



Consolidated Financial Statements

Bank AL Habib Limited

and

Subsidiary Companies



Bank AL Habib Limited and its Subsidiary Companies 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 Bank's Subsidiaries M/s AL Habib Capital Markets (Private) Limited and M/s AL Habib Financial Services Limited for the year ended December 31, 2010. During the year, the Bank completed the process of voluntary closure of AL Habib Financial Services Limited, whose income and expenses are consolidated till the date of its closure.

| | (Rupees in '000) |
|---|------------------|
| Profit for the year before tax | 5,724,435 |
| Taxation | (2,056,455) |
| Profit for the year after tax | 3,667,980 |
| Share of profit attributable to Minority interest | (3,651) |
| Profit attributable to share holders | 3,664,329 |
| Unappropriated profit brought forward | 2,496,135 |
| Transfer from surplus on revaluation of fixed assets - net of tax | 30,713 |
| Profit available for appropriation | 6,191,177 |
| Appropriations: | |
| Transfer to Statutory Reserve | (720,432) |
| Cash Dividend - 2009 | (1,220,273) |
| Issue of Bonus Shares - 2009 | (1,220,273) |
| | (3,160,978) |
| Un-appropriated profit carried forward | 3,030,199 |
| Earnings per share (after tax) | <u>Rs. 5.00</u> |

Pattern of Shareholding

The pattern of shareholding as at December 31, 2010 is annexed with the financial statements of Bank AL Habib Limited.

On behalf of the Board of Directors

Karachi: February 17, 2011

ALI RAZA D. HABIB
Chairman



Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of Bank AL Habib Limited (the Bank) and its subsidiary companies, (together referred to as Group) as at 31 December 2010, and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement together with the notes forming part thereof for the year then ended, in which are incorporated the unaudited certified returns from the branches except for fifteen branches which have been audited by us. We have also separately reviewed the financial statements of AL Habib Capital Markets (Private) Limited. The financial statements of AL Habib Financial Services Limited are unaudited.

These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial 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 consolidated financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Karachi: February 17, 2011

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Audit Engagement Partner: Arslan Khalid



Consolidated Statement of Financial Position As at 31 December 2010

| | Note | 2010 (Rupees in '000) | 2009 |
|---|------|--------------------------|--------------------|
| ASSETS | | | |
| Cash and balances with treasury banks | 8 | 19,000,990 | 14,377,626 |
| Balances with other banks | 9 | 2,132,806 | 4,642,110 |
| Lendings to financial institutions | 10 | 1,139,268 | – |
| Investments | 11 | 137,234,656 | 110,907,416 |
| Advances | 12 | 125,773,292 | 105,985,495 |
| Operating fixed assets | 13 | 10,264,310 | 9,620,148 |
| Deferred tax assets | | – | – |
| Other assets | 14 | 6,251,024 | 4,284,277 |
| | | 301,796,346 | 249,817,072 |
| LIABILITIES | | | |
| Bills payable | 15 | 2,989,989 | 3,187,383 |
| Borrowings | 16 | 22,579,348 | 33,517,109 |
| Deposits and other accounts | 17 | 249,760,885 | 189,148,427 |
| Sub-ordinated loans | 18 | 4,842,260 | 4,845,000 |
| Liabilities against assets subject to finance lease | 19 | 386 | 1,508 |
| Deferred tax liabilities | 20 | 644,353 | 816,557 |
| Other liabilities | 21 | 4,762,342 | 4,080,559 |
| | | 285,579,563 | 235,596,543 |
| NET ASSETS | | | |
| | | 16,216,783 | 14,220,529 |
| REPRESENTED BY : | | | |
| Share capital | 22 | 7,321,643 | 6,101,370 |
| Reserves | | 4,392,264 | 3,685,350 |
| Unappropriated profit | | 3,030,199 | 2,496,135 |
| Equity attributable to the shareholders of the Holding company | | | |
| Non-controlling interest | | 14,744,106 | 12,282,855 |
| | | 110,334 | 106,683 |
| Total equity | | | |
| Surplus on revaluation of assets - net of tax | 23 | 14,854,440 | 12,389,538 |
| | | 1,362,343 | 1,830,991 |
| | | 16,216,783 | 14,220,529 |
| CONTINGENCIES AND COMMITMENTS | | | |
| | 24 | | |

The annexed notes form an integral part of these consolidated financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

SYED MAZHAR ABBAS
Director

ANWAR HAJI KARIM
Director



Consolidated Profit and Loss Account For the year ended 31 December 2010

| | Note | 2010 (Rupees in '000) | 2009 |
|--|------|--------------------------|------------------|
| Mark-up / return / interest earned | 26 | 27,480,798 | 22,122,715 |
| Mark-up / return / interest expensed | 27 | (16,666,489) | (13,043,116) |
| Net mark-up / return / interest income | | 10,814,309 | 9,079,599 |
| Provision against non-performing loans and advances | 12.6 | (946,296) | (1,183,026) |
| Provision for diminution in the value of investments | | (155) | (2) |
| Bad debts written-off directly | | — | — |
| | | (946,451) | (1,183,028) |
| Net mark-up / return / interest income after provisions | | 9,867,858 | 7,896,571 |
| NON MARK-UP / INTEREST INCOME | | | |
| Fees, commission and brokerage income | | 1,188,387 | 1,024,615 |
| Dividend income | | 156,429 | 39,202 |
| Income from dealing in foreign currencies | | 339,730 | 307,855 |
| Gain on sale / redemption of securities - net | 28 | 69,608 | 168,439 |
| Unrealised gain / (loss) on revaluation of investments classified as held for trading | | — | — |
| Share of profit from associates | | 108,978 | 106,074 |
| Other income | 29 | 324,508 | 284,123 |
| Total non mark-up / interest income | | 2,187,640 | 1,930,308 |
| | | 12,055,498 | 9,826,879 |
| NON MARK-UP / INTEREST EXPENSES | | | |
| Administrative expenses | 30 | (6,225,457) | (5,103,266) |
| Other reversals / (provisions) / (write-offs) / gains | 31 | 29,647 | (65,688) |
| Other charges | 32 | (135,253) | (96,534) |
| Total non mark-up / interest expenses | | (6,331,063) | (5,265,488) |
| Extra-ordinary / unusual items | | — | — |
| PROFIT BEFORE TAXATION | | 5,724,435 | 4,561,391 |
| Taxation – Current | | (2,014,032) | (1,651,309) |
| – Prior years | | — | — |
| – Deferred | | (42,423) | (1,556) |
| | 33 | (2,056,455) | (1,652,865) |
| PROFIT AFTER TAXATION | | 3,667,980 | 2,908,526 |
| Attributable to: | | | |
| Shareholders of the Holding company | | 3,664,329 | 2,903,240 |
| Non-controlling interest | | 3,651 | 5,286 |
| | | 3,667,980 | 2,908,526 |
| Basic and diluted earnings per share attributable to shareholders of the Holding company - Rupees | 34 | 5.00 | Restated 3.97 |

The annexed notes form an integral part of these consolidated financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

SYED MAZHAR ABBAS
Director

ANWAR HAJI KARIM
Director



Consolidated Statement of Comprehensive Income For the year ended 31 December 2010

| | 2010 | 2009 |
|--|------------------|-----------|
| | (Rupees in '000) | |
| Net profit for the year | 3,667,980 | 2,908,526 |
| Other comprehensive income | | |
| Effect of foreign currency translation of net investment in foreign operations | (13,518) | 35,013 |
| Total comprehensive income for the year | 3,654,462 | 2,943,539 |
| Attributable to: | | |
| Shareholders of the Holding company | 3,650,811 | 2,938,253 |
| Non-controlling interest | 3,651 | 5,286 |
| | 3,654,462 | 2,943,539 |

The annexed notes form an integral part of these consolidated financial statements.

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Consolidated Statement of Changes in Equity For the year ended 31 December 2010

| | Attributable to the shareholders of the Holding Company | | | | | | Total | Non-controlling Interest | Total Equity |
|---|---|-------------------|-----------------|-----------------|--------------------------------------|-----------------------|-------------|--------------------------|--------------|
| | Share Capital | Statutory Reserve | Special Reserve | General Reserve | Foreign Currency Translation Reserve | Unappropriated Profit | | | |
| | Revenue Reserves | | | | | | | | |
| | (Rupees in '000) | | | | | | | | |
| Balance as at 01 January 2009 | 4,785,388 | 2,342,482 | 126,500 | 540,000 | 70,096 | 2,047,596 | 9,912,062 | 101,397 | 10,013,459 |
| Total comprehensive income for the year | - | - | - | - | 35,013 | 2,903,240 | 2,938,253 | 5,286 | 2,943,539 |
| Transfer from surplus on revaluation of fixed assets - net of tax | - | - | - | - | - | 30,713 | 30,713 | - | 30,713 |
| Transfer to statutory reserve | - | 571,259 | - | - | - | (571,259) | - | - | - |
| Cash dividend (Rs. 1.25 per share) | - | - | - | - | - | (598,173) | (598,173) | - | (598,173) |
| Issue of bonus shares in the ratio of 27.5 shares for every 100 shares held | 1,315,982 | - | - | - | - | (1,315,982) | - | - | - |
| Balance as at 31 December 2009 | 6,101,370 | 2,913,741 | 126,500 | 540,000 | 105,109 | 2,496,135 | 12,282,855 | 106,683 | 12,389,538 |
| Total comprehensive income for the year | - | - | - | - | (13,518) | 3,664,329 | 3,650,811 | 3,651 | 3,654,462 |
| Transfer from surplus on revaluation of fixed assets - net of tax | - | - | - | - | - | 30,713 | 30,713 | - | 30,713 |
| Transfer to statutory reserve | - | 720,432 | - | - | - | (720,432) | - | - | - |
| Cash dividend (Rs. 2 per share) | - | - | - | - | - | (1,220,273) | (1,220,273) | - | (1,220,273) |
| Issue of bonus shares in the ratio of 20 shares for every 100 shares held | 1,220,273 | - | - | - | - | (1,220,273) | - | - | - |
| Balance as at 31 December 2010 | 7,321,643 | 3,634,173 | 126,500 | 540,000 | 91,591 | 3,030,199 | 14,744,106 | 110,334 | 14,854,440 |

The annexed notes form an integral part of these consolidated financial statements.

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ANWAR HAJI KARIM
Director



Consolidated Cash Flow Statement For the year ended 31 December 2010

| | 2010 (Rupees in '000) | 2009 |
|--|--------------------------|-------------|
| Cash Flow From Operating Activities | | |
| Profit before taxation | 5,724,435 | 4,561,391 |
| Dividend income | (156,429) | (39,202) |
| | 5,568,006 | 4,522,189 |
| Adjustments for: | | |
| Depreciation | 658,861 | 562,335 |
| Amortisation | 40,302 | 33,338 |
| Provision against non-performing loans and advances | 946,296 | 1,183,026 |
| Provision for diminution in the value of investments | 155 | 2 |
| Gain on sale of operating fixed assets | (41,574) | (31,073) |
| Share of profit from associates | (108,978) | (106,074) |
| Financial charges on leased assets | 125 | 16,100 |
| Gain on sale / redemption of securities | (69,608) | (168,439) |
| Provision for compensated absences | 39,000 | 25,000 |
| (Reversal of provision) / provision against off-balance sheet items | (8,364) | 65,688 |
| | 1,456,215 | 1,579,903 |
| | 7,024,221 | 6,102,092 |
| Increase in operating assets | | |
| Lendings to financial institutions | (1,139,268) | 295,396 |
| Advances | (20,734,093) | (6,951,113) |
| Other assets | (1,974,663) | (282,215) |
| | (23,848,024) | (6,937,932) |
| Increase in operating liabilities | | |
| Bills payable | (197,394) | 955,049 |
| Borrowings | (12,080,253) | 21,073,235 |
| Deposits | 60,612,458 | 44,807,931 |
| Other liabilities (excluding provision for taxation) | 542,178 | 1,059,942 |
| | 48,876,989 | 67,896,157 |
| | 32,053,186 | 67,060,317 |
| Income tax paid | (1,925,428) | (1,529,626) |
| Net cash flow from operating activities (Balance carried forward) | 30,127,758 | 65,530,691 |



| | Note | 2010 (Rupees in '000) | 2009 |
|---|------|--------------------------|---------------|
| Net cash flow from operating activities (Balance brought forward) | | 30,127,758 | 65,530,691 |
| Cash Flow From Investing Activities | | | |
| Net investments in available for sale securities | | 46,026,404 | (63,380,069) |
| Net investments in held to maturity securities | | (73,004,255) | 1,014,996 |
| Proceeds from closure of subsidiary | | 27,972 | – |
| Net investment in associates | | 148,507 | (23,506) |
| Dividend received | | 154,736 | 38,315 |
| Investments in operating fixed assets | | (1,347,434) | (992,571) |
| Sale proceeds of operating fixed assets | | 55,293 | 42,049 |
| Net cash used in investing activities | | (27,938,777) | (63,300,786) |
| Cash Flow From Financing Activities | | | |
| (Payments) / receipts of sub-ordinated loans | | (2,740) | 1,998,060 |
| Payments of lease obligations | | (1,247) | (342,294) |
| Dividend paid | | (1,199,908) | (589,597) |
| Net cash (used in) / from financing activities | | (1,203,895) | 1,066,169 |
| Exchange adjustment on translation of net investment in foreign operations | | (13,518) | 35,013 |
| Increase in cash and cash equivalents | | 971,568 | 3,331,087 |
| Cash and cash equivalents at the beginning of the year | | 18,945,605 | 15,614,518 |
| Cash and cash equivalents at the end of the year | 35 | 19,917,173 | 18,945,605 |

