and the present value of minimum lease payments at the inception of lease less accumulated depreciation. Financial charges are allocated over the period of lease term so as to provide a constant periodic rate of financial charge on the outstanding liability.

Depreciation is charged on the basis similar to the owned assets.

Intangible assets - owned

Intangible assets are stated at cost less accumulated amortisation. Amortisation is based on straight line method by taking into consideration the estimated useful life.

Stock Exchange membership card

This is stated at cost less impairment, if any. The carrying amount is reviewed at each balance sheet date to assess whether it is in excess of its recoverable amount, and where the carrying value exceeds estimated recoverable amount, it is written down to its estimated recoverable amount.

Capital work in progress

Capital work in progress is stated at cost.

5.7 Taxation

Current

Provision for taxation is based on taxable income at the current rates of taxation after taking into account applicable exemptions and rebates, as permissible under the Income Tax Ordinance, 2001.

Deferred

Deferred tax is provided using the balance sheet liability method providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available and the credits can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

5.8 Staff retirement benefits

Defined Benefit Plan - Employees' Gratuity Fund

The Bank operates an approved gratuity fund for all its confirmed employees, which is administered by the Board of Trustees. The Bank's costs are determined based on an actuarial valuation using Projected Unit Credit Method. Net cumulative un-recognized actuarial gains / losses relating to previous reporting period in excess of the higher of 10% of present value of defined benefit obligation or 10% of the fair value of plan assets are recognized as income or expense over the estimated working lives of the employees.

Defined Contribution Plan - Employees' Provident Fund

The Bank operates an approved Provident Fund Scheme for all its regular permanent employees, administered by the Board of Trustees. Equal monthly contributions are made both by the Bank and its employees to the fund at the rate of 10% of the basic salary in accordance with the terms of the scheme.



5.9 Revenue recognition

Mark-up income and expenses are recognized on a time proportion basis taking into account effective yield on the instrument, except in case of advances classified under the Prudential Regulations issued by the State Bank of Pakistan on which mark-up is recognized on receipt basis.

Fees, commission and brokerage income are recognized as services are performed.

Dividend income is recognized at the time of book closure of the company declaring dividend when the Bank's right to receive has been established.

5.10 Foreign currencies

Foreign currency transactions are translated into rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. The fair value of forward cover taken from the State Bank of Pakistan for foreign currency deposits is added / deducted from value of foreign currency deposits. Outstanding forward foreign exchange contracts and foreign bills purchased excluding swap contracts are valued at the market rates applicable to the respective maturities. However, premium on swap contracts is amortised over the period of swap and the movement in ready rates since the initiation of swap is also accounted for. Exchange gains and losses are included in income currently.

5.11 Dividends

Dividend is recognized as a liability in the period in which it is declared.

5.12 Provision for guarantee claims and other off balance sheet obligations

Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists for the Bank to settle the obligation. Expected recoveries are recognized by debiting customer's account. Charge to profit and loss account is stated net-of expected recoveries.

Other provisions are recognised when the Bank has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

5.13 Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

5.14 Employees' compensated absences

Employees' entitlement to annual leave is recognized when they accrue to employees. A provision is made for estimated liability for annual leave as a result of services rendered by the employee against unavailed leaves up to the date of balance sheet.

5.15 Off-setting

Financial assets and financial liabilities are only off-set and the net amount is reported in the financial statements when there is a legally enforceable right to set-off the recognized amount and the Bank intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.



5.16 Impairment

The carrying amount of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

	2005	2004
	(Rupees in '000)	
6. CASH AND BALANCES WITH TREASURY BANKS		
In hand		
Local currency	1,957,363	1,577,310
Foreign currencies	302,395	263,963
With State Bank of Pakistan in:		
Local currency current account	6.1	3,698,694
Local currency current account-Islamic Banking	6.2	7,804
Foreign currency deposit account		
Cash reserve account	339,359	312,185
Special Cash Reserve account	6.3	1,018,078
Local US Dollar collection account	6.4	24,533
With National Bank of Pakistan in:		
Local currency current account	234,441	201,325
	7,582,667	6,239,421

6.1 This represents statutory cash reserve maintained under Section 22 of the Banking Companies Ordinance, 1962.

6.2 This represents statutory cash reserve maintained by Islamic Banking branch in accordance with BPD Circular No. 01 dated 01 January 2003 issued by Islamic Banking department of the State Bank of Pakistan.

6.3 This represents special cash reserve maintained against foreign currency deposits mobilised under FE 25 Circular issued by the State Bank of Pakistan and is remunerated at the rate declared by State Bank of Pakistan on monthly basis.

6.4 This represents US Dollar settlement account opened with the State Bank of Pakistan in accordance with FE Circular No. 2 dated 19 February 2004 and is remunerated at the rate declared by State Bank of Pakistan on monthly basis.

	2005	2004
	(Rupees in '000)	
7. BALANCES WITH OTHER BANKS		
In Pakistan		
In current accounts	138,366	44,067
In deposit accounts	7.1	2,500
Outside Pakistan		
In current accounts	573,357	291,349
In deposit accounts	7.2	3,949,769
	1,088,891	4,287,685

7.1 This carries mark-up at the rate of 4.00% per annum (2004: 2.00%) maturing in October 2006.

7.2 These carry mark-up ranging from 3.16% to 4.44% per annum (2004: 1.50% to 2.28%).



2005 **2004**
(Rupees in '000)

8. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings		–	900,000
Certificates of Investment	8.1	1,800,000	425,000
Repurchase agreement lendings (Reverse Repo)	8.2	1,552,747	1,146,000
		3,352,747	2,471,000

8.1 These are certificates of investment of financial institutions carrying profit rates ranging from 9.73% to 11.00% (2004: 5.70% to 6.50%) and have a maturity period of upto three months.

8.2 These are short term lendings to different financial institutions secured against Government and listed securities carrying mark-up ranging from 8.30% to 8.40% per annum (2004: 3.20% to 5.90%) and have a maturity period of upto two months.

8.3 Securities held as collateral against lendings to financial Institutions

	2005			2004		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	(Rupees in '000)					
Market Treasury Bills	1,552,747	–	1,552,747	–	–	–
Pakistan Investment Bonds	–	–	–	1,000,000	–	1,000,000
Shares of listed companies	–	–	–	146,000	–	146,000
	1,552,747	–	1,552,747	1,146,000	–	1,146,000



9. INVESTMENTS

	2005			2004		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
(Rupees in '000)						
9.1 Investments by type						
<i>Available for sale securities</i>						
Market Treasury Bills	5,245,132	–	5,245,132	–	–	–
Pakistan Investment Bonds	1,718,570	–	1,718,570	2,080,184	301,503	2,381,687
Ordinary shares of listed companies and closed end mutual funds	385,451	–	385,451	241,903	–	241,903
Ordinary shares of unlisted companies	35,700	–	35,700	35,700	–	35,700
Term Finance Certificates						
– Listed	24,814	–	24,814	–	–	–
Open ended mutual funds	380,757	–	380,757	330,001	–	330,001
S.W.I.F.T.	1,657	–	1,657	1,896	–	1,896
	7,792,081	–	7,792,081	2,689,684	301,503	2,991,187
<i>Held to maturity securities</i>						
Market Treasury Bills	7,526,139	510,189	8,036,328	6,775,306	299,620	7,074,926
Federal Investment Bonds	–	–	–	101,267	–	101,267
Pakistan Investment Bonds	2,463,871	–	2,463,871	2,970,179	–	2,970,179
Term Finance Certificates						
– Listed	375,064	–	375,064	479,997	–	479,997
– Unlisted	270,618	–	270,618	174,995	–	174,995
Unlisted WAPDA Bonds	600,074	–	600,074	600,101	–	600,101
	11,235,766	510,189	11,745,955	11,101,845	299,620	11,401,465
<i>Held for trading</i>						
Ordinary shares of listed companies	59,260	–	59,260	–	–	–
Associate						
– Habib Sugar Mills Limited	40,928	–	40,928	30,887	–	30,887
Provision for diminution in the value of investment	(1,513)	–	(1,513)	–	–	–
	19,126,522	510,189	19,636,711	13,822,416	601,123	14,423,539



	Note	2005 (Rupees in '000)	2004
9.2 Investments by segment			
<i>Federal Government Securities</i>			
– Market Treasury Bills	9.4	13,281,460	7,074,926
– Federal Investment Bonds		–	101,267
– Pakistan Investment Bonds	9.5	4,182,441	5,351,866
		17,463,901	12,528,059
<i>Fully paid-up ordinary shares and closed end mutual funds</i>			
– Listed companies	9.6	444,711	241,903
– Unlisted companies	9.7	35,700	35,700
		480,411	277,603
<i>Term Finance Certificates</i>			
– Listed	9.8	399,878	479,997
– Unlisted	9.8	270,618	174,995
		670,496	654,992
<i>Provincial Government Securities</i>			
– WAPDA Bonds	9.9	600,074	600,101
<i>Others</i>			
– Associate	9.10	40,928	30,887
– Open ended mutual funds	9.11	380,757	330,001
– S.W.I.F.T.	9.12	1,657	1,896
		423,342	362,784
Less: <i>Provision for diminution in the value of investment</i>	9.13	(1,513)	–
		19,636,711	14,423,539

- 9.3 The market value of held to maturity securities at 31 December 2005 amounted to Rs. 11,722 million.
- 9.4 Market Treasury Bills carry yield ranging from 8.23% to 8.76% per annum (2004: 1.98% to 5.79%) having maturity upto one year.
- 9.5 Pakistan Investment Bonds are for a period of 3, 5 and 10 years with yields ranging from 6.00% to 14.00% per annum (2004: 6.00% to 13.00%). Pakistan Investment Bonds having a face value of Rs. 5 million are pledged with Controller of Military Accounts, Karachi as a security deposit for extending banking facilities on account of regimental funds vis-à-vis private fund accounts.



9.6 Particulars of Investment in shares-Listed

The par value of these shares / certificates is Rs. 10 each.