The annexed notes form an integral part of these consolidated financial statements.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

SYED MAZHAR ABBAS
Director

ANWAR HAJI KARIM
Director



Notes to the Consolidated Financial Statements For the year ended 31 December 2010

1. STATUS AND NATURE OF BUSINESS

1.1 The Group comprises of:

Holding company

- Bank AL Habib Limited (the Bank)

Subsidiary companies

- AL Habib Capital Markets (Private) Limited
 - AL Habib Financial Services Limited (also see note 1.4)
- 1.2 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 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 277 branches (2009: 255 branches), 25 sub-branches (2009: NIL) and one representative office (2009: NIL). The branch network of the Bank includes a wholesale branch in the Kingdom of Bahrain (2009:01), a branch in Karachi Export Processing Zone (2009:01) and 08 Islamic Banking branches (2009: 06).
- 1.3 The Bank has invested in 66.67% shares of AL Habib Capital Markets (Private) Limited. The company was incorporated in Pakistan on 23 August 2005 as a private limited company under the Companies Ordinance, 1984. The company is a corporate member of the Karachi Stock Exchange (Guarantee) Limited and is engaged in equity, money market and foreign exchange brokerage services, equity research, corporate financial advisory and consultancy services.
- 1.4 During the year, the Bank has completed the process of closure of AL Habib Financial Services Limited (the subsidiary) and consequently, the subsidiary ceased to exist as a legal entity effective 28 December 2010. The income and expenses of AL Habib Financial Services Limited are consolidated till the date of the closure as mentioned above (also see note 31.1).

2. BASIS OF PRESENTATION

- 2.1 These consolidated financial statements have been prepared in conformity with the format of financial statements prescribed by the State Bank of Pakistan (SBP) vide BSD Circular No. 04, dated 17 February 2006. Further, with effect from the current year, "Balance Sheet" has been renamed as "Statement of financial position" keeping in view the requirement of BSD Circular letter No. 7 of 2010 dated April 20, 2010 issued by the SBP.
- 2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing includes purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchase and resale arising under these arrangements are not reflected in these consolidated financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon. However, murabaha financing arrangements undertaken by the Islamic Banking branches are accounted for as a purchase and sale transaction of the underlying goods in these consolidated financial statements in accordance with the accounting policies of the Group.



- 2.3 The financial results of the Islamic Banking branches have been consolidated in these consolidated financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial information of the Islamic Banking branches is disclosed in note 46.

3. STATEMENT OF COMPLIANCE

- 3.1 These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and regulations / directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the SBP. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or regulations / directives issued by the SECP and the SBP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said regulations / directives shall prevail.
- 3.2 The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for banking companies till further instructions. Further, according to the notification of SECP dated 28 April 2008, IFRS - 7 "Financial Instruments: Disclosure" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements.

4. BASIS OF MEASUREMENT

These consolidated financial statements have been prepared under the historical cost convention except for the land and buildings, certain investments and derivative financial instruments which are revalued as referred to in notes 5.5, 5.7 and 5.15 below.

5. SIGNIFICANT ACCOUNTING POLICIES

- 5.1 The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and related interpretations and improvements which became effective during the year:

IFRS 2 - Share based Payments: Amendments relating to Group Cash-settled Share based Payment Transactions

IFRS 3 - Business Combinations (Revised)

IAS 27 - Consolidated and Separate Financial Statements (Amendment)

IFRIC 17 - Distributions of Non-cash Assets to Owners

In May 2008 and April 2009, the IASB issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wordings. These improvements are listed below:

Issued in May 2008

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations



Issued in April 2009

IFRS 2 – Share-based Payments
IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations
IFRS 8 – Operating Segments
IAS 1 – Presentation of Financial Statements
IAS 7 – Statement of Cash Flows
IAS 17 – Leases
IAS 36 – Impairment of Assets
IAS 38 – Intangible Assets
IFRIC 9 – Reassessment of Embedded Derivatives
IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

The adoption of the above standards, amendments / improvements and interpretations did not have any effect on these consolidated financial statements.

5.2 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 subsidiaries 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 subsidiaries are combined on a line by line basis by adding together like items of assets, liabilities, income and expenses. Significant intercompany transactions have been eliminated.

5.3 Cash and cash equivalents

These include cash and balances with treasury banks and balances with other banks less overdrawn nostro accounts.

5.4 Repurchase / resale agreements

The Group enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase obligation

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repo agreement.

Purchase under resale obligation

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. Amounts paid under these arrangements are included in reverse repurchase agreement lendings. The difference between purchase and resale price is accrued as income over the term of the reverse repo agreement.

5.5 Investments

Investments (other than associates) are classified 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 or are securities included in a portfolio in which a pattern of short-term trading exists.

Held to maturity

These are investments with fixed or determinable payments and fixed maturities which the Group has the intention and ability to hold till maturity.

Available for sale

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

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the Group commits to purchase or sell the investments.

Investments (other than held for trading) are initially measured at fair value plus transaction cost associated with the investment. Investments classified as held for trading are initially measured at fair value, and transaction costs are expensed in the profit and loss account.

After initial recognition, quoted securities, other than those classified as held to maturity, are carried at market value. Unquoted securities are valued at cost less impairment in value, if any. Held to maturity securities are carried at amortised cost.

Surplus / (deficit) arising on revaluation of quoted securities which are classified as available for sale investments is taken to a separate account which is shown in the statement of financial position below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realised upon disposal. The unrealised surplus / (deficit) arising on revaluation of quoted securities which are classified as held for trading is taken to the profit and loss account.

Provision for diminution in the values of securities is made after considering impairment, if any, in their value and charged to profit and loss account. Provision for impairment against debt securities is made as per the aging criteria prescribed by the Prudential Regulations of the SBP and in case of unquoted equity securities on the basis of book value of net assets.

Premium or discount on debt securities classified as available for sale and held to maturity is amortised using effective interest method and taken to the profit and loss account.

Investment in associates

Investment in associates are accounted for by using equity method of accounting.

5.6 Advances

Loans and advances

These are stated net of provisions for non-performing advances. Provision for non-performing advances is determined keeping in view the requirements of the Prudential Regulations and is charged to the profit and loss account. The Group also maintains general provision in addition to the requirements of the Prudential Regulations on the basis of the management's assessment. Advances are written off when there are no realistic prospects of recovery.



Finance lease receivables

Leases where the Group transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable is recognised at an amount equal to the present value of the lease payments including any guaranteed residual value.

Ijarah finance

In accordance with the requirements of IFAS 2 'Ijarah', assets leased out under ijarah arrangements on or after 01 January 2009 are stated at cost less depreciation and impairment, if any and included under "advances". Such assets are depreciated over the terms of Ijarah contracts. Ijarah arrangements executed before the above referred date are accounted for as finance lease.

Murabaha

Funds disbursed under murabaha arrangements for purchase of goods are recorded as advance for murabaha. On culmination of murabaha i.e. sale of goods to customers, murabaha receivables are recorded at the sale price net of deferred income. Goods purchased but remaining unsold and advances against purchase of goods at the reporting date are recorded as inventories and other assets respectively.

5.7 Operating fixed assets

Tangible operating assets - owned

Land is measured at cost at the time of initial recognition and is subsequently carried at revalued amount. Buildings are initially measured at cost and upon revaluation, are carried at revalued amount less accumulated depreciation and impairment, if any. All other operating fixed assets are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged to profit and loss account on straight line basis so as to charge the assets over their expected useful lives at the rates specified in note 13.2. The depreciation charge is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed annually and adjusted, if appropriate. Depreciation is charged on prorata basis, i.e., full month charge in the month of purchase and no charge in the month of disposal.

Land and buildings are revalued by independent professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. The surplus arising on revaluation of fixed assets is credited to the "surplus on revaluation of assets" account shown below equity. The Bank has adopted the following accounting treatment of depreciation on revalued assets, keeping in view the requirements of the Companies Ordinance, 1984 and SECP's SRO 45(1)/2003 dated 13 January 2003:

- depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year is taken to the profit and loss account; and
- an amount equal to incremental depreciation for the year net of deferred taxation is transferred from surplus on revaluation of assets to unappropriated profit through statement of changes in equity to record realisation of surplus to the extent of the incremental depreciation charge for the year.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.



Gains and losses on disposal of fixed assets are included in income currently.

Tangible operating assets - leased

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. 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

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and impairment, if any. Amortisation is based on straight line method by taking into consideration the estimated useful life of assets at the rates specified in note 13.3. Intangible assets are amortised on prorata basis i.e. full month amortisation in the month of purchase and no amortisation in the month of disposal. Intangible assets with indefinite useful lives are not amortised instead they are systematically tested for impairment annually.

Capital work in progress

Capital work in progress is stated at cost less impairment, if any.

Impairment

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the fixed assets are written down to their recoverable amounts.

The resulting impairment loss is taken to profit and loss account except for impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of assets.

5.8 Employees' benefits

Defined benefit plan

The Bank operates an approved gratuity fund for all its confirmed employees, which is administered by the Trustees. The Bank's costs and contributions are determined based on actuarial valuation carried out at each year end using Projected Unit Credit Actuarial Method. Net cumulative unrecognised actuarial gains / losses relating to previous reporting periods in excess of the higher of 10% of present value of defined benefit obligation or 10% of the fair value of plan assets are recognised as income or expense over the estimated remaining working lives of the employees.

Defined contribution plan

The Bank operates an approved provident fund scheme for all its regular permanent employees, administered by the 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.

AL Habib Capital Markets (Private) Limited operates an approved provident fund scheme for its confirmed employees. Contributions are made by the company and the employees at the rate 10% of the basic salary in accordance with the terms of the scheme.



Compensated absences

Employees' entitlement to annual leave is recognised 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 un-availed leaves upto the reporting date.

5.9 Provisions against liabilities

These are recognised when the Group 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 reporting date and are adjusted to reflect the current best estimate.

5.10 Provisions against off-balance sheet obligations

The Group, in the ordinary course of business, issues letters of credit, acceptances, guarantees, bid bonds, performance bonds etc. The commission against such contracts is recognised in the profit and loss account under "fees, commission and brokerage income" over the period of contracts. The Group's liability under such contracts is measured at the higher of the amount representing unearned commission income at the reporting date and the best estimate of the amount expected to settle any financial obligation arising under such contracts.

5.11 Revenue recognition

Mark-up / interest / return on advances and investments is recognised on accrual basis, except in case of advances classified under the Prudential Regulations on which mark-up is recognised on receipt basis. Interest/return/markup on rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of the State Bank of Pakistan.

Financing method is used in accounting for income from lease financing. Under this method, the unrealised lease income is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gain / loss on termination of lease contracts, front end fee and other lease income are recognised as income on receipt basis.

The rentals from ijarah are recognised as income over the term of the contract net of depreciation expense relating to the ijarah assets.

Income from murabaha is accounted for on a time proportionate basis over the period of murabaha transaction.

Dividend income is recognised when the right to receive is established.

Gain or loss on sale of investments are recognised in profit and loss account in the year in which they arise.

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

5.12 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss account except to the extent that it relates to the items recognised directly in equity or surplus on revaluation of assets, in which case it is recognised in equity or surplus on revaluation of assets.



Current

Provision for current tax is based on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date and any adjustments to the tax payable in respect of previous years.

Deferred

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

The carrying amount of deferred income tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable temporary differences will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

5.13 Foreign currencies

Functional and presentation currency

These financial statements are presented in Pak Rupees which is the Group's functional currency and presentation currency.

Foreign currencies transactions

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

Foreign operations

The assets and liabilities of foreign operations are translated to Pak Rupees at exchange rates prevailing at the reporting date. The income and expense of foreign operations are translated at average rate of exchange for the year. Exchange gain or loss on such translation is taken to equity under "foreign currency translation reserve".

5.14 Financial instruments

Financial assets and financial liabilities are recognised at the time when the Group becomes a party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are de-recognised when obligation is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognised in the profit and loss account of the current period.



5.15 **Derivative financial instruments**

Derivative financial instruments are initially recognised at their fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivative financial instruments are carried as asset when fair value is positive and liabilities when fair value is negative. Any change in the value of derivative financial instruments is taken to the profit and loss account.

5.16 **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 recognised amount and the Group intends either to settle on a net basis, or to realise 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.

5.17 **Dividends and appropriations to reserves**

Dividends and appropriations to reserves are recorded in the year in which these are approved, except appropriations required by the law which are recorded in the period to which they pertain.

5.18 **Segment reporting**

A segment is a distinguishable component of the Group that is engaged in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments. The segment reporting format has been determined and prepared in conformity with the format of financial statements and guidelines, prescribed by the SBP vide BSD Circular No.04, dated, 17 February 2006. The Group's primary format of reporting is based on business segments.

Business segments

Retail banking

It consists of retail lending, deposits and banking services to private individuals and small businesses. The retail banking activities include provision of banking and other financial services, such as current and savings accounts, credit cards, consumer banking products etc to individual customers, small merchants and SMEs.

Commercial banking

Commercial banking represents provision of banking services including treasury and international trade related activities to large corporate customers, multinational companies, government and semi government departments and institutions and SMEs treated as corporate under the Prudential Regulations.

Retail brokerage

Retail brokerage activities include the business of equity, money market and foreign exchange brokerage, equity research and corporate financial advisory and consultancy services.

Geographical segments

The Group operates in two geographic regions, being:

- Pakistan
- Middle East



5.19 Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period / year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no convertible dilutive potential ordinary shares in issue at 31 December 2010.

6. ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements requires management to make judgments, 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 result of which forms the basis of making judgment 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. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in period of revision and future periods if the revision affects both current and future periods. The estimates and judgments that have a significant effect on the financial statements are in respect of the following:

| | Note |
|--|-----------|
| Classification of investments and provision for diminution in the value of investments | 5.5 & 11 |
| Provision against non-performing advances | 5.6 & 12 |
| Useful lives of assets and methods of depreciation | 5.7 & 13 |
| Defined benefit plan | 5.8 & 37 |
| Provisions against off-balance sheet obligations | 5.10 & 31 |
| Current and deferred taxation | 5.12 & 20 |

7. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards, interpretations and amendments with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard, interpretation or amendment:

| Standard, interpretation or amendment | Effective date (accounting periods beginning on or after) |
|--|--|
| IAS 32 - Financial Instruments: Presentation - Classification of Right Issues (Amendment) | 01 February 2010 |
| IAS 24 - Related Party Disclosures (Revised) | 01 January 2011 |
| IAS 12 - Income Taxes: Deferred Tax Amendment - Recognition of Underlying Assets | 01 January 2012 |
| IFRIC 14 - IAS 19 – The Limit on Defined Benefit Assets, Minimum Funding Requirements and their Interaction (Amendments) | 01 January 2011 |
| IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments | 01 July 2010 |



The Group expects that the adoption of the above revisions, interpretations and amendments of the standards will not materially affect the Group's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2011. The Group expects that such improvements to the standards will not have any material impact on the Group's financial statements in the period of initial application.

| | Note | 2010 (Rupees in '000) | 2009 |
|---|------|--------------------------|------------|
| 8. CASH AND BALANCES WITH TREASURY BANKS | | | |
| In hand | | | |
| Local currency | | 3,049,032 | 2,746,962 |
| Foreign currencies | | 624,203 | 564,690 |
| National prize bonds | | 16,952 | 19,200 |
| | | 3,690,187 | 3,330,852 |
| In transit – foreign currency | | 77,073 | 32,770 |
| With State Bank of Pakistan in: | | | |
| Local currency current accounts | 8.1 | 8,459,338 | 5,966,761 |
| Local currency current account-Islamic Banking | 8.2 | 222,006 | 170,824 |
| Foreign currency deposit account | | | |
| Cash reserve account | 8.3 | 1,370,187 | 981,415 |
| Cash reserve account-Islamic Banking | | 2,826 | 2,780 |
| Special cash reserve account | 8.3 | 4,110,562 | 2,944,244 |
| Local US Dollar collection account | 8.4 | 19,993 | 15,374 |
| | | 14,184,912 | 10,081,398 |
| With National Bank of Pakistan in: | | | |
| Local currency current accounts | | 1,048,818 | 932,606 |
| | | 19,000,990 | 14,377,626 |

8.1 Represent statutory cash reserve maintained under Section 36 of the State Bank of Pakistan Act, 1956.

8.2 Represents statutory cash reserve maintained by the Islamic Banking branch in accordance with BPD Circular No. 01 of 2003.

8.3 Represent cash reserves maintained against foreign currency deposits mobilised under Circular FE-25 of 1998.

8.4 Represents US Dollar collection account opened with the SBP in accordance with Circular FE-02 of 2004.



| | Note | 2010 | 2009 |
|-------------------------------------|------|------------------|-----------|
| (Rupees in '000) | | | |
| 9. BALANCES WITH OTHER BANKS | | | |
| In Pakistan | | | |
| Current accounts | | 597,023 | 297,453 |
| Deposit account | | – | 2,500 |
| Savings accounts | 9.1 | 160,098 | 120,155 |
| | | 757,121 | 420,108 |
| Outside Pakistan | | | |
| Current accounts | | 544,673 | 335,602 |
| Deposit accounts | 9.2 | 831,012 | 3,886,400 |
| | | 1,375,685 | 4,222,002 |
| | | 2,132,806 | 4,642,110 |

9.1 These carry expected profit rates ranging from 5.00% to 8.00% (2009: 5.00% to 8.00%) per annum.

9.2 These carry interest rates upto 0.13% (2009: upto 1.00%) per annum.

10. LENDINGS TO FINANCIAL INSTITUTIONS

| | | | |
|--|------|-----------|---|
| In local currency | | | |
| Repurchase agreement lendings (Reverse Repo) | 10.1 | 1,139,268 | – |

10.1 These carry markup at rates ranging from 12.75% to 12.85% per annum (2009: NIL) and have maturity periods upto one month.

10.2 Securities held as collateral against lendings to financial institutions

| | Note | 2010 | | | 2009 | | |
|---------------------------|--------|------------------|-----------------------------|------------------|--------------|-----------------------------|-------|
| | | Held by Bank | Further given as collateral | Total | Held by Bank | Further given as collateral | Total |
| (Rupees in '000) | | | | | | | |
| Market Treasury Bills | 10.2.1 | 297,158 | – | 297,158 | – | – | – |
| Pakistan Investment Bonds | 10.2.2 | 842,110 | – | 842,110 | – | – | – |
| | | 1,139,268 | – | 1,139,268 | – | – | – |

10.2.1 The market value of securities held as collateral against lendings to financial institutions amounted to Rs. 299.791 (2009: Rs. NIL) million.

10.2.2 The market value of securities held as collateral against lendings to financial institutions amounted to Rs. 997.208 (2009: Rs. NIL) million.



11. INVESTMENTS

| | Note | 2010 | | | 2009 | | |
|--|-------|------------------|---------------------|-------------|--------------|---------------------|-------------|
| | | Held by Bank | Given as collateral | Total | Held by Bank | Given as collateral | Total |
| 11.1 Investments by type | | (Rupees in '000) | | | | | |
| Available for sale securities | 11.5 | | | | | | |
| Market Treasury Bills | | 33,472,250 | 1,284,437 | 34,756,687 | 65,526,602 | 17,262,898 | 82,789,500 |
| Pakistan Investment Bonds | | 12,027,781 | - | 12,027,781 | 10,528,090 | - | 10,528,090 |
| Foreign Currency Bonds | | 792,247 | - | 792,247 | 334,161 | - | 334,161 |
| Sukuks | | 6,044,979 | - | 6,044,979 | 5,890,099 | - | 5,890,099 |
| Ordinary shares of listed companies and closed end mutual funds | | 30,832 | - | 30,832 | 176,840 | - | 176,840 |
| Ordinary shares of unlisted companies | | 39,570 | - | 39,570 | 42,021 | - | 42,021 |
| Listed term finance certificates | | 650,441 | - | 650,441 | 689,891 | - | 689,891 |
| Unlisted term finance certificates | | 5,801,565 | - | 5,801,565 | 5,801,605 | - | 5,801,605 |
| Open ended mutual funds | | 1,125,000 | - | 1,125,000 | 975,000 | - | 975,000 |
| | | 59,984,665 | 1,284,437 | 61,269,102 | 89,964,309 | 17,262,898 | 107,227,207 |
| Held to maturity securities | 11.2 | | | | | | |
| Market Treasury Bills | | 70,866,979 | - | 70,866,979 | - | - | - |
| Pakistan Investment Bonds | | 3,897,385 | - | 3,897,385 | 1,534,695 | - | 1,534,695 |
| Sukuks | | 275,000 | - | 275,000 | 446,134 | - | 446,134 |
| Listed term finance certificates | | 394,208 | - | 394,208 | 406,821 | - | 406,821 |
| Unlisted term finance certificates | | 208,333 | - | 208,333 | 250,000 | - | 250,000 |
| | | 75,641,905 | - | 75,641,905 | 2,637,650 | - | 2,637,650 |
| Associates | 11.12 | | | | | | |
| Habib Sugar Mills Limited | | 235,398 | - | 235,398 | 210,573 | - | 210,573 |
| Habib Asset Management Limited | | 33,747 | - | 33,747 | 33,500 | - | 33,500 |
| First Habib Income Fund | | 592,266 | - | 592,266 | 771,680 | - | 771,680 |
| First Habib Stock Fund | | 55,270 | - | 55,270 | 49,435 | - | 49,435 |
| | | 916,681 | - | 916,681 | 1,065,188 | - | 1,065,188 |
| Investments at cost | | 136,543,251 | 1,284,437 | 137,827,688 | 93,667,147 | 17,262,898 | 110,930,045 |
| Provision for diminution in the value of investments | 11.4 | (6,609) | - | (6,609) | (90,704) | - | (90,704) |
| Investments (net of provisions) | | 136,536,642 | 1,284,437 | 137,821,079 | 93,576,443 | 17,262,898 | 110,839,341 |
| (Deficit) / surplus on revaluation of available for sale investments - net | | (586,423) | - | (586,423) | 46,992 | 21,083 | 68,075 |
| Investments after revaluation of available for sale investments | | 135,950,219 | 1,284,437 | 137,234,656 | 93,623,435 | 17,283,981 | 110,907,416 |

11.2 The aggregate market value of held to maturity securities as at 31 December 2010 amounts to Rs. 75,411 (2009: 2,452) million.



| | Note | 2010 | 2009 |
|---|--------|--------------------|--------------------|
| (Rupees in '000) | | | |
| 11.3 Investments by segment | | | |
| <i>Federal Government Securities</i> | | | |
| Market Treasury Bills | 11.6 | 105,623,666 | 82,789,500 |
| Pakistan Investment Bonds | 11.7 | 15,925,166 | 12,062,785 |
| Foreign Currency Bonds | 11.10 | 451,538 | – |
| Sukuks | 11.8 | 3,100,000 | 3,829,489 |
| | | 125,100,370 | 98,681,774 |
| <i>Fully paid-up ordinary shares</i> | | | |
| Listed companies and closed end mutual funds | 11.5.5 | 30,832 | 176,840 |
| Unlisted companies | 11.11 | 39,570 | 42,021 |
| | | 70,402 | 218,861 |
| <i>Term finance certificates, sukuks and bonds</i> | | | |
| <i>Term Finance Certificates</i> | | | |
| Listed term finance certificates | | 1,044,649 | 1,096,712 |
| Unlisted term finance certificates | | 6,009,898 | 6,051,605 |
| | 11.9 | 7,054,547 | 7,148,317 |
| Sukuks | 11.8 | 3,219,979 | 2,506,744 |
| Foreign Currency Bonds | 11.10 | 340,709 | 334,161 |
| | | 10,615,235 | 9,989,222 |
| <i>Others</i> | | | |
| Open ended mutual funds | 11.5.9 | 1,125,000 | 975,000 |
| Associates | 11.12 | 916,681 | 1,065,188 |
| | | 2,041,681 | 2,040,188 |
| Investments at cost | | 137,827,688 | 110,930,045 |
| Provision for diminution in the value of investment | 11.4 | (6,609) | (90,704) |
| Investments - net of provisions | | 137,821,079 | 110,839,341 |
| (Deficit) / surplus on revaluation of available for sale investment - net | | (586,423) | 68,075 |
| Investment after revaluation of available for sale investments | | 137,234,656 | 110,907,416 |

11.4 Particular of provision for diminution in the value of investments

Available for sale investments:

| | | |
|--|--------------|---------------|
| Opening balance | 90,704 | 184,078 |
| Charge during the year | 155 | 2 |
| Adjustment of provision upon disposal of investments | (84,250) | (93,376) |
| Closing balance | 6,609 | 90,704 |



2010 **2009**
(Rupees in '000)