<u>No. of ordinary shares</u>		<u>Name of Companies</u>	2005	2004
2005	2004		(Rupees in '000)	
<i>– Available for sale</i>				
7,839,500	7,839,500	Pakistan Strategic Allocation Fund	91,722	76,827
1,000,000	1,000,000	ABAMCO Composite Fund	9,550	8,500
100,000	100,000	PICIC Investment Fund	1,820	1,530
371,175	353,500	Standard Chartered Modaraba	8,017	10,958
262,000	262,000	Sitara Energy Ltd.	4,716	7,336
1,597,500	1,597,500	The Hub Power Co. Ltd.	38,340	51,280
198,136	–	Fauji Fertilizer Co. Ltd.	27,145	–
210,000	–	Engro Chemicals Pakistan Ltd.	34,535	–
110,000	–	Cherat Cement Co. Ltd.	9,708	–
400,000	–	Pakistan Telecommunications Co. Ltd.	26,160	–
301,875	143,750	International Industries Ltd.	47,666	40,106
83,160	–	Nishat Chunian Ltd.	7,102	–
21,000	16,800	Shell Pakistan Ltd.	16,632	8,660
20,000	27,100	Attock Refinery Ltd.	4,160	3,415
110,000	100,000	Pak Suzuki Motor Co. Ltd.	22,880	14,100
50,000	50,000	Suzuki Motorcycle Pakistan Ltd.	835	1,325
22,540	19,600	Atlas Battery Ltd.	1,688	2,156
–	46,000	Pakistan State Oil Co. Ltd.	–	13,190
200,000	–	Fauji Fertilizer Bin Qasim Ltd.	7,630	–
200,000	–	Kot Adu Power Co. Ltd.	9,700	–
75,000	–	Lucky Cement Ltd.	6,292	–
35,100	–	Packages Ltd.	7,090	–
35,000	36,000	Tri-Pack Films Ltd.	2,063	2,520
			385,451	241,903
<i>– Held for trading</i>				
600,000	–	Fauji Fertilizer Bin Qasim Ltd.	22,890	–
75,000	–	MCB Bank Ltd.	12,585	–
160,000	–	Oil and Gas Development Co. Ltd.	18,880	–
75,000	–	Pakistan Telecommunications Co. Ltd.	4,905	–
			59,260	–
			444,711	241,903

9.7 Particulars of Investment in shares - Unlisted - Available for sale

<u>No. of ordinary shares</u>		<u>Name of Companies</u>	2005	2004
2005	2004			
30	30	Khushhali Bank Ltd. Formed as per the directive of the Government of Pakistan to provide micro finance in rural areas for alleviating poverty. The par value per share is Rs. 1,000,000 Break-up value Rs. 1,022,003 per share. Chief Executive Officer: Mr. Ghalib Nishter	30,000	30,000
569,958	569,958	Pakistan Export Finance Guarantee Agency Ltd. A Joint venture between Asian Development Bank and thirteen commercial banks in Pakistan. The per value per share is Rs. 10 Break-up value Rs. 7.34 per share. Chief Executive Officer: Mr. S.M. Zaeem	5,700	5,700
			35,700	35,700



9.8 Particulars of Investment in Term Finance Certificates

No. of Certificates		Redeemable Value per certificate	Maturity Date	Name of Companies	2005	2004
2005	2004				(Rupees in '000)	
<i>Listed-Held to Maturity</i>						
–	4,600	–	June-2005	Dewan Salman Fibre Ltd.	–	5,741
2,000	2,000	5,000.00	Sept-2006	First Dawood Investment Bank Ltd.	10,000	10,000
–	5,000	–	Jan - 2005	Packages Ltd.	–	25,000
7,928	7,928	2,497.98	June-2007	Sui Southern Gas Co. Ltd.	19,804	33,007
10,000	10,000	5,000.00	July-2006	Orix Leasing Pakistan Ltd.	50,000	50,000
–	17,200	–	May-2005	Engro Chemicals Pakistan Ltd.	–	85,914
5,000	5,000	4,995.00	Apr-2008	Jahangir Siddiqui & Co. Ltd.	24,975	24,985
15,000	15,000	4,998.07	Nov-2012	Bank Alfalah Ltd.	74,971	75,000
1,070	1,070	4,998.08	Aug-2012	United Bank Ltd. - 1st issue	5,348	5,350
4,000	4,000	4,999.00	Sep-2013	United Bank Ltd. -2nd issue	20,000	20,000
9,000	9,000	4,999.00	Feb-2013	Prime Commercial Bank Ltd.	44,991	45,000
20,000	20,000	4,999.00	Feb-2013	Askari Commercial Bank Ltd.-I	99,980	100,000
5,000	–	4,999.00	Nov-2013	Soneri Bank Ltd.	24,995	–
					375,064	479,997
<i>Listed-Available for sale</i>						
5,000	–	5,000.00	Oct-2013	Askari Commercial Bank Ltd-II	24,814	–
					399,878	479,997
<i>Unlisted-Held to maturity</i>						
10	–	10,000,000.00	Jul-2012	Reliance Export	100,000	–
35,000	35,000	4,874.80	Feb-2011	Pakistan International Airlines Corp.	170,618	174,995
					270,618	174,995

These Term Finance Certificates are redeemable in half-yearly instalments and carry rate of return ranging from 7.50% to 13.50% per annum (2004: 6.10% to 16.00% per annum). The certificates of Bank Alfalah Limited, United Bank Limited, Soneri Bank Limited, Prime Commercial Bank Limited and Askari Commercial Bank Limited are subordinated.

9.9 Particulars of Investment in WAPDA Bonds - Unlisted - Held to maturity

No. of Certificates		Redeemable Value per certificate	Maturity Date	Name of Company	2005	2004
2005	2004				(Rupees in '000)	
120,000	120,000	5,000.00	Mar-2008	Water and Power Development Authority	600,074	600,101

These Bonds are redeemable at the end of the tenor and carry rate of return equal to the State Bank of Pakistan discount rate less 0.25% per annum (2004: SBP's discount rate less 0.25%).



9.10 Particulars of Investment in associate - Listed

No. of shares		Name of Company	2005	2004
2005	2004		(Rupees in '000)	
2,003,999	2,003,999	Habib Sugar Mills Ltd. Market value Rs. 92.785 million (2004: Rs. 93.687 million) The par value per share is Rs. 5. Chief Executive: Mr. Raeesul Hasan	<u>40,928</u>	<u>30,887</u>

9.10.1 Movement of investment in associate

Beginning of the year		30,887	25,997
Share of Profits		10,041	8,898
Dividends received		-	(4,008)
Closing Balance		<u>40,928</u>	<u>30,887</u>

9.10.2 Summarised financial information of associate

(Rupees in '000)

Associate	Accounting date	Assets	Liabilities	Equity	Revenue	Profit
Habib Sugar Mills Ltd.	30 Sept 2005	2,019,209	812,898	1,044,311	2,812,407	162,340

9.11 Particulars of Investment in open ended mutual funds

No. of units		Book Value per unit	Name of Funds	2005	2004
2005	2004			(Rupees in '000)	
1,916,754	2,704,425	84.27	Dawood Money Market Fund	200,684	280,221
421,660	375,000	88.93	Faysal Balanced Growth Fund	53,277	39,525
22,499	20,000	444.46	Atlas Stock Market Fund	14,148	10,255
200,000	-	50.00	Alfalah GHP Value Fund	10,238	-
1,000,000	-	100.00	Faysal Income and Growth Fund	102,410	-
				<u>380,757</u>	<u>330,001</u>

9.12 Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T) allocated shares based on the financial contribution from network based services by the Bank. Based on the Bank's financial contribution in the year 2002, 12 shares were allocated to the Bank at the rate of EUR 1,950 per share.

9.13 Particulars of Provision for diminution in the value of Investment

	2005	2004
	(Rupees in '000)	
Opening balance	-	-
Charge for the year	1,513	-
Closing balance	<u>1,513</u>	<u>-</u>



		2005	2004
		(Rupees in '000)	
10. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		50,621,180	43,087,102
Bills discounted and purchased (excluding Treasury Bills)			
Payable in Pakistan		1,940,593	1,557,031
Payable outside Pakistan		3,029,289	2,892,848
		4,969,882	4,449,879
		55,591,062	47,536,981
Provision for non-performing advances - Note 10.2		(222,221)	(170,028)
		55,368,841	47,366,953
10.1 Particulars of advances:			
10.1.1 In local currency		48,168,444	44,325,291
In foreign currencies		7,200,397	3,041,662
		55,368,841	47,366,953
10.1.2 Short Term (for upto one year)		45,038,994	39,062,871
Long Term (for over one year)		10,329,847	8,304,082
		55,368,841	47,366,953
10.2 Advances include Rs. 383.393 million (2004: Rs. 206.405 million) which have been placed under non-performing status as detailed below:			
Category of Classification	Domestic	Provision Required	Provision Held
		(Rupees in '000)	
Substandard	975	98	98
Doubtful	66,288	23,325	23,325
Loss	316,130	171,729	171,729
	383,393	195,152	195,152
General provision – Note 10.2.1		–	27,069
		195,152	222,221
10.2.1 The Prudential Regulations issued by the State Bank of Pakistan effective from 01 January 2004 require banks to maintain a general reserve of atleast 1.50% of the consumer portfolio which is fully secured and 5.00% of the consumer portfolio which is unsecured to protect the Bank from the risk associated with the economic cyclical nature of this business. The Bank has created the general provision for secured and unsecured consumer portfolio amounting to Rs. 27.069 million.			



10.3 Particulars of provision against non-performing advances:

	2005			2004		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	100,028	70,000	170,028	212,470	100,000	312,470
Charge for the year	146,498	-	146,498	44,997	-	44,997
Reversals	(29,750)	(42,931)	(72,681)	(30,087)	(30,000)	(60,087)
	116,748	(42,931)	73,817	14,910	(30,000)	(15,090)
Amount Written Off 10.4	(21,624)	-	(21,624)	(127,352)	-	(127,352)
Closing balance	195,152	27,069	222,221	100,028	70,000	170,028

10.4 Particulars of write offs:

	2005	2004
	(Rupees in '000)	
10.4.1 Against provisions	21,624	127,352
Directly charged to profit and loss account	-	-
	21,624	127,352
10.4.2 Write-offs of Rs. 500,000 and above	21,624	127,352
Write-offs of below Rs. 500,000	-	-
	21,624	127,352

This includes Rs. 7.754 million being net-off loss on receivables owing to discrepant import bill settled between the Bank and negotiating bank.

10.5 Detail of loans written-off of Rs. 500,000 and above:

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended 31 December 2005 is given in Annexure 1.

10.6 Particulars of Loans and Advances to Directors, Associated Companies, etc.

	Balance as at 31 Dec. 2005	*Maximum total amount of advances including temporary advances granted during the year
	(Rupees in '000)	
(i) Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons.	265,358	265,358
(ii) 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.	260,000	277,227

* The maximum amount has been calculated by reference to month end balances.



	2005	2004
	(Rupees in '000)	
11. OTHER ASSETS		
Income/Mark-up accrued in local currency	1,088,692	549,769
Income/Mark-up accrued in foreign currency	11,882	1,674
Advances, deposits, advance rent and other prepayments	178,740	115,814
Advance taxation (payments less provisions)	38	4,424
Deferred costs	11.1 76,390	132,192
Unrealized gain on forward foreign exchange contracts	–	22,042
Stationery and stamps on hand	32,394	24,525
Receivable from SBP/Government of Pakistan	405,995	145,077
Non refundable deposits	11.2 137,687	99,037
Others	40,726	35,786
	<u>1,972,544</u>	<u>1,130,340</u>

11.1 This represents renovation costs incurred on bank premises before 31 December 2003, being accounted for as deferred cost and amortized over a period of five years. From 2004 renovation costs representing major renewals and improvements are capitalized as improvements to buildings and depreciated over the remaining useful lives of buildings.

11.2 This represents non refundable deposits paid in relation to acquisition of some bank's properties. These are being written off over the periods ranging from 10 to 20 years (being estimated useful lives of related properties).

	2005	2004
	(Rupees in '000)	
12. OPERATING FIXED ASSETS		
Capital work-in-progress	12.1 196,805	36,969
Property and equipment	12.2 2,299,572	1,484,396
Intangible assets	12.3 5,230	4,995
Stock exchange membership card	34,750	–
	<u>2,536,357</u>	<u>1,526,360</u>

12.1 Capital work-in-progress

Civil works	111,849	24,153
Advance payment towards property and equipments	80,847	10,115
Consultants fee and other charges	4,109	2,701
	<u>196,805</u>	<u>36,969</u>



12.2 Property and equipment

	Cost/Revalued Amount			Depreciation			Book value		Rate of depreciation %
	As at 1 Jan. 2005	Revaluation Surplus/ (Deficit)	Additions/ (Deletions)/ Adjustments	As at 31 Dec. 2005	As at 1 Jan. 2005	Charge (Deletions)/ Adjustments	As at 31 Dec. 2005	as at 31 Dec. 2005	
(Rupees in '000)									
<i>Owned</i>									
Leasehold land	248,250	-	172,596	618,866	-	-	-	618,866	-
Buildings on leasehold land	1,035,336	-	435,002 (198,020)	1,272,318	29,723	34,421	64,144	1,208,174	2.00 – 6.67
Improvements to leasehold buildings	24,341	-	16,036	40,377	609	1,618	2,227	38,150	5
Furniture and fixtures	101,416	-	32,337 (1,035)	132,718	35,590	10,813 (917)	45,486	87,232	10
Electrical, office and computer equipments	61,425	-	10,278 (5,087)	66,616	55,084	3,595 (4,884)	53,795	12,821	20
Vehicles	3,233	-	854 (521)	3,566	2,324	518 (514)	2,328	1,238	20
	1,474,001	-	667,103 (6,643)	2,134,461	123,330	50,965 (6,315)	167,980	1,966,481	
<i>Leased</i>									
Electrical, office and computer equipments	100,968	-	182,539 (225)	283,282	10,097	38,447 (67)	48,477	234,805	20
Vehicles	47,616	-	73,848 (1,963)	119,501	4,762	16,909 (456)	21,215	98,286	20
	148,584	-	256,387 (2,188)	402,783	14,859	55,356 (523)	69,692	333,091	
2005	1,622,585	-	923,490 (8,831)	2,537,244	138,189	106,321 (6,838)	237,672	2,299,572	
2004	815,213	441,312	553,217 (7,898) (179,259)	1,622,585	266,151	57,610 (6,313) (179,259)	138,189	1,484,396	

12.3 Intangible assets

	Cost			Amortisation			Book value		Rate of amortisation %
	As at 1 Jan. 2005	Additions	(Deletions)	As at 31 Dec. 2005	As at 1 Jan. 2005	Charge	As at 31 Dec. 2005	as at 31 Dec. 2005	
(Rupees in '000)									
Computer software	45,499	8,960	-	54,459	40,504	8,725	49,229	5,230	50
2004	35,509	9,990	-	45,499	33,860	6,644	40,504	4,995	50

Various computer software procured by the bank have been fully amortised and continue to remain in bank's use.



12.4 Disposals / deletions of fixed assets during the year with original cost or book value in excess of Rupees one million or two hundred fifty thousand respectively (whichever is less):

Particulars	Cost	Book Value	Sale Price	Mode of disposal	Particulars of purchaser
Electrical, office and computer equipments	1,360	12	20	Tender	Computer Aid, S/28, 2nd Floor, Rafi Plaza Hall Road, Lahore.

12.5 During the year no assets were disposed-off to the Chief Executive or a director or an executive or a shareholder holding not less than ten percent of the voting shares of the bank or any related party.

12.6 In 2004 leasehold land and buildings were revalued by M/s Iqbal A. Nanjee & Co. on the basis of market value which resulted in net surplus of Rs. 441.312 million over the book value of the assets as on 01 January 2004.

Had there been no revaluation, the net book value of specific classes of property, plant and equipment would have amounted to:

	Net Book Value	
	2005	2004
Leasehold land	431,023	60,407
Buildings on leasehold land	929,803	811,096
	1,360,826	871,503

13. DEFERRED TAX ASSETS / (LIABILITIES)

Deferred tax debits arising in respect of:

– Provision for general loan loss	9,474	24,500
– Provision for compensated absences	6,264	–
– On tax losses and certain disallowances	6,806	–
– Difference between accounting book value of leased assets and lease liabilities	5,220	1,635
	27,764	26,135

Deferred tax credits arising in respect of:

– Difference between accounting book value of owned fixed assets and tax base	(104,597)	(85,445)
– Surplus on revaluation of fixed assets	(124,982)	(128,962)
– Surplus on revaluation of securities	(50,182)	(107,324)
	(279,761)	(321,731)
	(251,997)	(295,596)



	2005	2004
	(Rupees in '000)	
14. BILLS PAYABLE		
In Pakistan	<u>1,464,648</u>	<u>1,344,637</u>
15. BORROWINGS FROM FINANCIAL INSTITUTIONS		
In Pakistan	<u>6,199,058</u>	<u>7,975,185</u>
Outside Pakistan	<u>76,810</u>	<u>–</u>
	<u>6,275,868</u>	<u>7,975,185</u>
15.1 Particulars of borrowings from financial institutions		
In local currency	<u>6,199,058</u>	<u>7,975,185</u>
In foreign currency	<u>76,810</u>	<u>–</u>
	<u>6,275,868</u>	<u>7,975,185</u>
15.2 Details of borrowings from financial Institutions		
Secured		
Borrowings from State Bank of Pakistan		
Under export refinance scheme	15.3 <u>5,533,900</u>	<u>7,375,797</u>
Under Long Term Financing for		
Export Oriented Projects	15.4 <u>154,969</u>	<u>–</u>
Repurchase agreement borrowings	15.5 <u>510,189</u>	<u>599,388</u>
	<u>6,199,058</u>	<u>7,975,185</u>
Unsecured		
Overdrawn Nostros	<u>76,810</u>	<u>–</u>
	<u>6,275,868</u>	<u>7,975,185</u>
15.3	These borrowings carry mark-up rates ranging from 3.50% to 7.50% per annum (2004: 1.50% to 3.50%) and are secured against promissory notes, undertakings in favour of the Bank and export documents, payable quarterly at the time of partial payment or upon maturity of loan, whichever is earlier.	
15.4	This represents Borrowings from State Bank of Pakistan under Long Term Finance for Export Oriented Products at the rate of 5.00% (2004: NIL) having maturity period of upto seven years and six months.	
15.5	This represents repurchase agreement borrowings from other banks at rates ranging from 6.00% to 7.50% per annum (2004: 1.00% to 5.00%) having a maturity period of upto one month.	



	2005	2004
	(Rupees in '000)	
16. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	17,670,702	9,092,671
Savings deposits	16,603,476	16,496,790
Current accounts - Remunerative	15,951,090	15,322,376
Current accounts - Non-remunerative	24,112,559	20,044,933
	74,337,827	60,956,770
Financial Institutions		
Remunerative deposits	1,171,981	1,126,323
Non-remunerative deposits	218,881	87,535
	1,390,862	1,213,858
	75,728,689	62,170,628
16.1 Particulars of deposits		
In local currency	68,734,250	55,837,868
In foreign currencies	6,994,439	6,332,760
	75,728,689	62,170,628
17. SUB-ORDINATED LOANS		
Term Finance Certificates (TFCs)	1,349,460	1,350,000

The Bank has raised sub-ordinated loan by way of issuing rated, listed and un-secured subordinated term finance certificates as Tier II capital in the light of guidelines issued by the State Bank of Pakistan to support the bank's growth and improvement in capital adequacy ratio. The salient features of this instrument are as follows:

Total issue	Rupees 1,350 million
Rating	AA-
Rate	Payable six monthly on January 15 and July 15 at average six months KIBOR plus 150 bps
Floor	3.50%
Ceiling	10.00%
Repayment	8 Years
Redemption	6-78th month: 0.25%
	84th month: 33.25%
	90th month: 33.25%
	96th month: 33.25%
Maturity Date	15 July 2012



18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2005			2004		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	(Rupees in '000)					
Not later than one year	142,926	30,470	112,456	45,675	12,339	33,336
Later than one year but not later than five years	264,057	28,507	235,550	118,680	13,621	105,059
	406,983	58,977	348,006	164,355	25,960	138,395

18.1 The Bank has entered into various lease agreements for computers, office equipments and vehicles. Lease rentals include financial charges at the rate of 10.00%-10.25% (2004: 10.00%) per annum which have been used as discounting factor and are payable monthly. The Bank has the option to purchase the assets upon completion of lease period and has intention to exercise it.