11.4.1 Particulars of provision in respect of type and segment

Available for sale investments:

| | | | |
|--|--------------|--------|--|
| Listed companies and closed end mutual funds | 909 | 85,004 | |
| Unlisted companies | 5,700 | 5,700 | |
| | 6,609 | 90,704 | |

11.5 Quality of available for sale securities

| <u>Name of security</u> | Face value | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
|----------------------------------|------------|------------------|---------|------------|------------|----------------|------------|
| | Rs. / USD | Rating | | Cost | | Carrying value | |
| | | (Rupees in '000) | | | | | |
| 11.5.1 Market Treasury Bills | - | Unrated | Unrated | 34,756,687 | 82,789,500 | 34,702,084 | 82,884,748 |
| 11.5.2 Pakistan Investment Bonds | - | Unrated | Unrated | 12,027,781 | 10,528,090 | 11,404,535 | 10,497,953 |
| 11.5.3 Foreign Currency Bonds | | | | | | | |
| Government of Pakistan Bonds | USD 100 | B- | - | 297,203 | - | 310,005 | - |
| Government of Pakistan Bonds | USD 100 | B- | - | 154,335 | - | 156,809 | - |
| Government of Sri Lanka Bonds | USD 100 | B+ | B | 340,709 | 334,161 | 370,207 | 355,381 |
| | | | | 792,247 | 334,161 | 837,021 | 355,381 |

11.5.4 Sukuks

| <u>2010</u> | <u>2009</u> | <u>Name of security</u> | Face value | 2010 | 2009 | 2010 | 2009 | | |
|---------------------|-------------|-------------------------------------|------------|---------|---------|-----------|-----------|----------------|-----------|
| No. of certificates | | | | Rating | | Cost | | Carrying value | |
| | | Dar Al Arkan International Sukuk | | | | | | | |
| 20,000 | 20,000 | Company | USD 100 | A - | A - | 171,273 | 168,483 | 146,439 | 147,423 |
| 170,000 | 170,000 | Engro Foods Limited | Rs.5,000 | A - | A- | 850,000 | 850,000 | 850,000 | 850,000 |
| 1,000 | 1,000 | Government of Pakistan Ijarah Sukuk | Rs.100,000 | Unrated | Unrated | 100,000 | 100,000 | 101,620 | 100,992 |
| 30,000 | 30,000 | Government of Pakistan Ijarah Sukuk | Rs.100,000 | Unrated | Unrated | 3,000,000 | 3,000,000 | 3,058,200 | 3,000,000 |
| - | 36,990 | Government of Pakistan Sukuk | USD 100 | - | CCC+ | - | 308,355 | - | 309,392 |
| 1,013,706 | 513,261 | Liberty Power Tech Limited | Rs.1,000 | AA - | AA- | 1,013,706 | 513,261 | 1,013,706 | 513,261 |
| 40,000 | 40,000 | Sui Southern Gas Company Limited | Rs.5,000 | AA | AA- | 160,000 | 200,000 | 160,000 | 194,274 |
| 150,000 | 150,000 | WAPDA Second Sukuk Company Limited | Rs.5,000 | Unrated | Unrated | 750,000 | 750,000 | 750,000 | 706,199 |
| | | | | | | 6,044,979 | 5,890,099 | 6,079,965 | 5,821,541 |



11.5.5 Ordinary shares of listed companies and closed end mutual funds

| 2010 | 2009 | Name of security | Face value | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
|------------------------------|-----------|--|------------|---------|---------|--------|---------|----------------|---------|
| No. of shares / certificates | | | Rs. / USD | Rating | | Cost | | Carrying value | |
| (Rupees in '000) | | | | | | | | | |
| 32,686 | 32,686 | Arif Habib Securities Limited | Rs.10 | - | Unrated | 1,477 | 1,477 | 813 | 1,610 |
| - | 11,250 | Bank Alfalah Limited | Rs.10 | - | AA | - | 180 | - | 155 |
| - | 201,595 | Cherat Cement Company Limited | Rs.10 | - | Unrated | - | 15,938 | - | 2,530 |
| - | 1,653 | D. S. Industries Limited | Rs.10 | - | Unrated | - | 21 | - | 6 |
| - | 150,395 | Engro Fertilizers Limited(formerly Engro Chemicals Pakistan Limited) | Rs.10 | - | AA | - | 28,202 | - | 27,550 |
| 9,806 | - | Fatima Fertilizers Company Limited | Rs.10 | A | - | - | - | 111 | - |
| - | 57 | Habib Bank Limited | Rs.10 | - | AA+ | - | 4 | - | 7 |
| 888,980 | 500 | Habib Metropolitan Bank Limited | Rs.10 | AA+ | AA+ | 19,871 | 15 | 25,772 | 16 |
| 52,862 | 44,052 | International Industries Limited | Rs.10 | Unrated | Unrated | 357 | 357 | 3,164 | 2,585 |
| 5,061 | 5,061 | Jahangir Siddiqui & Company Limited | Rs.10 | AA | AA+ | 284 | 284 | 55 | 152 |
| 532 | 532 | JS Investments Limited | Rs.10 | AM 2- | A+ | 22 | 21 | 4 | 8 |
| - | 1,431 | MCB Bank Limited | Rs.10 | - | AA+ | - | 224 | - | 314 |
| - | 147,000 | National Bank of Pakistan | Rs.10 | - | AAA | - | 10,731 | - | 10,932 |
| - | 86,500 | Oil & Gas Development Company Limited | Rs.10 | - | AAA | - | 6,400 | - | 9,561 |
| - | 86,900 | Packages Limited | Rs.10 | - | AA | - | 22,065 | - | 12,514 |
| - | 1,066,000 | Pakistan Capital Protected Fund-I | Rs.10 | - | Unrated | - | 10,000 | - | 9,775 |
| - | 4,000 | Pakistan Oil Fields Limited | Rs.10 | - | Unrated | - | 441 | - | 923 |
| - | 84,600 | Pakistan Petroleum Limited | Rs.10 | - | Unrated | - | 10,389 | - | 16,005 |
| 251,000 | 1,848,500 | The Hub Power Company Limited | Rs.10 | AA+ | AA+ | 8,821 | 70,091 | 9,390 | 57,723 |
| | | | | | | 30,832 | 176,840 | 39,309 | 152,366 |

11.5.6 Ordinary shares of unlisted companies

| 2010 | 2009 | Name of security | Face value | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
|------------------------------|-----------|--|------------|---------|---------|--------|--------|----------------|--------|
| No. of shares / certificates | | | Rs.10 | Rating | | Cost | | Carrying value | |
| 3,000,000 | 3,000,000 | Khushhali Bank Limited | Rs.10 | A - | A - | 30,000 | 30,000 | 30,000 | 30,000 |
| 569,958 | 569,958 | Pakistan Export Finance Guarantee Agency Limited | Rs.10 | Unrated | Unrated | 5,700 | 5,700 | - | - |
| 24 | 24 | S.W.I.F.T | - | Unrated | Unrated | 3,870 | 6,321 | 3,870 | 6,321 |
| | | | | | | 39,570 | 42,021 | 33,870 | 36,321 |

11.5.7 Listed term finance certificates

| 2010 | 2009 | Name of security | Face value | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
|---------------------|--------|---|------------|--------|------|---------|---------|----------------|---------|
| No. of certificates | | | Rs.5,000 | Rating | | Cost | | Carrying value | |
| 6,000 | 6,000 | Allied Bank Limited | Rs.5,000 | AA - | AA - | 29,952 | 29,964 | 29,902 | 29,028 |
| 33,800 | 33,800 | Allied Bank Limited - II | Rs.5,000 | AA - | AA - | 168,932 | 169,000 | 148,902 | 151,255 |
| 5,000 | 5,000 | Askari Bank Limited - II | Rs.5,000 | AA - | AA - | 24,950 | 24,960 | 24,950 | 23,990 |
| 40,000 | 40,000 | Engro Fertilizers Limited - III (formerly Engro Chemicals Pakistan Limited - III) | Rs.5,000 | AA | AA | 199,760 | 199,840 | 185,777 | 185,851 |
| 5,000 | 5,000 | Jahangir Siddiqui & Company Ltd - IV | Rs.5,000 | AA | AA + | 24,960 | 24,970 | 24,960 | 25,574 |
| 6,600 | 6,600 | NIB Bank Limited | Rs.5,000 | A+ | A + | 32,967 | 32,980 | 32,472 | 30,268 |
| 20,000 | 20,000 | Orix Leasing Pakistan Limited - III | Rs.5,000 | AA + | AA + | 49,960 | 83,267 | 49,461 | 83,619 |
| 20,000 | 20,000 | Pak Arab Fertilizers Limited | Rs.5,000 | AA | A | 94,000 | 99,940 | 92,590 | 93,841 |
| 5,000 | 5,000 | United Bank Limited - III | Rs.5,000 | AA | AA- | 24,960 | 24,970 | 24,951 | 24,656 |
| | | | | | | 650,441 | 689,891 | 613,965 | 648,082 |

11.5.8 Unlisted term finance certificates

| 2010 | 2009 | Name of security | Face value | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
|---------------------|---------|------------------------------------|------------|---------|---------|-----------|-----------|----------------|-----------|
| No. of certificates | | | Rs.5,000 | Rating | | Cost | | Carrying value | |
| 587,521 | 587,521 | Power Holding Private Limited - II | Rs.5,000 | Unrated | Unrated | 2,937,605 | 2,937,605 | 2,937,605 | 2,937,605 |
| 552,800 | 552,800 | Power Holding Private Limited | Rs.5,000 | Unrated | Unrated | 2,764,000 | 2,764,000 | 2,764,000 | 2,764,000 |
| 20,000 | 20,000 | Bank Al Falah Limited - IV | Rs.5,000 | AA - | AA- | 99,960 | 100,000 | 99,960 | 100,000 |
| | | | | | | 5,801,565 | 5,801,605 | 5,801,565 | 5,801,605 |



11.5.9 Open ended mutual funds

| 2010 | 2009 | Name of security | Face value | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
|------------------|------------|--|------------|--------|--------|------------|-------------|----------------|-------------|
| No. of Units | | | Rs. / USD | Rating | | Cost | | Carrying value | |
| (Rupees in '000) | | | | | | | | | |
| 5,000,000 | - | ABL Cash Fund | Rs.10 | AA+ | - | 50,000 | - | 50,030 | - |
| 97,084 | - | Atlas Money Market Fund | Rs.500 | AA+ | - | 50,000 | - | 50,047 | - |
| 2,500,000 | 2,503,938 | BMA Empress Cash Fund | Rs.10 | AA+ | AA+ | 25,000 | 25,000 | 26,437 | 25,363 |
| 505,191 | - | HBL Money Market Fund | Rs.100 | AA+ | - | 50,000 | - | 51,995 | - |
| 500,000 | - | IGI Money Market Fund | Rs.100 | AA+ | - | 50,000 | - | 50,307 | - |
| - | 2,500,000 | MCB Cash Management Optimizer Fund | Rs.100 | - | AM 3+ | - | 250,000 | - | 256,647 |
| - | 1,910,220 | Meezan Cash Fund | Rs.50 | - | AA | - | 100,000 | - | 100,210 |
| 4,853,756 | 10,000,000 | NAFA Government Securities Liquid Fund | Rs.10 | AAA | AA+ | 50,000 | 125,000 | 50,049 | 127,963 |
| - | 7,194,245 | National Investment Trust Limited | Rs.10 | - | AM2 | - | 200,000 | - | 219,065 |
| 59,181,134 | 10,000,000 | NIT Government Bond Fund | Rs.10 | AM 2 | 3-Star | 600,000 | 100,000 | 622,562 | 101,301 |
| 20,000,000 | - | NIT Income Fund | Rs.10 | AM 2 | - | 200,000 | - | 211,160 | - |
| 504,927 | - | Pak Oman Advantage Islamic Income Fund | Rs.50 | A+ | - | 25,000 | - | 26,034 | - |
| - | 1,977,758 | Pakistan Cash Management Fund | Rs.50 | - | AAA | - | 100,000 | - | 99,428 |
| 250,000 | - | PICIC Cash Fund | Rs.100 | AA+ | - | 25,000 | - | 25,135 | - |
| - | 500,000 | UBL Liquidity Plus Fund | Rs.100 | - | AA+ | - | 75,000 | - | 76,603 |
| | | | | | | 1,125,000 | 975,000 | 1,163,756 | 1,006,580 |
| | | | | | | 61,269,102 | 107,277,207 | 60,676,070 | 107,204,577 |

11.6 Market Treasury Bills

These securities have a maturity period of six months to one year (2009: six months to one year), with yield ranging between 11.96% to 12.46% (2009: 11.35% to 14.25%) per annum.