2005 2004
(Rupees in '000)

19. OTHER LIABILITIES

Mark-up /Return/Interest payable in local currency	437,512	179,819
Mark-up/Return/Interest payable in foreign currencies	5,704	2,302
Accrued expenses	27,882	17,578
Provision for compensated absences	17,898	7,500
Advance payments	7,242	6,025
Current Taxation (Provision less payments)	85,399	-
Unclaimed dividends	6,592	6,880
Unrealized Loss on forward foreign exchange contracts	7,078	-
Branch adjustment account	47,620	30,652
Special exporters accounts in foreign currencies	69,090	43,755
Others	76,533	42,189
	788,550	336,700



20. SHARE CAPITAL

Authorised Capital

2005 (Number)	2004		2005 (Rupees in '000)	2004
<u>300,000,000</u>	<u>300,000,000</u>	Ordinary shares of Rs.10 each	<u>3,000,000</u>	<u>3,000,000</u>

Issued, subscribed and paid up capital

2005 (Number)	2004		2005	2004
<u>30,000,000</u>	<u>30,000,000</u>	Ordinary shares fully paid in cash	<u>300,000</u>	<u>300,000</u>
<u>189,111,296</u>	<u>105,253,940</u>	Issued as bonus shares	<u>1,891,112</u>	<u>1,052,539</u>
<u>219,111,296</u>	<u>135,253,940</u>		<u>2,191,112</u>	<u>1,352,539</u>

20.1 Issued, subscribed and paid-up capital at year-end includes 3,644,546 ordinary shares of Rs. 10 each (2004: 2,249,720 shares) held by the associated undertaking.

20.2 After the balance sheet date, cash dividends at 15% were proposed by Board of Directors. The dividend has not been provided for in these financial statements.

21. SURPLUS ON REVALUATION OF ASSETS - NET

	2005 (Rupees in '000)	2004
Surplus on revaluation of securities - net of tax	<u>206,674</u>	<u>249,051</u>
Surplus on revaluation of fixed assets - net of tax	<u>293,625</u>	<u>301,016</u>
	<u>500,299</u>	<u>550,067</u>
21.1 Federal Government securities	<u>144,219</u>	<u>306,639</u>
Quoted shares	<u>51,088</u>	<u>17,234</u>
Other securities	<u>61,549</u>	<u>32,502</u>
Related deferred tax liability	<u>(50,182)</u>	<u>(107,324)</u>
	<u>206,674</u>	<u>249,051</u>



	2005	2004
	(Rupees in '000)	
21.2 Net surplus on revaluation of fixed assets	429,978	441,312
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax	(7,391)	(7,367)
Related deferred tax liability	(3,980)	(3,967)
	(11,371)	(11,334)
	418,607	429,978
Less: Related deferred tax liability on:		
Revaluation of fixed assets	128,962	132,929
Incremental depreciation charged during the year transferred to profit and loss account	(3,980)	(3,967)
	124,982	128,962
	293,625	301,016

22. CONTINGENCIES AND COMMITMENTS

22.1 Direct Credit Substitutes

Acceptances	5,673,637	2,614,550
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22.2 Transaction-related Contingent Liabilities

Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credit related to particular transactions issued in favour of:

– Government	2,398,648	2,035,970
– Financial Institutions	85,787	84,971
– Others	1,429,259	822,642

22.3 Trade-related Contingent Liabilities

Letters of credit	16,227,514	12,575,375
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22.4 Other contingencies

The income tax assessments of the Bank have been finalized upto tax year 2004 (accounting year ended 31 December 2003). The Income Tax Department has filed appeals against the appellate order relating to the assessment years 1995-96, 2000-2001, 2001-2002, 2002-2003 and Tax years 2003 and 2004 before the Income Tax Appellate Tribunal (ITAT) on which the tax liability, if any, of Rs. 40 million may arise. The Bank, based on the earlier decisions at ITAT level in previous years and the tax advisor's opinion is confident of a favourable outcome and expects that no additional liability would arise.



	2005	2004
	(Rupees in '000)	
22.5 Commitments in respect of forward lending		
Commitments to extend credit	345,000	400,000
22.6 Commitments in respect of forward exchange contracts		
Purchase	3,445,614	3,361,224
Sale	5,884,600	5,922,139
The maturities of above contracts are spread over a period of one year.		
22.7 Commitments for the acquisition of operating fixed assets	158,039	93,246
22.8 Commitments in respect of operating leases		
Not later than one year	60,608	144,607
Later than one year and not later than five years	3,519	64,386
	64,127	208,993
The Bank has entered into operating lease arrangements whereby equipments and vehicles acquired on lease. The lease rentals are payable over a period upto 36 months.		
22.9 Other commitments		
For Investment in Capital of Habib Asset Management Limited - Paid up capital Rs. 30 million	10,500	-
Commitments in respect of resale transactions of listed equity securities	65,526	-
	76,026	-

23. MARK-UP / RETURN / INTEREST EARNED

On loan and advances to:		
– Customers	3,378,651	1,612,592
– Financial institutions	54,785	25,223
On investments	1,264,619	686,815
On deposits with financial institutions	60,590	28,661
On securities purchased under resale agreements	154,810	51,553
On call money lendings	22,509	27,262
	4,935,964	2,432,106



	2005	2004
	(Rupees in '000)	
24. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	1,604,579	790,599
Securities sold under repurchase agreements	52,515	22,806
Sub-ordinated loan - TFCs	115,433	30,369
Borrowings from State Bank of Pakistan:		
– under export refinance scheme	323,001	113,672
– under Long-Term Financing for Export Oriented Projects	270	–
Other short term borrowings	47,369	4,673
	2,143,167	962,119
25. OTHER INCOME		
Gain on sale of Government Securities	76	89,972
Gain on sale of listed shares and mutual funds	27,488	62,082
Gain on disposal of operating fixed assets	5,203	8,926
Miscellaneous income (rent of lockers, recovery of fax, telephone, telex, courier charges etc.)	125,769	99,423
	158,536	260,403
26. ADMINISTRATIVE EXPENSES		
Salaries, allowances etc.	646,292	446,912
Charge for defined benefit plan	32.5 14,713	9,333
Contribution to defined contribution plan	25,960	19,827
Charge for compensated absences	10,398	7,500
Non-executive directors' fees, allowances and other expenses	65	87
Rent, taxes, insurance, electricity etc.	219,503	182,121
Legal and professional charges	22,460	32,822
Communications	72,052	65,605
Repairs and maintenance	67,036	43,526
Rentals of operating leases	144,566	131,849
Financial charges on leased assets	18,193	5,406
Security charges	41,680	34,063
Stationery and printing	50,163	41,012
Advertisement and publicity	15,706	19,474
Donations	26.1 25,350	7,780
Auditors' remuneration	26.2 1,213	760
Depreciation	12.2 106,321	57,610
Amortisation	73,298	74,172
Vehicle running expenses	55,158	35,183
Commission and brokerage	28,098	29,039
Subscriptions and publications	14,507	11,695
Clearing charges	15,552	11,532
Others	68,852	47,639
	1,737,136	1,314,947



2005 2004
(Rupees in '000)

26.1 The detail of donations in excess of Rupees One hundred thousand is given below:

President Relief Fund for Earthquake Victims - 2005	10,500	–
Beautification of I.I. Chundrigar Road - a social welfare project	7,500	–
Shaukat Khanum Memorial Hospital and Research Centre	125	125
Habib Medical Trust	925	925
Jinnah Foundation (Memorial) Trust	200	200
Rahmatbai Habib Widows & Orphans Trust	900	900
Habib Poor Fund	900	900
The Kidney Centre	–	100
Rahmatbai Habib Food & Clothing Trust	900	900
Layton Rehmatullah Benevolent Trust	100	100
Bait-ul-Sukoon Trust	500	125
Hussaini Blood Bank	–	500
Habib Education Trust	900	900
The Society for the Prevention and Cure of Blindness	125	125
Al-Sayyeda Benevolent Trust	925	925
Aga Khan Hospital & Medical College Foundation	650	650

None of the directors or their spouse had any interest in the above donees.

2005 2004
(Rupees in '000)

26.2 **Auditors' remuneration**

Audit fee	650	500
Fee for half yearly review, audit of provident and gratuity fund, special certifications and sundry advisory services	525	200
Out of pocket expenses	38	60

1,213 **760**

27. OTHER CHARGES

Penalties imposed by State Bank of Pakistan	2,453	753
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28. TAXATION

For the year

– Current	28.1	685,514	345,064
– Deferred		13,542	53,104
		699,056	398,168

For prior year

(143,857) 100,000

555,199 **498,168**



	2005	2004
	(Rupees in '000)	
28.1 Relationship between tax expense and accounting profit		
Profit before taxation	<u>1,994,959</u>	<u>1,044,069</u>
Tax at the applicable rate of 38% (2004: 41%)	758,084	426,063
Tax effect of:		
– Expenses that are not deductible in determining taxable Income	8,812	38,551
– Dividend income taxed at reduced rate	(12,811)	(5,844)
– Capital gain on sale of quoted shares being exempt from tax	(10,445)	(25,454)
– General provision against advances	–	(12,300)
– Prior year provision for taxation	(143,857)	100,000
– Others	(44,584)	(22,848)
	<u>555,199</u>	<u>498,168</u>
 29. EARNINGS PER SHARE - BASIC AND DILUTED		
Profit for the year	<u>1,441,790</u>	<u>545,901</u>
Weighted average number of ordinary shares (Numbers)	<u>219,111,296</u>	<u>219,111,296</u>
Basic and diluted earnings per share (Rupees)	<u>6.58</u>	<u>2.49</u>
 30. CASH AND CASH EQUIVALENTS		
Cash and Balance with Treasury Banks	7,582,667	6,239,421
Balance with Other Banks	1,088,891	4,287,685
	<u>8,671,558</u>	<u>10,527,106</u>
 31. STAFF STRENGTH	Numbers	Numbers
Total number of employees at the end of the year	<u>1,818</u>	<u>1,462</u>
 32. DEFINED BENEFIT PENSION PLAN - EMPLOYEES' GRATUITY FUND		
32.1 General description		
The benefits under the gratuity scheme are payable on retirement at the age of 60 or on earlier cessation of service as under:		
<i>Number of years of eligible service completed:</i>	<i>Amount of gratuity payable:</i>	
– Less than 5 years	Nil	
– 5 years or more but less than 10 years	1/3rd of basic salary for each year served	
– 10 years or more but less than 15 years	2/3rd of basic salary for each year served	
– 15 years or more	Full basic salary for each year served.	



32.2 Principal actuarial assumptions

The last actuarial valuation of the scheme was carried out on 31 December 2005 and the key assumptions used for actuarial valuation were as follows:

	2005	2004
Discount rate	9.00% p.a.	8.00% p.a.
Expected rate of increase in salary in future years	8.00% p.a.	7.00% p.a.
Expected rate of return on plan assets	9.00% p.a.	8.00% p.a.
Withdrawal rate before normal retirement age	Moderate	Moderate

32.3 Reconciliation of payable to defined benefit plan

	2005	2004
	(Rupees in '000)	
Present value of defined benefit obligations	108,992	80,524
Fair value of plan assets	(63,902)	(54,399)
Net actuarial losses not recognized	(45,090)	(26,125)
	<u>—</u>	<u>—</u>

32.4 Movement in payable to defined benefit plan

Opening Balance	—	—
Charge for the year	14,713	9,333
Contribution to the fund during the year	(14,713)	(9,333)
	<u>—</u>	<u>—</u>

32.5 Charge for defined benefit plan

Current service cost	11,462	8,292
Interest cost	6,589	3,467
Expected return on plan assets	(4,629)	(2,830)
Amortisation of actuarial losses	1,291	404
	<u>14,713</u>	<u>9,333</u>

32.6 Actual return on plan assets

	<u>3,504</u>	<u>2,921</u>
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33. REMUNERATION OF CHIEF EXECUTIVES, EXECUTIVE DIRECTOR AND EXECUTIVES

(Rupees in '000)

	Chief Executives		Executive Director		*Executives	
	2005	2004	2005	2004	2005	2004
Managerial remuneration	5,066	3,600	2,400	2,150	91,243	56,889
Contribution to provident fund	480	360	240	215	7,274	4,194
Charge for defined benefit plan	210	146	117	87	4,412	2,306
Rent and house maintenance	2,026	1,440	960	860	36,497	22,756
Utilities	936	773	242	215	8,934	5,689
Bonus	1,000	667	600	400	21,979	8,834
Medical	81	34	23	49	2,418	1,613
Others	–	–	–	–	532	1,034
	9,799	7,020	4,582	3,976	173,289	103,315
Number of persons	2	1	1	1	112	67

The Chief Executives, Executive Director and Executives are also provided with the Bank maintained cars in accordance with the terms of employment.

* Executives mean employees, other than the Chief Executives and Executive Director, whose basic salary exceeds five hundred thousand rupees in a financial year.



34. MATURITIES OF ASSETS AND LIABILITIES

(Rupees in '000)

	2005				
	Total	Upto three months	Over three months to one year	Over one year to five years	Over five years
Assets					
Cash and balances with treasury banks	7,582,667	7,582,667	–	–	–
Balances with other banks	1,088,891	1,086,391	2,500	–	–
Lendings to financial institutions	3,352,747	3,352,747	–	–	–
Investments	19,636,711	1,697,611	12,386,841	3,086,977	2,465,282
Advances	55,368,841	17,306,057	27,732,937	9,154,740	1,175,107
Other assets	1,972,544	1,503,460	221,251	112,806	135,027
Operating fixed assets	2,536,357	168,686	133,708	614,291	1,619,672
	91,538,758	32,697,619	40,477,237	12,968,814	5,395,088
Liabilities					
Bills payable	1,464,648	1,464,648	–	–	–
Borrowings from financial institutions	6,275,868	4,216,615	1,904,284	41,164	113,805
Deposits and other accounts*	75,728,689	70,804,422	3,029,359	1,872,278	22,630
Sub-ordinated loan - TFCs	1,349,460	270	270	2,696	1,346,224
Liabilities against assets subject to finance lease	348,006	24,812	87,648	235,546	–
Other liabilities	788,550	390,605	366,214	24,490	7,241
Deferred tax liabilities	251,997	–	–	251,997	–
	86,207,218	76,901,372	5,387,775	2,428,171	1,489,900
	5,331,540	(44,203,753)	35,089,462	10,540,643	3,905,188
Net Assets					
Share capital	2,191,112				
Reserves	2,167,736				
Unappropriated profit	374,423				
Minority Interest	97,970				
Surplus / (deficit) on revaluation of assets	500,299				
	5,331,540				

* Savings deposits, treasurers' call and current deposits have been reported under three months maturity. However, they are not expected to be payable within three months period.

34.1 Liquidity risk reflects a bank's inability in raising funds to meet its commitments. The Bank's liquidity position is managed by the Asset Liability Management Committee (ALCO) which monitors liquidity ratios, depositors concentration, fund management and liquidity contingency plan.



35. YIELD / INTEREST RATE RISK

The bank's yield / interest rate sensitivity position, based on the earlier of contractual re-pricing or maturity date, is as follows:

(Rupees in '000)

	Effective Yield/ Interest Rate	Total	2005 Exposed to Yield / Interest rate risk				Not exposed to Yield/ Interest rate Risk
			Upto 3 months	Over 3 months to one year	Over 1 year to 5 years	Over 5 years	
On-balance sheet financial Instruments							
Assets							
Cash and balances with treasury banks	0.36%	7,582,667	1,042,611	-	-	-	6,540,056
Balances with other banks	3.79%	1,088,891	374,668	2,500	-	-	711,723
Lendings to financial institutions	7.27%	3,352,747	3,352,747	-	-	-	-
Investments	7.02%	19,636,711	1,638,369	12,386,841	2,320,769	2,466,025	824,707
Advances	6.69%	55,368,841	12,175,003	27,732,937	9,154,740	1,175,107	5,131,054
Other assets	-	1,513,253	-	-	-	-	1,513,253
		88,543,110	18,583,398	40,122,278	11,475,509	3,641,132	14,720,793
Liabilities							
Bills payable	-	1,464,648	-	-	-	-	1,464,648
Borrowings from financial institutions	5.15%	6,275,868	4,216,615	1,904,284	41,164	113,805	-
Deposits and other accounts	2.40%	75,728,689	46,472,963	3,029,359	1,872,278	22,630	24,331,459
Sub-ordinated loan - TFCs	10.00%	1,349,460	270	270	2,696	1,346,224	-
Liabilities against assets subject to finance lease	10.13%	348,008	24,812	87,647	235,549	-	-
Other Liabilities	-	581,885	-	-	-	-	581,885
		85,748,558	50,714,660	5,021,560	2,151,687	1,482,659	26,377,992
On-balance sheet gap		2,794,552	(32,131,262)	35,100,718	9,323,822	2,158,473	(11,657,199)
Total yield / interest risk sensitivity gap			(32,131,262)	35,100,718	9,323,822	2,158,473	
Cumulative yield / interest risk sensitivity gap				2,969,456	12,293,278	14,451,751	
Off-balance sheet financial Instruments							
Commitments to extend credit	9.27%	345,000	345,000	-	-	-	-

35.1 The interest rate risk arises from the fluctuation in the value of financial instrument consequent to the changes in market interest rates. The Bank's interest rates exposure comprises those originating from investing and lending activities. The Asset Liability Management Committee (ALCO) monitors and manages the interest rates risk with the objective of limiting the potential adverse effects on the profitability of the Bank arising from fluctuation in the market interest rates and mismatching or gaps in the amount of financial assets and financial liabilities in different maturity time bands.



36. CURRENCY RISK

(Rupees in '000)

	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Pakistan Rupee	78,697,116	78,602,517	2,438,986	2,533,585
United States Dollar	9,199,641	5,902,249	(3,072,378)	225,014
Great Britain Pound	229,368	722,712	503,068	9,724
Japanese Yen	3,753	18	(1,734)	2,001
Euro	381,838	517,989	149,555	13,404
Other Currencies	31,394	3,073	(17,497)	10,824
	<u>88,543,110</u>	<u>85,748,558</u>	<u>-</u>	<u>2,794,552</u>

36.1 Currency risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. The Bank's foreign exchange exposure comprises of forward contracts, purchase of foreign bills, foreign currency cash in hand, balances with banks abroad, foreign currency deposits and foreign currency placements with State Bank of Pakistan and other banks. The Bank manages its foreign exchange exposure by matching foreign currency assets and liabilities. The net open position is managed within the statutory limits as fixed by the State Bank of Pakistan. Counter party limits are also fixed to limit risk concentration.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2005		2004	
	Book value	Fair value	Book value	Fair value
	(Rupees in '000)			
On-balance sheet financial instruments				
Assets				
Cash and balances with treasury banks	7,582,667	7,582,667	6,239,421	6,239,421
Balances with other banks	1,088,891	1,088,891	4,287,685	4,287,685
Lendings to financial institutions	3,352,747	3,352,747	2,471,000	2,471,000
Investments	19,636,711	19,668,302	14,413,794	14,436,893
Advances	55,368,841	55,368,841	47,366,953	47,366,953
Other assets	1,513,253	1,513,253	719,598	719,598
	<u>88,543,110</u>	<u>88,574,701</u>	<u>75,498,451</u>	<u>75,521,550</u>
Liabilities				
Bills payable	1,464,648	1,464,648	1,344,637	1,344,637
Borrowings from financial institutions	6,275,868	6,275,868	7,975,185	7,975,185
Deposits and other accounts	75,728,689	75,728,689	62,170,628	62,170,628
Sub-ordinated loan - TFCs	1,349,460	1,349,460	1,350,000	1,350,000
Liabilities against assets subject to finance lease	348,008	348,008	138,395	138,395
Other liabilities	581,885	581,885	305,759	305,759
	<u>85,748,558</u>	<u>85,748,558</u>	<u>73,284,604</u>	<u>73,284,604</u>
Off-balance sheet financial instruments				
Forward purchase of foreign exchange	3,445,614	3,445,614	3,361,224	3,384,002
Forward sale of foreign exchange	5,884,600	5,884,600	5,922,139	5,922,875



Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The fair value of quoted investments is based on quoted market price. Fair value of unquoted equity investments is determined on the basis of break-up value of these investments as per the latest available audited financial statements. In the opinion of management, the fair value of the remaining financial assets and liabilities are not significantly different from their book value since assets and liabilities are either short term in nature or frequently re-priced, except for fixed term advances of over one year, staff loans and fixed term deposits of over one year.

In the opinion of management, the fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities.

38. CONCENTRATION OF CREDIT AND DEPOSITS

Credit Risk

Credit Risk is defined as the risk that parties with whom the Bank has entered into agreements do not fulfill their obligations to the Bank and that any collateral deposited does not cover the Bank's receivable claims. The Bank mitigates credit risk by monitoring credit exposures by continuously assessing the credit worthiness of counter parties.

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities or in the same geographical region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic political or other conditions. The Bank's major credit is concentrated in the textile sector which includes export of raw-cotton, ginning, spinning, textile made ups etc. which is adequately collateralized.