11.7 Pakistan Investment Bonds

These securities have a maturity period of 3, 5 and 10 years (2009: 3, 5 and 10 years) with interest rates ranging between 9.30% to 13.00% (2009: 9.00% to 14.00%) per annum. These include securities costing Rs. 5 (2009: Rs. 5) million pledged with the Controller of Military Accounts, Karachi as a security deposit for extending banking facilities on account of regimental funds vis-a-vis private fund accounts.

11.8 Sukuks

| 2010 | 2009 | Redeemable value per certificate | Maturity Date | Name of Security | Rate | 2010 | 2009 |
|--------------------------|---------|----------------------------------|---------------|--|-------------------------------------|------------------|-----------|
| No of certificates | | Rupees | | | | (Rupees in '000) | |
| Available of Sale | | | | | | | |
| 20,000 | 20,000 | 8,564 | Jul-12 | Dar Al Arkan International Sukuk Company | 3 months' LIBOR plus 225 bps | 171,273 | 168,483 |
| 170,000 | 170,000 | 5,000 | Jan-17 | Engro Foods Limited | 6 months' KIBOR plus 69 bps | 850,000 | 850,000 |
| 1,000 | 1,000 | 100,000 | Sep-11 | Government of Pakistan Ijarah Sukuk | 6 months T-Bills plus 45 bps | 100,000 | 100,000 |
| 30,000 | 30,000 | 100,000 | Mar-12 | Government of Pakistan Ijarah Sukuk | Weighted avg. 6 months T-Bills rate | 3,000,000 | 3,000,000 |
| - | 36,990 | 8,336 | Jan-10 | Government of Pakistan Sukuk | 6 months' LIBOR plus 220 bps | - | 308,355 |
| 1,013,706 | 513,261 | 1,000 | Mar-21 | Liberty Power Tech Limited | 3 months' KIBOR plus 300 bps | 1,013,706 | 513,261 |
| 40,000 | 40,000 | 4,000 | Dec-12 | Sui Southern Gas Company Limited | 3 months' KIBOR plus 20 bps | 160,000 | 200,000 |
| 150,000 | 150,000 | 5,000 | Jul-17 | WAPDA Second Sukuk Company Limited | 6 months' KIBOR less 25 bps | 750,000 | 750,000 |
| | | | | | | 6,044,979 | 5,890,099 |
| Held to maturity | | | | | | | |
| 5,000 | 5,000 | 5,000 | Oct-12 | WAPDA First Sukuk Company Limited | 6 months' KIBOR plus 35 bps | 25,000 | 25,000 |
| - | 50,000 | 8,423 | Jan-10 | Government of Pakistan Sukuk | 6 months' LIBOR plus 220 bps | - | 421,134 |
| 250,000 | - | 1,000 | Mar-21 | Liberty Power Tech Limited | 3 months' KIBOR plus 300 bps | 250,000 | - |
| | | | | | | 275,000 | 446,134 |
| | | | | | | 6,319,979 | 6,336,233 |



11.8.1 Sukuks are redeemable semi-annually.

11.8.2 These Sukuks have face value of Rs. 5,000 per certificate except for Dar Al Arkan International Sukuk Company and Government of Pakistan Sukuks which have face value of US \$ 100 per certificate, Liberty Power Tech Limited which has face value of Rs. 1,000 per certificate and Government of Pakistan Ijarah Sukuk which have face value of Rs. 100,000 per certificate.

11.9 Term Finance Certificates

| 2010 | 2009 | Redeemable value per certificate | Maturity Date | Name of Security | Rate | 2010 | 2009 |
|--------------------------------------|---------|----------------------------------|---------------|---|------------------------------|------------------|-----------|
| No of certificates | | Rupees | | | | (Rupees in '000) | |
| Listed - Available for sale | | | | | | | |
| 6,000 | 6,000 | 4,992 | Dec-14 | Allied Bank Limited * | 6 months' KIBOR plus 190 bps | 29,952 | 29,964 |
| 33,800 | 33,800 | 4,998 | Aug-19 | Allied Bank Limited - II * | 6 months' KIBOR plus 85 bps | 168,932 | 169,000 |
| 5,000 | 5,000 | 4,990 | Oct-13 | Askari Bank Limited - II * | 6 months' KIBOR plus 150 bps | 24,950 | 24,960 |
| 40,000 | 40,000 | 4,994 | Nov-15 | Engro Fertilizers Limited - III (formerly Engro Chemicals Pakistan Limited - III) | 6 months' KIBOR plus 155 bps | 199,760 | 199,840 |
| 5,000 | 5,000 | 4,992 | May-12 | Jahangir Siddiqui & Company Limited - IV | 6 months' KIBOR plus 250 bps | 24,960 | 24,970 |
| 6,600 | 6,600 | 4,995 | Mar-16 | NIB Bank Limited * | 6 months' KIBOR plus 115 bps | 32,967 | 32,980 |
| 20,000 | 20,000 | 2,498 | May-12 | Orix Leasing Pakistan Limited - III | 6 months' KIBOR plus 150 bps | 49,960 | 83,267 |
| 20,000 | 20,000 | 4,700 | Feb-13 | Pak Arab Fertilizer Limited | 6 months' KIBOR plus 150 bps | 94,000 | 99,940 |
| 5,000 | 5,000 | 4,992 | Sep-14 | United Bank Limited - III * | 6 months' KIBOR plus 170 bps | 24,960 | 24,970 |
| | | | | | | 650,441 | 689,891 |
| Unlisted - Available for sale | | | | | | | |
| 20,000 | 20,000 | 4,998 | Dec-17 | Bank Alfalah Limited - IV * | 15.00% p.a. | 99,960 | 100,000 |
| 587,521 | 587,521 | 5,000 | Mar-14 | Power Holding (Private) Limited - II | 6 months' KIBOR plus 175 bps | 2,937,605 | 2,937,605 |
| 552,800 | 552,800 | 5,000 | Sep-14 | Power Holding (Private) Limited | 6 months' KIBOR plus 200 bps | 2,764,000 | 2,764,000 |
| | | | | | | 5,801,565 | 5,801,605 |
| Listed - Held to Maturity | | | | | | | |
| 20,000 | 20,000 | 4,989 | Feb-13 | Askari Bank Limited * | 6 months' KIBOR plus 150 bps | 99,780 | 99,820 |
| 17,400 | 17,400 | 4,998 | Aug-19 | Allied Bank Limited - II * | 6 months' KIBOR plus 85 bps | 86,965 | 87,000 |
| 15,000 | 15,000 | 4,988 | Nov-12 | Bank Al Falah Limited - II * | 6 months' KIBOR plus 150 bps | 74,827 | 74,856 |
| 9,000 | 9,000 | 3,743 | Feb-13 | Faysal Bank Limited (Formerly The Royal Bank of Scotland Limited) * | 6 months' KIBOR plus 190 bps | 33,687 | 44,919 |
| 5,000 | 5,000 | 4,989 | May-13 | Soneri Bank Limited* | 6 months' KIBOR plus 160 bps | 24,945 | 24,955 |
| 5,000 | 5,000 | 4,742 | Feb-13 | Standard Chartered Bank (Pakistan) Ltd. - III * | 6 months' KIBOR plus 200 bps | 23,710 | 24,965 |
| 1,070 | 1,070 | 4,989 | Aug-12 | United Bank Limited * | 8.45% p.a. | 5,338 | 5,340 |
| 4,000 | 4,000 | 4,999 | Mar-13 | United Bank Limited - II * | 9.49% p.a. | 19,996 | 19,996 |
| 5,000 | 5,000 | 4,992 | Sep-14 | United Bank Limited - III * | 6 months' KIBOR plus 170 bps | 24,960 | 24,970 |
| | | | | | | 394,208 | 406,821 |
| Unlisted - Held to Maturity | | | | | | | |
| 2,500 | 2,500 | 83,333 | Jan-13 | Orix Leasing Pakistan Limited - IV | 6 months' KIBOR plus 120 bps | 208,333 | 250,000 |
| | | | | | | 7,054,547 | 7,148,317 |



*These Term Finance Certificates are subordinated.

11.9.1 Term Finance Certificates are redeemable semi-annually.

11.9.2 These term finance certificates have face value of Rs. 5,000 per certificate except for Orix Leasing Pakistan Limited - IV, which have face value of Rs 100,000 per certificate.

11.10 Foreign Currency Bonds

| <u>2010</u> | <u>2009</u> | <u>Redeemable value per certificate</u> | <u>Maturity Date</u> | <u>Name of Security</u> | <u>Rate</u> | <u>2010</u> | <u>2009</u> |
|---|-------------|---|--------------------------|------------------------------|-------------|------------------|----------------|
| No of certificates of US \$ 100 each | | Rupees | | | | (Rupees in '000) | |
| Available for sale | | | | | | | |
| 40,000 | - | 7,430 | Jan-17 | Government of Pakistan Bonds | 6.875% p.a. | 297,203 | - |
| 20,000 | - | 7,717 | Mar-16 | Government of Pakistan Bonds | 7.125% p.a. | 154,335 | - |
| 40,000 | 40,000 | 8,518 | Oct-12 | Government of Srilanka Bonds | 8.250% p.a. | 340,709 | 334,161 |
| | | | | | | <u>792,247</u> | <u>334,161</u> |

11.10.1 Foreign Currency Bonds are redeemable semi-annually.

11.11 Ordinary shares of unlisted companies

| <u>2010</u> | <u>2009</u> | <u>Name of companies</u> | | |
|------------------------|-------------|--|---------------|---------------|
| No. of ordinary shares | | | | |
| 3,000,000 | 3,000,000 | Khushhali Bank Limited Par value per share: Rs. 10 Break-up value per share: Rs. 12.18 (2009: Rs. 11) based on audited financial statements for the year ended 31 December 2009 Chief Executive: Mr. Ghalib Nisthar | 30,000 | 30,000 |
| 569,958 | 569,958 | Pakistan Export Finance Guarantee Agency Limited Par value per share: Rs. 10 Break-up value per share: Rs. 1.16 (2009: Rs. 2.06) based on audited financial statements for the year ended 31 December 2009 Chief Executive: Mr. S. M. Zaem | 5,700 | 5,700 |
| 24 | 24 | Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T) Allocated shares based on the financial contribution from network based serviced by the Bank. | 3,870 | 6,321 |
| | | | <u>39,570</u> | <u>42,021</u> |



11.12 Associates

| <u>2010</u> | <u>2009</u> | <u>Name of companies</u> | Note | 2010 | 2009 |
|------------------------|-------------|---|---------|------------------|-----------|
| No. of ordinary shares | | | | (Rupees in '000) | |
| 7,493,050 | 5,994,440 | Habib Sugar Mills Limited (HSML) % of holding: 6.24% (2009: 6.24%) Par value per share: Rs. 5 Market value: Rs. 249.593 (2009: Rs. 236.181) million Chief Executive: Mr. Raeesul Hasan | 11.12.1 | 235,398 | 210,573 |
| 3,375,000 | 3,375,000 | Habib Asset Management Limited (HAML) % of holding: 30% (2009: 30%) Par value per share: Rs. 10 Break up value per share: Rs. 9.91 (2009: Rs. 9.82) based on audited financial statements for the year ended 30 June 2010 Chief Executive: Mr. Imran Azim | 11.12.2 | 33,747 | 33,500 |
| 5,744,925 | 7,469,557 | First Habib Income Fund (FHIF) Average cost per unit: Rs. 104.4399 (2009: Rs. 103.8164) Net asset value Rs. 102.64 (2009: Rs. 103.310) Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim | | 592,266 | 771,680 |
| 500,000 | 500,000 | First Habib Stock Fund (FHSE) Average cost per unit: Rs. 100 (2009: Rs. 100) Net Asset Value Rs. 110.54 (2009: Rs. 98.870) Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim | | 55,270 | 49,435 |
| | | | | 916,681 | 1,065,188 |

11.12.1 Due to common directorship in Habib Sugar Mills Limited, the Bank considers the investee company as an associate.