38.1 Segment by class of business

	Advances		Deposits		Contingencies and Commitments	
	Rupees in'000	%	Rupees in '000	%	Rupees in '000	%
Agriculture / Agri business	245,766	0.44	359,807	0.47	25,973	0.10
Automobiles and Transportation						
Equipment	1,781,089	3.22	4,178,277	5.52	1,454,171	5.63
Cement	121,654	0.22	13,832	0.02	161,362	0.63
Chemicals / Pharmaceuticals	936,398	1.69	367,612	0.49	506,504	1.96
Commerce and Trade	5,415,752	9.78	2,814,155	3.72	5,199,537	20.14
Electronics and Electrical appliances	866,565	1.56	92,822	0.12	51,990	0.20
Fertilizers	23,828	0.04	614,150	0.81	43,363	0.17
Food and Allied	1,720,485	3.11	134,287	0.18	1,037,533	4.02
Individuals	916,767	1.66	43,087,744	56.90	–	–
Investment Banks / Scheduled Banks	507,667	0.92	725,517	0.96	–	–
Iron and Steel	1,175,744	2.12	173,477	0.23	1,608,563	6.23
Manufacturing	2,912,522	5.26	510,198	0.67	–	–
Modarabas	416,042	0.75	128,719	0.17	–	–
Oil Refinery	641,858	1.16	276,322	0.36	19,123	0.07
Plastic products	263,709	0.47	32,715	0.04	287,302	1.11
Ready-made garments	1,064,747	1.92	37,839	0.05	168,409	0.65
Real estate/Construction	1,537,156	2.78	570,849	0.75	234,630	0.91
Rice processing and trading	646,022	1.17	4,107	0.01	38,470	0.15
Services (other than financial, hotelling and travelling)	697,709	1.26	1,786,814	2.36	543,396	2.11
Shoes and Leather garments	596,270	1.08	105,621	0.14	178,937	0.69
Sugar	946,911	1.71	93,714	0.12	330,242	1.28
Metal Products	841,590	1.52	20,943	0.03	228,353	0.89
Synthetic and Rayon	1,571,374	2.84	19,641	0.03	286,738	1.11
Textile	21,641,801	39.09	1,196,579	1.57	5,438,864	21.07
Spinning	10,605,159	19.15	570,652	0.75	2,754,018	10.67
Weaving	3,592,262	6.49	131,191	0.17	785,884	3.04
Composite	7,444,380	13.45	494,736	0.65	1,898,962	7.36
Telecommunication	225,430	0.41	104,793	0.14	20,278	0.08
Woolen	21,027	0.04	39,459	0.05	217,813	0.84
Public/Government	2,244,325	4.05	11,714,066	15.47	4,822,367	18.68
Others	5,388,633	9.73	6,524,630	8.62	2,910,927	11.28
	<u>55,368,841</u>	<u>100.00</u>	<u>75,728,689</u>	<u>100.00</u>	<u>25,814,845</u>	<u>100.00</u>



38.2 Segment by sector

	Advances		Deposits		Contingencies and Commitments	
	Rupees in'000	%	Rupees in '000	%	Rupees in '000	%
Public / Government	2,244,325	4.05	11,714,066	15.47	4,822,367	18.68
Private	53,124,516	95.95	64,014,623	84.53	20,992,478	81.32
	<u>55,368,841</u>	<u>100.00</u>	<u>75,728,689</u>	<u>100.00</u>	<u>25,814,845</u>	<u>100.00</u>

39. GEOGRAPHICAL SEGMENT ANALYSIS

All of the branches of the Bank are located in Pakistan only.

40. ISLAMIC BANKING BUSINESS

The Bank is currently operating with one Islamic Banking branch. The key financial figures of Islamic Banking business at year end are as follows:

	2005	2004
	(Rupees in 000)	
Islamic Banking funds	100,000	—
Deposits and other accounts	68,143	—
Due to Head Office	516,334	—
Morabaha Financing	674,879	—

41. TRUST ACTIVITIES

The Bank provides services as a trustee to Dawood Money Market Fund. The market value of shares held by the Bank in safe custody on behalf of the fund amounted to Rs. 312.553 million (2004: Rs. 234.059 million).



42. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include major shareholders, associated companies with or without common directors, retirement benefit funds, directors and key management personnel and their close family members.

The Bank continues to have a policy whereby all transactions with related parties are entered into at arm's length prices using the comparable uncontrolled price method.

Transactions with related parties, other than those disclosed elsewhere are summarized as follows:

	2005	2004
	(Rupees in '000)	
Associates		
Deposits		
Deposits at beginning of the year	122,056	246,195
Deposits received during the year	11,786,774	37,299,318
Deposits repaid during the year	(11,799,970)	(37,423,457)
Deposits at the end of the year	<u>108,860</u>	<u>122,056</u>
Insurance premium paid	43,165	38,637
Insurance claim received	6,585	4,882
Dividend Income	4,008	2,004
Dividend paid	-	12,958
Mark-up expensed	805	4,771
Mark-up earned	196	288



2005 2004
(Rupees in '000)

Other Related Parties

Deposits

Deposits at beginning of the year	10,405	18,145
Deposits received during the year	2,848,181	3,542,491
Deposits repaid during the year	(2,823,356)	(3,550,231)
Deposits at the end of the year	<u>35,230</u>	<u>10,405</u>

Advances

Advances outstanding at the beginning of the year	260,000	271,531
Advances given during the year	17,227	160,951
Advances repaid during the year	(17,227)	(172,482)
Advances outstanding at the end of the year	<u>260,000</u>	<u>260,000</u>
Mark-up expensed	23	367
Mark-up earned	14,711	7,034
Directors' fee	65	86

Key Management Personnel

Deposits

Deposits at beginning of the year	2,759	1,969
Deposits received during the year	220,887	216,976
Deposits repaid during the year	(199,245)	(216,186)
Deposits at the end of the year	<u>24,401</u>	<u>2,759</u>

Advances

Advances outstanding at the beginning of the year	6,313	1,541
Advances given during the year	9,397	5,465
Advances repaid during the year	(3,721)	(693)
Advances outstanding at the end of the year	<u>11,989</u>	<u>6,313</u>



	2005	2004
	(Rupees in '000)	
Salaries and allowances	46,728	34,696
Bonus	7,741	4,199
Compensated Absences	3,633	2,225
Contribution to defined contribution plan	2,300	1,805
Contribution to defined benefit plan	848	698
Mark-up earned	410	218
Mark-up expensed	26	123
Staff Provident Fund	23,659	18,021

The lending policy in case of related parties has been consistent with that of the Bank's overall credit policy and in line with the SBP's Prudential Regulations.

43. ACCOUNTING ESTIMATES AND JUDGEMENTS

Provision against non performing loans and advances

The Bank reviews its loan portfolio to assess amount of non-performing loans and advances and provision required there against on a quarterly basis. The provision is made in accordance with Prudential Regulations issued by State Bank of Pakistan. The forced sales values are estimated by independent valuations of the assets mortgaged/pledged. The change in Prudential Regulations relating to increased percentage on debts classified as 'Substandard' and increased discounting of forced sale values would result in change in provision.

Held-to-maturity investments

The Bank follows the guidance provided in State Bank of Pakistan's circulars on classifying non-derivatives financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past. There are various matters where bank's view differs with the view taken by the Income Tax department and such amounts are shown as contingent liability.

44. DATE OF AUTHORIZATION

These financial statements were authorized for issue in the Board of Directors meeting held on 16 February 2006.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

ANWAR HAJI KARIM
Director

FAIZ N. ABDULALI
Director



Annexure-1

**Statement showing written-off loans or any other financial relief
of five hundred thousand rupees or above provided
during the year ended December 31, 2005**

(Rupees in '000)

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's/ Husband's Name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written off	Other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Others	Total				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1.	M/s Grain Tech (Pvt) Ltd. 99/C, Model Town, Lahore.	Syed Mohammad Faisal Hasan (Director) (NIC No. 270-86-261277) Begum Feroza Mukhtar Hussain (Director) (NIC No. 270-30-260651) Mrs. Nosheen Faisal Hasan (Director) (NIC No. 270-87-431538)	Mr. Mukhtar Hussain Mr. Mukhtar Hussain Syed Mohammad Faisal Hasan	32,572	4,691	-	37,263	12,572	4,691	-	17,263
2.	M/s Ebramin (Pvt.) Ltd. 2nd Floor, Bank House No. 1, Habib Square M.A. Jinnah Road, Karachi.	Mr. Gul Mohammad (Director) (NIC No. 517-44-108713) Mr. H.A. Sattar Mohammad (Director) (NIC No. 511-23-003912) Mr. A. Majid Hasham Panawala (Director) (NIC No. 501-27-057345) Mr. Ahmed Hasham Panawala (Director) (NIC No. 501-38-289689)	Mr. Abdul Sattar Motiwala Mr. Mohammad Mr. Hasham Panawala Mr. Hasham Panawala	2,153	1,493	-	3,646	-	1,446	-	1,446
3.	M/s Paramount Impex 38-Corner Chamber I.I. Chundrigar Road, Karachi.	Mr. Shoab Noman (Sole Proprietor) (NIC No. 520-63-193244)	Mr. Mehdi Hasan	602	-	-	602	602	-	-	602
4.	M/s Mahnoor Enterprises 116/87-88 Ghani Bukhari Road, Multan Cantt.	Mr. Arshad Baig (Sole Proprietor) (NIC No. 225-57-841643)	Mr. Zafar Baig	696	-	-	696	696	-	-	696
			Total	36,023	6,184	-	42,207	13,870	6,137	-	20,007

Note 1: The amount of principal written off was against the specific provision held by the bank.

Note 2: Interest / mark-up written off was against suspended mark-up.

Note 3: The above amounts are excluding Rs. 7.754 million being net-off loss on receivables owing to discrepant import bill settled between the Bank and negotiating bank.