11.12.2 Includes Rs. 24.750 (2009: Rs. 24.750) million invested in Habib Asset Management Limited classified as strategic investment in accordance with SBP's guidelines contained in BPD Circular Letter No. 16 of 2006 dated 01 August 2006.

| | 2010 | 2009 |
|--|------------------|-----------|
| | (Rupees in '000) | |
| 11.12.3 Reconciliation of investment in associates | | |
| Opening balance | 1,065,188 | 935,608 |
| Share of profit | 108,978 | 106,074 |
| Investment - net | (174,752) | 75,000 |
| Dividend received | (82,733) | (51,494) |
| Closing balance | 916,681 | 1,065,188 |



| | Note | 2010 | 2009 |
|---|------------|--------------------|-------------|
| (Rupees in '000) | | | |
| 12. ADVANCES | | | |
| Loans, cash credits, running finances, etc. | | | |
| In Pakistan | | 109,815,776 | 93,912,688 |
| Outside Pakistan | | 1,934,958 | 1,594,681 |
| | | 111,750,734 | 95,507,369 |
| Net investment in finance lease / Ijarah financing | | | |
| In Pakistan | 12.2 | 513,601 | 542,919 |
| Outside Pakistan | | — | — |
| | | 513,601 | 542,919 |
| Ijarah financing under IFAS 2 | 12.3 & 5.6 | 131,575 | 127,323 |
| Murabaha | 12.4 | 2,018,596 | 2,268,080 |
| Bills discounted and purchased (excluding market treasury bills) | | | |
| Payable in Pakistan | | 2,401,449 | 2,028,863 |
| Payable outside Pakistan | | 12,267,818 | 7,898,634 |
| | | 14,669,267 | 9,927,497 |
| Advances - gross | | 129,083,773 | 108,373,188 |
| Provision against non-performing loans and advances | 12.6 | | |
| Specific provision | | (1,682,297) | (1,210,572) |
| General provision against consumer advances (as per SBP regulations) | | (28,184) | (27,121) |
| General provision | | (1,600,000) | (1,150,000) |
| | | (3,310,481) | (2,387,693) |
| Advances - net of provisions | | 125,773,292 | 105,985,495 |
| 12.1 Particulars of advances - gross | | | |
| 12.1.1 In local currency | | 105,479,320 | 96,317,364 |
| In foreign currencies | | 23,604,453 | 12,055,824 |
| | | 129,083,773 | 108,373,188 |
| 12.1.2 Short term (for upto one year) | | 110,187,410 | 88,481,397 |
| Long term (for over one year) | | 18,896,363 | 19,891,791 |
| | | 129,083,773 | 108,373,188 |



12.2 Net investment in finance lease / Ijarah financing

| | 2010 | | | | 2009 | | | |
|---|-------------------------|---|-----------------|---------------------------|-------------------------|---|-----------------|----------------|
| | Not later than one year | Later than one and less than five years | Over five years | Total (Rupees in '000) | Not later than one year | Later than one and less than five years | Over five years | Total |
| Lease / ijarah receivable | 259,258 | 217,019 | - | 476,277 | 232,542 | 298,717 | - | 531,259 |
| Residual value | 39,720 | 78,200 | - | 117,920 | 32,724 | 65,720 | - | 98,444 |
| Minimum lease / ijarah payments | 298,978 | 295,219 | - | 594,197 | 265,266 | 364,437 | - | 629,703 |
| Financial charges for future periods | (47,404) | (33,192) | - | (80,596) | (52,920) | (33,864) | - | (86,784) |
| Present value of finance lease / ijarah financing | <u>251,574</u> | <u>262,027</u> | <u>-</u> | <u>513,601</u> | <u>212,346</u> | <u>330,573</u> | <u>-</u> | <u>542,919</u> |

12.3 Ijarah financing under IFAS 2

| | 2010 | | | | | | | Rate % |
|-----------|--------------------|---------------|--------------------------|--------------------|---------------|--------------------|--------------------|--------|
| | Cost | | Accumulated Depreciation | | | Book Value | | |
| | As at 01 Jan. 2010 | Additions | As at 31 Dec. 2010 | As at 01 Jan. 2010 | Charge | As at 31 Dec. 2010 | As at 31 Dec. 2010 | |
| Equipment | 164,960 | 64,735 | 229,695 | 37,637 | 65,680 | 103,317 | 126,378 | |
| Vehicles | - | 6,198 | 6,198 | - | 1,001 | 1,001 | 5,197 | |
| | <u>164,960</u> | <u>70,933</u> | <u>235,893</u> | <u>37,637</u> | <u>66,681</u> | <u>104,318</u> | <u>131,575</u> | 33.33 |

| | 2009 | | | | | | | Rate % |
|-----------|--------------------|-----------|--------------------------|--------------------|--------|--------------------|--------------------|--------|
| | Cost | | Accumulated Depreciation | | | Book Value | | |
| | As at 01 Jan. 2009 | Additions | As at 31 Dec. 2009 | As at 01 Jan. 2009 | Charge | As at 31 Dec. 2009 | As at 31 Dec. 2009 | |
| Equipment | - | 164,960 | 164,960 | - | 37,637 | 37,637 | 127,323 | 33.33 |

12.3.1 Future Ijarah payments receivable

| | 2010 | 2009 |
|---|------------------|----------------|
| | (Rupees in '000) | |
| Not later than one year | 88,533 | 62,171 |
| Later than one year and not later than five years | 57,408 | 85,218 |
| | <u>145,941</u> | <u>147,389</u> |

12.4 Murabaha - gross

| | 2010 | 2009 |
|---|------------------|------------------|
| Murabaha - gross | 2,107,532 | 2,328,965 |
| Less: Deferred murabaha income | (34,592) | (21,247) |
| Profit receivable shown in other assets | (54,344) | (39,638) |
| Murabaha | <u>2,018,596</u> | <u>2,268,080</u> |



12.5 Advances include Rs. 2,943.863 (2009: Rs. 2,067.656) million which have been placed under non-performing status as detailed below:

| Category of classification | 2010 | | | | | | | | |
|----------------------------|---------------------|---------------|------------------|--------------------|---------------|------------------|------------------|---------------|------------------|
| | Classified advances | | | Provision required | | | Provision held | | |
| | Domestic | Overseas | Total | Domestic | Overseas | Total | Domestic | Overseas | Total |
| | (Rupees in '000) | | | | | | | | |
| Substandard | 1,287,494 | - | 1,287,494 | 321,873 | - | 321,873 | 321,873 | - | 321,873 |
| Doubtful | 330,370 | - | 330,370 | 157,654 | - | 157,654 | 157,654 | - | 157,654 |
| Loss | 1,325,510 | 489 | 1,325,999 | 1,202,281 | 489 | 1,202,770 | 1,202,281 | 489 | 1,202,770 |
| | <u>2,943,374</u> | <u>489</u> | <u>2,943,863</u> | <u>1,681,808</u> | <u>489</u> | <u>1,682,297</u> | <u>1,681,808</u> | <u>489</u> | <u>1,682,297</u> |
| | 2009 | | | | | | | | |
| | Classified advances | | | Provision required | | | Provision held | | |
| | Domestic | Overseas | Total | Domestic | Overseas | Total | Domestic | Overseas | Total |
| | (Rupees in '000) | | | | | | | | |
| Substandard | 712,684 | - | 712,684 | 172,813 | - | 172,813 | 172,813 | - | 172,813 |
| Doubtful | 323,251 | - | 323,251 | 158,642 | - | 158,642 | 158,642 | - | 158,642 |
| Loss | 992,198 | 39,523 | 1,031,721 | 839,594 | 39,523 | 879,117 | 839,594 | 39,523 | 879,117 |
| | <u>2,028,133</u> | <u>39,523</u> | <u>2,067,656</u> | <u>1,171,049</u> | <u>39,523</u> | <u>1,210,572</u> | <u>1,171,049</u> | <u>39,523</u> | <u>1,210,572</u> |

12.6 Particulars of provision against non-performing loans and advances

| | 2010 | | | | | | 2009 | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------|--|--|
| | Specific | General | Total | Specific | General | Total | | | |
| | (Rupees in '000) | | | | | | | | |
| Opening balance | 1,210,572 | 1,177,121 | 2,387,693 | 466,585 | 738,791 | 1,205,376 | | | |
| Charge for the year | | | | | | | | | |
| Specific provision | 1,095,798 | - | 1,095,798 | 953,428 | - | 953,428 | | | |
| General provision for consumer portfolio | | | | | | | | | |
| 12.6.1 | - | 1,063 | 1,063 | - | (11,670) | (11,670) | | | |
| General provision for loans and advances | | | | | | | | | |
| 12.6.2 | - | 450,000 | 450,000 | - | 450,000 | 450,000 | | | |
| Reversals | (600,565) | - | (600,565) | (208,732) | - | (208,732) | | | |
| | 495,233 | 451,063 | 946,296 | 744,696 | 438,330 | 1,183,026 | | | |
| Amount written-off | 12.7 | (23,508) | (23,508) | (709) | - | (709) | | | |
| Closing balance | <u>1,682,297</u> | <u>1,628,184</u> | <u>3,310,481</u> | <u>1,210,572</u> | <u>1,177,121</u> | <u>2,387,693</u> | | | |



12.6.1 The Prudential Regulations require banks to maintain a general reserve equal to 1.5% of the consumer portfolio which is fully secured and 5% of the consumer portfolio which is unsecured. Accordingly, the general provision maintained by the Bank for secured and unsecured consumer portfolio as of 31 December 2010 amounts to Rs. 28.184 (2009: Rs. 27.121) million.

12.6.2 In line with its prudent policies, the Bank also makes general provision against its loans and advances portfolio. This general provision is in addition to the requirements of the Prudential Regulations and amounts to Rs. 1,600 (2009: Rs.1,150) million as of 31 December 2010.

12.6.3 Particulars of provision against non-performing loans and advances

| | 2010 | | | 2009 | | |
|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Specific | General | Total | Specific | General | Total |
| | (Rupees in '000) | | | | | |
| In local currency | 1,681,808 | 1,628,184 | 3,309,992 | 1,171,049 | 1,177,121 | 2,348,170 |
| In foreign currency | 489 | - | 489 | 39,523 | - | 39,523 |
| | <u>1,682,297</u> | <u>1,628,184</u> | <u>3,310,481</u> | <u>1,210,572</u> | <u>1,177,121</u> | <u>2,387,693</u> |

12.7 Particulars of write-offs:

| | 2010 | 2009 |
|---|----------------------|------------|
| | (Rupees in '000) | |
| 12.7.1 Against provision | 23,508 | 709 |
| Directly charged to profit and loss account | - | - |
| | <u>23,508</u> | <u>709</u> |
| 12.7.2 Write-offs of Rs. 500,000 and above | 23,353 | - |
| Write-offs of below Rs. 500,000 | 155 | 709 |
| | <u>23,508</u> | <u>709</u> |

12.7.3 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 2010 is given in Annexure 1.



| 12.8 Particulars of Loans and Advances to Directors, Associated Companies etc. | Note | 2010 | 2009 |
|--|------|-------------------|------------------|
| | | (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 | | | |
| Balance at beginning of the year | | 875,735 | 644,017 |
| Loans granted during the year | | 524,584 | 480,676 |
| Repayments | | (275,810) | (248,958) |
| Balance at end of the year | | <u>1,124,509</u> | <u>875,735</u> |
| (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 | | | |
| Balance at beginning of the year | | 399,584 | 369,000 |
| Loans granted during the year | | 742,345 | 542,438 |
| Repayments | | (772,121) | (511,854) |
| Balance at end of the year | | <u>369,808</u> | <u>399,584</u> |
| 13. OPERATING FIXED ASSETS | | | |
| Capital work-in-progress | 13.1 | 204,634 | 316,182 |
| Property and equipment | 13.2 | 9,992,707 | 9,238,363 |
| Intangible assets | 13.3 | 66,969 | 65,603 |
| | | <u>10,264,310</u> | <u>9,620,148</u> |
| 13.1 Capital work-in-progress | | | |
| Civil works | | 188,002 | 213,466 |
| Advance payment towards property | | 7,953 | 94,082 |
| Consultants' fee and other charges | | 8,679 | 8,634 |
| | | <u>204,634</u> | <u>316,182</u> |



13.2 Property and equipment

2010

| | Cost / Revalued Amount | | | Accumulated Depreciation | | | Book Value | Rate of depreciation % |
|--|------------------------|--------------------------------------|------------------------|--------------------------|-----------------------------------|------------------------|------------------------|------------------------|
| | As at 01 January 2010 | Additions / (deletions) / transfers* | As at 31 December 2010 | As at 01 January 2010 | Charge / (deletions) / transfers* | As at 31 December 2010 | As at 31 December 2010 | |
| (Rupees in '000) | | | | | | | | |
| Owned | | | | | | | | |
| Leasehold land | 3,288,960 | 187,904 | 3,476,864 | - | - | - | 3,476,864 | - |
| Buildings on leasehold land | 4,405,872 | 382,223 | 4,788,095 | 238,545 | 129,167 | 367,712 | 4,420,383 | 2.22 - 8.33 |
| Improvements to leasehold buildings | 440,652 | 96,703 | 537,355 | 41,873 | 24,103 | 65,976 | 471,379 | 5 |
| Furniture and fixtures | 320,586 | 40,081 (3,015) | 357,652 | 120,200 | 31,283 (1,803) | 149,680 | 207,972 | 10 |
| Electrical, office and computer equipments | 1,768,790 | 530,599 (21,438) | 2,277,951 | 868,915 | 362,281 (17,805) | 1,213,391 | 1,064,560 | 20 |
| Vehicles | 542,125 | 189,414 (49,459) 3,283 * | 685,363 | 260,520 | 110,718 (40,585) 3,283 * | 333,936 | 351,427 | 20 |
| | 10,766,985 | 1,426,924 (73,912) 3,283 * | 12,123,280 | 1,530,053 | 657,552 (60,193) 3,283 * | 2,130,695 | 9,992,585 | |
| Leased | | | | | | | | |
| Electrical, office and computer equipment | - | - | - | - | - | - | - | |
| Vehicles | 6,545 | - | 3,262 | 5,114 | 1,309 | 3,140 | 122 | |
| | 6,545 | (3,283) * | 3,262 | 5,114 | (3,283) * | 3,140 | 122 | |
| | 10,773,530 | 1,426,924 (73,912) | 12,126,542 | 1,535,167 | 658,861 (60,193) | 2,133,835 | 9,992,707 | |



2009

| | Cost / Revalued Amount | | | Accumulated Depreciation | | | Book Value | Rate of depreciation % |
|---|------------------------|--------------------------------------|------------------------|--------------------------|-----------------------------------|------------------------|------------------------|------------------------|
| | As at 01 January 2009 | Additions / (deletions) / transfers* | As at 31 December 2009 | As at 01 January 2009 | Charge / (deletions) / transfers* | As at 31 December 2009 | As at 31 December 2009 | |
| (Rupees in '000) | | | | | | | | |
| Owned | | | | | | | | |
| Leasehold land | 3,138,605 | 150,355 | 3,288,960 | - | - | - | 3,288,960 | - |
| | | - | | | - | | | |
| | | - | | | - | | | |
| Buildings on leasehold land | 4,212,760 | 193,112 | 4,405,872 | 116,161 | 122,384 | 238,545 | 4,167,327 | 2.22 - 8.33 |
| | | - | | | - | | | |
| | | - | | | - | | | |
| Improvements to leasehold buildings | 303,649 | 137,003 | 440,652 | 23,237 | 18,636 | 41,873 | 398,779 | 5 |
| | | - | | | - | | | |
| | | - | | | - | | | |
| Furniture and fixtures | 286,618 | 38,799 (4,831) | 320,586 | 98,302 | 24,507 (2,609) | 120,200 | 200,386 | 10 |
| | | - | | | - | | | |
| Electrical, office and computer equipment | 836,727 | 357,291 (7,570) 582,342 * | 1,768,790 | 328,687 | 258,004 (6,288) 288,512 * | 868,915 | 899,875 | 20 |
| Vehicles | 161,019 | 117,300 (20,761) 284,567 * | 542,125 | 18,129 | 67,759 (14,633) 189,265 * | 260,520 | 281,605 | 20 |
| | 8,939,378 | 993,860 (33,162) 866,909 * | 10,766,985 | 584,516 | 491,290 (23,530) 477,777 * | 1,530,053 | 9,236,932 | |
| Leased | | | | | | | | |
| Electrical, office and computer equipment | 582,342 | - | - | 242,665 | 45,847 | - | - | 20 |
| | | - | | | - | | | |
| | | (582,342) * | | | (288,512) * | | | |
| Vehicles | 295,913 | - | 6,545 | 172,640 | 25,198 | 5,114 | 1,431 | 20 |
| | | (4,801) | | | (3,459) | | | |
| | | (284,567) * | | | (189,265) * | | | |
| | 878,255 | - | 6,545 | 415,305 | 71,045 | 5,114 | 1,431 | |
| | | (4,801) | | | (3,459) | | | |
| | | (866,909) * | | | (477,777) * | | | |
| | 9,817,633 | 993,860 (37,963) | 10,773,530 | 999,821 | 562,335 (26,989) | 1,535,167 | 9,238,363 | |



13.2.1 Details of disposal of fixed assets during the year:

| Particulars | Cost | Book value (Rupees in '000) | Sale price | Mode of disposal | Particulars of purchaser |
|--|---------------|--------------------------------|---------------|------------------|---|
| Items having book value in aggregate more than Rs. 250,000 or cost more than Rs. 1,000,000 | | | | | |
| Furniture and fixtures | 1,767 | 274 | 243 | Auction | Karachi Auction Mart, Karachi |
| Electrical, office and computer equipments | 10,303 | 773 | 1,975 | Auction | Karachi Auction Mart, Karachi |
| Electrical, office and computer equipments | 2,618 | 873 | 1,288 | Quotation | Asghar Ali, Karachi |
| Electrical, office and computer equipments | 2,876 | 343 | 1,165 | Quotation | Siraj Brothers, Karachi |
| Electrical, office and computer equipments | 2,996 | 1 | 59 | Quotation | Naseem Bali, Karachi |
| Vehicles | 9,399 | 6,476 | 9,012 | Insurance Claim | Habib Insurance Company Ltd. (a related party), Karachi |
| Vehicles | 2,399 | 495 | 1,615 | Quotation | Muhammad Hassan, Karachi |
| Vehicles | 7,838 | 323 | 6,714 | Auction | Owais Ghaziani, Karachi |
| Vehicles | 1,076 | - | 965 | Auction | Abdul Rehman, Karachi |
| Vehicles | 1,533 | 239 | 1,094 | Auction | Ali Akbar Khan, Karachi |
| Vehicles | 1,708 | - | 2,345 | Auction | Junaid Chuski, Karachi |
| Vehicles | 1,392 | - | 1,269 | Auction | Muhammad Atif, Karachi |
| Vehicles | 1,343 | - | 1,082 | Auction | S. Muhammad Saeed, Karachi |
| Vehicles | 1,110 | 81 | 924 | Auction | Zubair Ahmed Memon, Karachi |
| Vehicles | 1,478 | - | 1,011 | Auction | Huzaiifa Arif, Karachi |
| Vehicles | 4,487 | 1 | 4,129 | Auction | Zahid Qadri, Karachi |
| Items having book value in aggregate less than Rs. 250,000 or cost less than Rs. 1,000,000 | | | | | |
| Furniture and fixtures | 1,248 | 938 | 894 | | |
| Electrical, office and computer equipments | 2,645 | 1,643 | 1,416 | | |
| Vehicles | 15,696 | 1,259 | 18,093 | | |
| | <u>73,912</u> | <u>13,719</u> | <u>55,293</u> | | |

13.2.2 The domestic leasehold land and buildings were revalued in 2008 by an independent professional valuer on the basis of market value which resulted in net surplus of Rs. 2,022 million over the book value of the assets as of the date of said revaluation. Had there been no revaluation, the net book value of leasehold land and buildings would have amounted to:

| | 2010 (Rupees in '000) | 2009 |
|-----------------------------|--------------------------|------------------|
| Leasehold land | 2,733,713 | 2,545,809 |
| Buildings on leasehold land | 2,887,639 | 2,587,333 |
| | <u>5,621,352</u> | <u>5,133,142</u> |

13.2.3 As at 31 December 2010, the gross carrying amount of fully depreciated assets still in use amounted to Rs. 446.656 (2009: Rs. 197.663) million.



13.3 Intangible assets

| 2010 | | | | | | | | |
|--------------------------------|-----------------------------|---------------|------------------------------|-----------------------------|---------------|------------------------------|------------------------------|------------------------------|
| | Cost | | Accumulated Amortisation | | | Book Value | | |
| | As at 01 January 2010 | Additions | As at 31 December 2010 | As at 01 January 2010 | Charge | As at 31 December 2010 | As at 31 December 2010 | Rate of Amortisation % |
| | (Rupees in '000) | | | | | | | |
| Computer software | 149,274 | 32,059 | 181,333 | 118,421 | 30,693 | 149,114 | 32,219 | 50 |
| Stock Exchange membership card | 34,750 | - | 34,750 | - | - | - | 34,750 | - |
| | <u>184,024</u> | <u>32,059</u> | <u>216,083</u> | <u>118,421</u> | <u>30,693</u> | <u>149,114</u> | <u>66,969</u> | |
| 2009 | | | | | | | | |
| | Cost | | Accumulated Amortisation | | | Book Value | | |
| | As at 01 January 2009 | Additions | As at 31 December 2009 | As at 01 January 2009 | Charge | As at 31 December 2009 | As at 31 December 2009 | Rate of Amortisation % |
| | (Rupees in '000) | | | | | | | |
| Computer software | 112,656 | 36,618 | 149,274 | 94,692 | 23,729 | 118,421 | 30,853 | 50 |
| Stock Exchange membership card | 34,750 | - | 34,750 | - | - | - | 34,750 | - |
| | <u>147,406</u> | <u>36,618</u> | <u>184,024</u> | <u>94,692</u> | <u>23,729</u> | <u>118,421</u> | <u>65,603</u> | |

13.3.1 As at 31 December 2010, the cost of fully amortised intangible assets still in use amounted to Rs. 109.657 (2009: Rs. 95.304) million.

14. OTHER ASSETS

| | Note | 2010 (Rupees in '000) | 2009 |
|--|------|--------------------------|------------------|
| Mark-up / return / interest accrued in local currency | | 4,214,813 | 3,536,406 |
| Mark-up / return / interest accrued in foreign currencies | | 60,381 | 54,605 |
| Advances, deposits and prepayments | | 1,354,096 | 384,621 |
| Unrealised gain on forward foreign exchange contracts | | 283,136 | 45,568 |
| Stationery and stamps on hand | | 99,317 | 85,495 |
| Receivable from SBP on encashment of Government Securities | | 224 | 16,165 |
| Non-refundable deposits | 14.1 | 106,328 | 115,937 |
| Others | | 132,729 | 45,480 |
| | | <u>6,251,024</u> | <u>4,284,277</u> |

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



| | Note | 2010 | 2009 |
|---|---|-------------------|------------|
| (Rupees in '000) | | | |
| 15. BILLS PAYABLE | | | |
| In Pakistan | | 2,989,989 | 3,187,383 |
| 16. BORROWINGS | | | |
| In Pakistan | | 21,362,725 | 33,400,857 |
| Outside Pakistan | | 1,216,623 | 116,252 |
| | | 22,579,348 | 33,517,109 |
| 16.1 Particulars of borrowings with respect to currencies | | | |
| In local currency | | 21,362,725 | 33,400,857 |
| In foreign currencies | | 1,216,623 | 116,252 |
| | | 22,579,348 | 33,517,109 |
| 16.2 Details of borrowings | | | |
| Secured | | | |
| Borrowings from State Bank of Pakistan | | | |
| Export Refinance Scheme | 16.3 | 16,381,224 | 13,646,270 |
| Long Term Financing for Export Oriented Projects | 16.4 | 812,229 | 1,116,815 |
| Long Term Financing for imported and locally manufactured Plant and Machinery | 16.5 | 2,886,572 | 1,415,994 |
| | | 20,080,025 | 16,179,079 |
| Repurchase agreement borrowings | 16.6 | 1,282,700 | 17,221,778 |
| | | 21,362,725 | 33,400,857 |
| Unsecured | | | |
| Borrowings from financial institutions | | - | 42,121 |
| Overdrawn Nostros | | 1,216,623 | 74,131 |
| | | 1,216,623 | 116,252 |
| | | 22,579,348 | 33,517,109 |
| 16.3 | These carry mark-up rate of 9.00% (2009: 7.00%) per annum, payable quarterly at the time of partial payment or upon maturity of loan, whichever is earlier. | | |
| 16.4 | These carry mark-up rates ranging from 4.00% to 5.00% (2009: 4.00% to 5.00%) per annum having maturity periods upto 7.5 years. | | |
| 16.5 | These carry mark-up rates ranging from 8.20% to 9.50% (2009: 7.20% to 7.77%) per annum having maturity periods upto ten years. | | |
| 16.6 | These carry mark-up rate of 12.75% to 13.25% (2009: 11.96% to 12.50%) per annum, having maturity periods upto one month. | | |



| | Note | 2010 (Rupees in '000) | 2009 |
|---|------|--|-------------|
| 17. DEPOSITS AND OTHER ACCOUNTS | | | |
| Customers | | | |
| Fixed deposits | | 91,146,967 | 70,993,523 |
| Savings deposits | | 54,512,033 | 35,309,221 |
| Current accounts - Remunerative | | 29,197,690 | 21,174,817 |
| Current accounts - Non-remunerative | | 64,333,688 | 53,878,930 |
| | | 239,190,378 | 181,356,491 |
| Financial Institutions | | | |
| Remunerative deposits | | 10,314,218 | 7,582,281 |
| Non-remunerative deposits | | 256,289 | 209,655 |
| | | 10,570,507 | 7,791,936 |
| | | 249,760,885 | 189,148,427 |
| 17.1 Particulars of deposits | | | |
| In local currency | | 216,715,190 | 164,806,247 |
| In foreign currencies | | 33,045,695 | 24,342,180 |
| | | 249,760,885 | 189,148,427 |
| 18. SUB-ORDINATED LOANS - unsecured | | | |
| Term Finance Certificates (TFCs) - I - (Quoted) | 18.1 | 1,346,760 | 1,347,300 |
| Term Finance Certificates (TFCs) - II - (Quoted) | 18.2 | 1,497,900 | 1,498,500 |
| Term Finance Certificates (TFCs) - III - (Unquoted) | 18.3 | 1,997,600 | 1,999,200 |
| | | 4,842,260 | 4,845,000 |
| 18.1 Term Finance Certificates - I (Quoted) | | | |
| Total issue | | Rupees 1,350 million | |
| Rating | | AA | |
| Rate | | Payable six monthly at average six months KIBOR plus 150 bps | |
| Floor | | 3.50% p.a. | |
| Ceiling | | 10.00% p.a. | |
| Redemption | | 6-78th month: 0.25%, 84th, 90th and 96th month: 33.25% each | |
| Tenor | | 8 years | |
| Maturity | | July 2012 | |
| 18.2 Term Finance Certificates - II (Quoted) | | | |
| Total issue | | Rupees 1,500 million | |
| Rating | | AA | |
| Rate | | Payable six monthly at average six months KIBOR plus 1.95% without any floor and cap | |
| Redemption | | 6-84th month: 0.28% 90th and 96th month: 49.86% each | |
| Tenor | | 8 years | |
| Maturity | | February 2015 | |