Branch Network

KARACHI

1 MAIN BRANCH

Mackinnons Building, I.I. Chundrigar Road.
Phones : (92-21) 2412986 & 111-786-110
Fax : (92-21) 2425423 & 2412028
Telex : 21286 ALHAB PK

2 CLOTH MARKET BRANCH

Ground Floor, Lotus Manzil, BR-2,
New Neham Road, Cloth Market.
Phones : (92-21) 2401301-4
Fax : (92-21) 2401300

3 JODIA BAZAR BRANCH

MR-1/16, Ram Bharti Street,
Market Quarter, Jodia Bazar.
Phones : (92-21) 2446451-5
Fax : (92-21) 2473390

4 NAPIER ROAD BRANCH

2-A, Ground Floor, Yousufi Manzil,
North Napier Road.
Phones : (92-21) 2731496, 2771321 &
2771218
Fax : (92-21) 2771187

5 NEW CHALLI BRANCH

Haji Adam Chambers,
Altaf Hussain Road.
Phones : (92-21) 2410526, 2410876 &
2410917
Fax : (92-21) 2411048

6 PAKISTAN CHOWK BRANCH

Shop No. 1, Chandna Manzil,
Kutchery Road.
Phones : (92-21) 2212352-54
Fax : (92-21) 2212350

7 KARACHI STOCK EXCHANGE BRANCH

Room No. 4-6, Stock Exchange Building,
Stock Exchange Road.
Phones : (92-21) 2401516-19
Fax : (92-21) 2401520

8 KHARADAR BRANCH

Shop No. 7 & 8 Hemani Centre,
Ghulam Hussain Kassim Quarters.
Phones : (92-21) 2205572-74
Fax : (92-21) 2205575

9 NAYABAD BRANCH

Plot No. 121, Nayabad, Lyari Quarter,
Shah Waliullah Road.
Phones : (92-21) 2514854-55, 2513953
Fax : (92-21) 2513445

10 LEA MARKET BRANCH

Shop No. 1, Plot No. N.P 6/30-31,
Zulikha Mansion, Napier Town Quarters.
Phones : (92-21) 2540846-47, 2520684
Fax : (92-21) 2540848

11 TIMBER MARKET BRANCH

Plot No. E-III-2, S-34, Siddiq Wahab Road,
Phones : (92-21) 2762776, 2762778 &
2762784
Fax : (92-21) 2762730

12 STEEL MARKET BRANCH:

Plot No. 5, Shop No. 6 & 7,
Ranchore Quarters, Baba-e-Urdu Road.
Phones : (92-21) 2732061, 2737367-68
Fax : (92-21) 2731798

13 M. A. JINNAH ROAD BRANCH

Godrej Kandawalla Building,
M. A. Jinnah Road.
Phones : (92-21) 2228494, 2228458
Fax : (92-21) 2228450

14 SADDAR BRANCH

Saddar Bazar Shop No. 4-6, Bukhara
Centre, Raja Ghazanfar Ali Khan
Road, Saddar.
Phones : (92-21) 5658032-35
Fax : (92-21) 5658030

15 FATIMA JINNAH COLONY BRANCH

6, Ruby Appartments, Jamshed Quarters,
Phones : (92-21) 4854529, 4854548
Fax : (92-21) 4854542

16 SOLDIER BAZAR BRANCH

Plot No. 17/I, Sol-B-2, Soldier Bazar.
Phones : (92-21) 2241711-5
Fax : (92-21) 2241716

17 SHAHRAH-E-FAISAL BRANCH

19-1-A, Block 6, P.E.C.H.S.,
Shahrah-e-Faisal.
Phones : (92-21) 4544383-87
Fax : (92-21) 4530143

18 BAHADURABAD BRANCH

Central Commercial Area, B.C.H.S.,
Bahadurabad.
Phones : (92-21) 4915803-5
Fax : (92-21) 4915802

19 MUHAMMAD ALI HOUSING SOCIETY BRANCH

Block No. 7 & 8, Plot No. Z-130-131,
Kathiawar Co-Operative Housing Society,
Adamjee Nagar, Karachi.
Phones : (92-21) 4533620-22
Fax : (92-21) 4533618

20 ALLAMA IQBAL ROAD BRANCH

86-S, Block-2, Raja Terrace, P.E.C.H.S.
Phones : (92-21) 4384661-4
Fax : (92-21) 4384665

21 TARIQ ROAD BRANCH

Shop No. 1 & 2, Plot No. 277-278
Ahmed Chamber, Main Tariq Road,
P.E.C.H.S.
Phones : (92-21) 4397632-35
Fax : (92-21) 4397631

22 MALIR HALT BRANCH

Plot No. 157, Malir Halt, Opp. Malir Halt
Railway Station, Shahrah-e-Faisal, Karachi.
Phones : (92-21) 4599591-3 & 4599611-2
Fax : (92-21) 4599613

23 SAUDABAD BRANCH

Plot No. LS-35, Sub Sector Street-32,
Sector No. 4, Liaquat Market, Malir Colony.
Phones : (92-21) 4117772-75
Fax : (92-21) 4117776

24 GULSHAN-E-HADEED BRANCH

Plot No. C-29, Phase-I, Gulshan-e-Hadeed,
Bin Qasim, Karachi.
Phone : (92-21) 4717475
Fax : (92-21) 4712604

25 PAKISTAN STEEL MILLS BRANCH

Pipri Bin Qasim, Karachi.
Phones : (92-21) 4750617
Fax : (92-21) 4750618

26 CLIFTON BRANCH

Shaheen Centre, Block-7, K.D.A. Scheme
No. 5, Clifton.
Phones : (92-21) 5821882-4
Fax : (92-21) 5821885

Registered Office and Head Office
126-C, Old Bahawalpur Road, Multan. Phones: (92-61) 580314-16, 544539 & 111-786-110
Fax: (92-61) 582471 Telex: 42336 ALHML PK



Branch Network

27 ZAMZAMA BRANCH

16-C, Commercial Lane 3, Phase V,
Zamzama Boulevard, D.H.A.
Phones : (92-21) 5863986, 5861804
Fax : (92-21) 5863914

28 KHYABAN-E-SHAMSHEER BRANCH

Plot No. 2-C, Stadium Lane No. 4,
Phase V, Defence Housing Authority.
Phones : (92-21) 5846277-79
Fax : (92-21) 5846179

29 KHAYABAN-E-HAFIZ BRANCH

Plot No. 23-C, Shehbaz Lane No. 1,
Phase-VI, Pakistan Defence Housing
Authority.
Phones : (92-21) 5340513, 5340175, 5340107
Fax : (92-21) 5341043

30 BILAWAL CHOWK BRANCH

Shop No. C1 & 2, Beach Blessing
Block-2, KDA Scheme No. 5, Clifton.
Phones : (92-21) 5877901-04
Fax : (92-21) 5877906

31 GIZRI BRANCH

Plot No. 1, Shop No. 10,
Mustafa Centre, Upper Gizri.
Phones : (92-21) 5831862-3, 5831866-67
Fax : (92-21) 5831941

32 9TH COMMERCIAL STREET BRANCH

Plot No. 113, Phase IV,
9th Commercial Street,
Defence Housing Authority.
Phones : (92-21) 5397781-4
Fax : (92-21) 5397785

33 KORANGI ROAD BRANCH

Speedy Towers Plot No. 131/1
Phase-I, Defence Housing Authority.
Phones : (92-21) 5386797-99
Fax : (92-21) 5386796

34 KORANGI INDUSTRIAL AREA BRANCH

Plot No. ST 2/2, Sector-23,
Korangi Town Ship.
Phones : (92-21) 5114992-5
Fax : (92-21) 5074496

35 S.I.T.E., BRANCH

B/76, S. S. Chambers, S.I.T.E.,
Phones : (92-21) 2571710 -11 & 2571521
Fax : (92-21) 2571522

36 SHERSHAH BRANCH

Shop No. 27-30, Plot No. D-283,
Shershah, S.I.T.E. Area,
Phones : (92-21) 2586241-44
Fax : (92-21) 2586246

37 RIZVIA SOCIETY BRANCH

D-9, Ishrat Arcade, Rizvia Co-operative
Housing Society, Nazimabad.
Phones : (92-21) 6607992-95
Fax : (92-21) 6607996

38 BARKAT-E-HYDARI BRANCH

Al-Burhan Arcade, Block-E,
North Nazimabad.
Phones : (92-21) 6670115, 6631793-94
Fax : (92-21) 6670116

39 WATER PUMP BRANCH

C-21, Block-13, Federal "B" Area,
Shahrah-e-Pakistan.
Phones : (92-21) 6369125, 6369114-15
Fax : (92-21) 6369216

40 NORTH KARACHI INDUSTRIAL AREA BRANCH

Nimra Corner, ST-3, Sector 12-A,
North Karachi.
Phones : (92-21) 6954196-98
Fax : (92-21) 6954187

41 U.P. MORE BRANCH

Plot No. L-1, Sector No. 11-B,
North Karachi Town Ship.
Phone : (92-21) 6956534, 6956523
Fax : (92-21) 6956727

42 HUSSAINABAD BRANCH

Plot No. R-479, Shop No. 1 & 2,
Block-2, KDA Scheme No. 16, F.B. Area.
Phone : (92-21) 6806791-93
Fax : (92-21) 6806794

43 LIAQUATABAD BRANCH

Plot No. 1 & 2, Shop No. 2 & 3
Block No. 3, Liaquatabad Township.
Phones : (92-21) 4132312, 4132434
Fax : (92-21) 4133479

44 FEDERAL 'B' AREA BRANCH

ST. 4/A-2, Block-20,
Al-Noor Society, F.B. Area.
Phones : (92-21) 6345611, 6345651 &
6345663
Fax : (92-21) 6349879

45 GULSHAN-E-IQBAL BRANCH

B-39, Al-Shams Centre, Block 13-A,
University Road, Gulshan-e-Iqbal.
Phones : (92-21) 4989162-63
Fax : (92-21) 4989164

46 GULSHAN CHOWRANGI BRANCH

Plot No. FL-3, Block No. 3,
KDA Scheme No. 24, Gulshan-e-Iqbal.
Phones : (92-21) 4811971-3
Fax : (92-21) 4985045

47 GULSHAN BLOCK-1 BRANCH

Plot No. SB-11, Jameel Arcade, Block 1,
Gulshan-e-Iqbal, K.D.A., Scheme 24.
Phones : (92-21) 4967753, 4800645-46
Fax : (92-21) 4968694

48 GULISTAN-E-JAUHAR BRANCH

Shahlimar Shopping Centre,
Block-17, Gulistan-e-Jauhar.
Phones : (92-21) 4010921-22
Fax : (92-21) 4010911

49 UNIVERSITY ROAD BRANCH

SB-13, Sobia Pride, Block-1,
Scheme 36, Gulistan-e-Johar,
Opp. N.E.D. University.
Phones : (92-21) 4029612-15
Fax : (92-21) 4029610

50 ABUL HASSAN ISPAHANI ROAD BRANCH

Chapal Garden,
Abul Hassan Isphahani Road.
Phones : (92-21) 4657593-96
Fax : (92-21) 4657597



Branch Network

51 NEW SABZI MANDI BRANCH

Administration Block, New Sabzi Mandi Super Highway.
Phones : (92-21) 6380840-43
Fax : (92-21) 6380844

52 EXPORT PROCESSING ZONE

W/1, & 2 Sector B-III, Export Processing Zone, Landhi Industrial Area.
Phone : (92-21) 5084832
Fax : (92-21) 5084833

53 ISLAMIC BANKING

20-A/1, Block-6, Shahrah-e-Faisal, P.E.C.H.S.,
Phones : (92-21) 4392411-13
Fax : (92-21) 4392443

LAHORE

54 MAIN BRANCH

87, Shahrah-e-Quaid-e-Azam.
Phones : (92-42) 6305042-45 & 111-786-110
Fax : (92-42) 6368864 & 6305046
Telex : 44 610 BAHLR PK

55 NEW GARDEN TOWN BRANCH

Awami Complex, 1-4 Usman Block, Front Block V, New Garden Town.
Phones : (92-42) 5869366-69
Fax : (92-42) 5869370

56 GULBERG BRANCH

3-E, Block E, Ground Floor, Main Market, Gulberg II.
Phones : (92-42) 5762502 & 5754586
Fax : (92-42) 5762501

57 SHAHALAM MARKET BRANCH

Hilal-e-Ahmar Health Complex 2, Queens Road, Shahalam Gate.
Phones : (92-42) 7670496 & 7670498
Fax : (92-42) 7670510

58 PECO ROAD BRANCH

897-898, Block-D, Maulana Shaukat Ali Road, Faisal Town.
Phones : (92-42) 5175169 & 5175430-31
Fax : (92-42) 5175427

59 CIRCULAR ROAD BRANCH

51, S.E. Vohra Building, Outside Akbari Gate, Circular Road, Lahore.
Phones : (92-42) 7670671-73
Fax : (92-42) 7670674

60 ICCHRA BRANCH

144, Main Ferozepur Road, Icchra.
Phones : (92-42) 7569982-3, 7569923
Fax : (92-42) 7569924

61 DEFENCE BRANCH

82-Y Commercial, Phase III, D.H.A.
Phones : (92-42) 5894113-5894116
Fax : (92-42) 5893303

62 AZAM CLOTH MARKET BRANCH

1-Kamla Centre, Ittehad Bazar, Punjab Block, Azam Cloth Market.
Phones : (92-42) 7672913-15
Fax : (92-42) 7672916

63 NEW ANARKALI BRANCH

1-A, New Anarkali, First Floor, Tariq Trade Centre, Chowk Lohari Gate.
Phones : (92-42) 7674248-50
Fax : (92-42) 7674252

64 ALLAMA IQBAL TOWN BRANCH

7-Chenab Block, Main Boulevard, Allama Iqbal Town.
Phones : (92-42) 5430918-20
Fax : (92-42) 5430921

65 BADAMI BAGH BRANCH

92-Grain Market, Badami Bagh.
Phones : (92-42) 7708002-4
Fax : (92-42) 7708005

66 LAHORE STOCK EXCHANGE BRANCH

Room No. 112, 1st Floor, Stock Exchange Building, 19, Khayaban-e-Iqbal.
Phones : (92-42) 6300125-27
Fax : (92-42) 6300128

67 BRANDRETH ROAD BRANCH

52, Brandreth Road, Lahore.
Phones : (92-42) 7320253-5, 7311079
Fax : (92-42) 7117288

68 TIMBER MARKET BRANCH

Timber Market, Ravi Road.
Phone : (92-42) 7720900-7724609-11
Fax : (92-42) 7720901

69 BILAL GANJ BRANCH

Sheesh Mahal Park.
Phones : (92-42) 7110461-63
Fax : (92-42) 7110464

70 GULSHAN-E-RAVI BRANCH

5-F, Main Boulevard, Gulshan-e-Ravi.
Phones : (92-42) 7467724, 7466624
Fax : (92-42) 7416272

MULTAN

71 MAIN BRANCH

126-C, Old Bahawalpur Road.
Phones : (92-61) 4544539 & 111-786-110
Fax : (92-61) 4582471
Telex : 42336 ALHML PK

72 HUSSAIN AGAHI BRANCH

Lohari Gate Shopping Centre, Hussain Agahi Road.
Phones : (92-61) 4513893 & 4513577
Fax : (92-61) 4513793

73 GHALLA MANDI BRANCH

135/C, Ghalla Mandi, Vehari Road.
Phones : (92-61) 4232627-28
Fax : (92-61) 4232629

74 GULGASHT BRANCH

Bosan Road, Multan.
Phones : (92-61) 6752701-03-05
Fax : (92-61) 6752704

FAISALABAD

75 Bank Square, Outside Kutchery Bazar.
Phones : (92-41) 2637301-3 & 111-786-110
Fax : (92-41) 2614266
Telex : 43528 ALHAB PK



Branch Network

BUREWALA

- 76 67/F Vehari Road, Burewala
Phones : (92-67) 3772531-33
Fax : (92-67) 3772534

SIALKOT

- 77 Paris Road.
Phones : (92-52) 4597064 & 111-786-110
Fax : (92-52) 4592747
Telex : 46426 ALHAB PK

GUJRANWALA

- 78 Opp: Iqbal High School, G.T. Road,
Gujranwala.
Phones : (92-55) 3846220, 3847220, 3857220
Fax : (92-55) 3734100

SHEIKHUPURA

- 79 B-IX-64-95/A, Sarghoda Road,
Near Sharif Plaza.
Phones : (92-56) 3612906 & 111-786-110
Fax : (92-56) 3612877

SAHIWAL

- 80 271, Block-2, High Street (Jinnah Road).
Phones : (92-40) 4466021 & 4467021
Fax : (92-40) 4464031

SADIQABAD

- 81 Plot No. 24, Allama Iqbal Road.
Phones : (92-68) 5801101-03
Fax : (92-68) 5801104

RAHIM YAR KHAN

- 82 Shahi Road.
Phones : (92-68) 5884557 & 5884508-9
Fax : (92-68) 5884503

KHANPUR

- 83 Plot No. 8/9, Model Town Road, Khanpur,
Distt Rahim Yar Khan.
Phones : (92-68) 5576702-3
Fax : (92-68) 5576704
Telex : 54726 BAHID PK

ISLAMABAD

84 MAIN BRANCH

- 90-91, Razia Sharif Plaza,
Jinnah Avenue, Blue Area.
Phones : (92-51) 2270883-4 & 111-786-110
Fax : (92-51) 2270885

85 F-10 MARKAZ BRANCH

- F-10 Markaz.
Phones : (92-51) 2297758-2213482
Fax : (92-51) 2296895

RAWALPINDI

- 86 40/3, Jhanzeb Centre, Bank Road,
Rawalpindi Cantt.
Phones : (92-51) 5519936-38
Fax : (92-51) 5519939

87 CITY BRANCH

- C/30, C/32, Iqbal Road, Trunk Bazar,
Rawalpindi City.
Phones : (92-51) 5553462, 5553664
Fax : (92-51) 5554493

PESHAWAR

- 88 105-106, F.C. Trust Building,
Sonehri Masjid Road.
Phones : (92-91) 5279814 & 111-786-110
Fax : (92-91) 5279861

MIRPUR (AZAD KASHMIR)

- 89 82-A/B, Allama Iqbal Road, Sector B-4.
Phone : (92-58610) 45064
Fax : (92-58610) 44766

GUJRAT

- 90 Ground Floor, Soufi Hotel, G.T. Road.
Phones : (92-53) 3515803 & 111-786-110
Fax : (92-53) 3525628

D.G. KHAN

- 91 83-Block-10, New College Road,
Dera Ghazi Khan.
Phones : (92-64) 2468471-73
Fax : (92-64) 2468474

DINGA (DISTT. GUJRAT)

- 92 Opp. Civil Hospital.
Phone : (92-53) 7401737
Fax : (92-53) 7402785

QUETTA

- 93 Mannan Chowk, M.A. Jinnah Road.
Phones : (92-81) 2844125 & 111-786-110
Fax : (92-81) 2842335

NAWABSHAH

- 94 Masjid Road.
Phones : (92-244) 362738 & 362854
Fax : (92-244) 362737

HYDERABAD

- 95 Qasre Fatima, 90/1-2 Saddar Bazar,
Cantonment Area.
Phones : (92-22) 2785803
Fax : (92-22) 2781955

96 QASIMABAD

- Suhrio House, Ground Floor, Main
Shahrah-e-Qasimabad, Hyderabad, Sindh.
Phones : (92-22) 2655551-4
Fax : (92-22) 2655557

SUKKUR

- 97 B-2555, Shaheed Gunj.
Phones : (92-71) 5622287
Fax : (92-71) 5625749

DAHARKI

- 98 Daharki Distt. Ghotki
Phone : (92-723) 643822
Fax : (92-723) 643820

OKARA

- 99 29, Block-A, Mandi Road, Okara.
Phones : (92-44) 2528175-2528241-2523823
Fax : (92-44) 2524789

GAWADAR

- 100 Plot No. 32/32, Gawadar Palace Hotel,
Air Port Road.
Phone : (92-864) 212204
Fax : (92-864) 212203

Principal Office

Mackinnons Building, I. I. Chundrigar Road, Karachi. Phones: (92-21) 2412421, 2412986 & 111-786-110
Fax: (92-21) 2419752 Telex: 21285 ALHAB PK

SWIFT CODE : BAHLPKKA

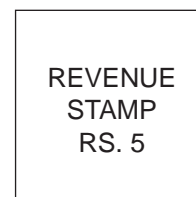
website : www.bankalhabib.com



Form of Proxy

The Company Secretary
Bank AL Habib Limited
126-C, Old Bahawalpur Road,
MULTAN.

I/We _____
of _____
a member(s) of Bank AL Habib Limited and holding _____
ordinary shares, as per Register Folio No./CDC Account and Participant's I.D. No. _____
hereby appoint _____ Folio No. _____
of _____
or failing him/her _____ Folio No. _____
of _____
another member of the Bank to vote for me/us and on my/our behalf at the Fifteenth Annual General Meeting
of the Bank to be held on Tuesday, March 14, 2006 and at any adjournment thereof.
As witness my/our hand this _____ day of _____ 2006.



SIGNATURE OF MEMBER (S)

A member entitled to attend the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him/her. No person shall act as proxy (except for a corporation) unless he/she is entitled to be present and vote in his/her own right.

CDC account holder or sub-account holder appointing a proxy should furnish attested copies of his / her own as well as the proxy's NIC / Passport with the proxy form. The proxy shall also produce his / her original NIC or passport at the time of the meeting. In case of corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted alongwith proxy form.

The instrument appointing a proxy should be signed by the member or by his/her attorney duly authorised in writing. If the member is a corporation, its common seal (if any) should be affixed to the instrument.

The proxy forms shall be deposited at the Registered Office of the Bank not less than 48 hours before the time of the meeting.