18.3 Term Finance Certificates - III (Unquoted)

| | |
|-------------|---|
| Total issue | Rupees 2,000 million |
| Rating | AA |
| Rate | Payable three monthly at 15.50% p.a. for first 5 years and 16.00% p.a. for next 3 years |
| Redemption | 3rd-84th month: 0.56% 87th, 90th, 93rd and 96th month: 24.86% each |
| Tenor | 8 years |
| Maturity | June 2017 |

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

| | 2010 | | | 2009 | | |
|---|------------------------|--------------------------------------|-----------------------|------------------------|--------------------------------------|-----------------------|
| | 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 | 381 | 23 | 358 | 1,222 | 96 | 1,126 |
| Later than one year and not later than five years | 29 | 1 | 28 | 399 | 17 | 382 |
| | <u>410</u> | <u>24</u> | <u>386</u> | <u>1,621</u> | <u>113</u> | <u>1,508</u> |

(Rupees in '000)

The Group has entered into various lease agreements for vehicles. Lease rentals include financial charges at the rate of 10.25% to 12.25% (2009: 10.25% to 12.25%) per annum which have been used as discounting factor and are payable monthly. The Group has the option to purchase the assets upon completion of lease period and has intention to exercise it.

| | Note | 2010 | 2009 |
|--|------|-------------------------|------------------|
| | | (Rupees in '000) | |
| 20. DEFERRED TAX LIABILITIES | | | |
| Taxable temporary differences arising in respect of: | | | |
| Accelerated depreciation | | 847,004 | 737,574 |
| Surplus on revaluation of fixed assets | 23.1 | 536,459 | 552,997 |
| Lease obligations | | – | 118 |
| Surplus on revaluation of investments | | – | 7,231 |
| | | <u>1,383,463</u> | <u>1,297,920</u> |
| Deductible temporary differences arising in respect of: | | | |
| Deficit on revaluation of investments | 23.2 | (207,396) | – |
| Provision against non-performing loans and advances | | (530,824) | (473,038) |
| Lease obligations | | (65) | – |
| Provision for compensated absences | | (255) | – |
| Provision for diminution in the value of investments | | (570) | (8,325) |
| | | <u>(739,110)</u> | <u>(481,363)</u> |
| | | <u>644,353</u> | <u>816,557</u> |



20.1 Reconciliation of deferred tax

| | Balance as at 01 January 2009 | Recognised in profit and loss account | Recognised in deficit on revaluation of assets | Balance as at 31 December 2009 (Rupees in '000) | Recognised in profit and loss account | Recognised in deficit on revaluation of assets | Balance as at 31 December 2010 |
|---|--|--|---|---|--|---|---|
| Taxable temporary differences | | | | | | | |
| arising in respect of: | | | | | | | |
| Accelerated depreciation | 658,250 | 79,331 | (7) | 737,574 | 109,430 | - | 847,004 |
| Surplus on revaluation of fixed assets | 569,535 | (16,538) | - | 552,997 | (16,538) | - | 536,459 |
| Surplus on revaluation of investments | - | - | 7,231 | 7,231 | - | (7,231) | - |
| | <u>1,227,785</u> | <u>62,793</u> | <u>7,224</u> | <u>1,297,802</u> | <u>92,892</u> | <u>(7,231)</u> | <u>1,383,463</u> |
| Deductible temporary differences | | | | | | | |
| arising in respect of: | | | | | | | |
| Deficit on revaluation of investments | (73,397) | - | 73,397 | - | - | (207,396) | (207,396) |
| Provision against non-performing loans and advances | (421,881) | (51,157) | - | (473,038) | (57,786) | - | (530,824) |
| Provision against diminution in the value of investments | (16,776) | 8,451 | - | (8,325) | 7,755 | - | (570) |
| Lease obligations | 47,349 | (47,231) | - | 118 | (183) | - | (65) |
| Provision for compensated absences | (28,700) | 28,700 | - | - | (255) | - | (255) |
| | <u>(493,405)</u> | <u>(61,237)</u> | <u>73,397</u> | <u>(481,245)</u> | <u>(50,469)</u> | <u>(207,396)</u> | <u>(739,110)</u> |
| | <u>734,380</u> | <u>1,556</u> | <u>80,621</u> | <u>816,557</u> | <u>42,423</u> | <u>(214,627)</u> | <u>644,353</u> |

| | Note | 2010 (Rupees in '000) | 2009 |
|---|------|--------------------------|------------------|
| 21. OTHER LIABILITIES | | | |
| Mark-up / return / interest payable in local currency | | 2,194,784 | 1,965,864 |
| Mark-up / return / interest payable in foreign currencies | | 34,970 | 48,416 |
| Provision for compensated absences | | 180,000 | 141,000 |
| Locker deposits | | 118,208 | 92,732 |
| Taxation (Provision less payments) | | 728,142 | 639,538 |
| Unclaimed dividends | | 56,364 | 35,999 |
| Branch adjustment account | | 401,093 | 293,811 |
| Special exporters' accounts in foreign currencies | | 81,684 | 67,607 |
| Unearned commission income | | 8,057 | 10,380 |
| Security deposits against leases / ijarah | | 141,688 | 115,156 |
| Workers' welfare fund | | 126,164 | 95,831 |
| Accrued expenses | | 82,208 | 93,569 |
| Provision against off balance sheet items | 31 | 57,324 | 65,688 |
| Others | | 551,656 | 414,968 |
| | | <u>4,762,342</u> | <u>4,080,559</u> |



22. SHARE CAPITAL

| 2010 (Number of shares) | 2009 | | 2010 (Rupees in '000) | 2009 |
|---|--------------------|---|--------------------------|------------------|
| Authorised Capital | | | | |
| <u>1,200,000,000</u> | <u>800,000,000</u> | Ordinary shares of Rs.10/- each | <u>12,000,000</u> | <u>8,000,000</u> |
| Issued, subscribed and paid-up capital | | | | |
| | | Ordinary shares of Rs.10/- each fully paid in cash | | |
| <u>30,000,000</u> | <u>30,000,000</u> | Issued for cash | <u>300,000</u> | <u>300,000</u> |
| <u>702,164,306</u> | <u>580,136,922</u> | Issued as bonus shares | <u>7,021,643</u> | <u>5,801,370</u> |
| <u>732,164,306</u> | <u>610,136,922</u> | | <u>7,321,643</u> | <u>6,101,370</u> |

22.1 As of the statement of financial position date 89,279,971 (2009: 74,403,084) ordinary shares of Rs. 10/- each were held by the related parties.

| | Note | 2010 (Rupees in '000) | 2009 |
|--|------|--------------------------|------------------|
| 23. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX | | | |
| Operating fixed assets | 23.1 | 1,739,434 | 1,770,147 |
| Available for sale investments | 23.2 | (377,091) | 60,844 |
| | | <u>1,362,343</u> | <u>1,830,991</u> |
| 23.1 Balance at the beginning of the year | | 2,323,144 | 2,370,395 |
| Transfer to unappropriated profit in respect of incremental depreciation charged during the year | | (47,251) | (47,251) |
| | | 2,275,893 | 2,323,144 |
| Related deferred tax liability on: | | | |
| Balance at the beginning of the year | | 552,997 | 569,535 |
| Transfer to unappropriated profit in respect of incremental depreciation charged during the year | | (16,538) | (16,538) |
| | | (536,459) | (552,997) |
| | | 1,739,434 | 1,770,147 |
| 23.2 Available for sale investments | | | |
| Federal Government Securities | | (602,753) | 67,139 |
| Fully paid-up ordinary shares | | 9,386 | 60,531 |
| Term finance certificates, sukuks and bonds | | (29,876) | (91,175) |
| Open ended mutual funds | | 38,756 | 31,580 |
| | | (584,487) | 68,075 |
| Related deferred tax asset / (liability) | | 207,396 | (7,231) |
| | | (377,091) | 60,844 |



| | | 2010 | 2009 |
|------------|---|-------------------|-------------------|
| | | (Rupees in '000) | |
| 24. | CONTINGENCIES AND COMMITMENTS | | |
| 24.1 | Direct Credit Substitutes | | |
| | Stand-by letters of credit | <u>453,931</u> | <u>1,501,123</u> |
| 24.2 | Transaction-related Contingent Liabilities | | |
| | Includes performance bonds, bid bonds, warranties, advance payment guarantees and shipping guarantees related to particular transactions issued in favour of: | | |
| | – Government | 7,200,376 | 6,052,504 |
| | – Financial Institutions | 260,140 | 302,603 |
| | – Others | 4,193,866 | 2,809,840 |
| | | <u>11,654,382</u> | <u>9,164,947</u> |
| 24.3 | Trade-related Contingent Liabilities | | |
| | Letters of credit | 40,994,674 | 28,152,079 |
| | Acceptances | 6,901,923 | 3,816,563 |
| | | <u>47,896,597</u> | <u>31,968,642</u> |
| 24.4 | Other contingencies | | |

The income tax returns of the Bank have been submitted upto and including the Bank's financial year 2009. The income tax assessments of the Bank have been made by the tax authorities upto and including the assessment / tax year 2010.

In respect of assessment years 1995-1996, 1999-2000 to 2002-2003 and tax years 2003 and 2004, the Income Tax Department has filed appeals against the appellate orders of the Commissioner Income Tax Appeals (CIT Appeals) before the Income Tax Appellate Tribunal (ITAT) on which tax liability, if any, of Rs. 40 million may arise.

For tax years, 2005 to 2008, the CIT Appeals has passed appellate orders by disallowing certain expenses / deductions (including bad debts written-off directly, improvement in leasehold premises, provision against non-performing loans and advances) having an aggregate tax impact of Rs.156.281 (net of provision made by the Bank of Rs.61.391) million. The Bank has preferred an appeal before ITAT against the above referred orders of the CIT Appeals.

The aggregate financial impact of the above matters on the tax provisions made by the Bank in the financial statements works out to be Rs.196.281 (2009: Rs.198.139) million. However, the management, based on the opinion of its tax advisor, is confident about the favourable outcome of the above matters and hence, no additional provision has been considered necessary in these financial statements.

For the tax year 2009, proceedings u/s 122(5A) of the Income Tax Ordinance, 2001 were initiated against which the Bank has filed writ petition before Lahore High Court, Multan Bench. The Honourable Court has stayed the proceedings.

| | | 2010 | 2009 |
|------|--|------------------|------------------|
| | | (Rupees in '000) | |
| 24.5 | Commitments in respect of forward lending | | |
| | Commitments to extend credit | <u>1,232,005</u> | <u>1,147,277</u> |



| | 2010 | 2009 |
|---|-------------------|-------------------|
| | (Rupees in '000) | |
| 24.6 Commitments in respect of forward purchase of securities | | |
| Sukuks | <u>121,294</u> | <u>712,371</u> |
| 24.7 Commitments in respect of forward exchange contracts | | |
| Purchase | <u>27,675,282</u> | <u>11,702,277</u> |
| Sale | <u>24,435,789</u> | <u>8,584,253</u> |
| 24.8 Commitments for the acquisition of operating fixed assets | <u>158,104</u> | <u>138,147</u> |
| 25. DERIVATIVE FINANCIAL INSTRUMENTS | | |
| <p>The Group deals in derivative financial instruments namely forward foreign exchange contracts and foreign currency swaps with the principal view of hedging the risks arising from its trade business. As per the Group's policy, these contracts are reported on their fair value at the statement of financial position date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Unrealised gains and losses on these contracts are recorded on the statement of financial position under "other assets / other liabilities". These products are offered to the Group's customers to protect from unfavourable movements in foreign currencies. The Group hedges such exposures in the inter-bank foreign exchange market.</p> | | |
| | 2010 | 2009 |
| | (Rupees in '000) | |
| 26. MARK-UP / RETURN / INTEREST EARNED | | |
| On loans and advances to: | | |
| Customers | <u>12,427,569</u> | 12,010,125 |
| Financial institutions | <u>257,788</u> | 373,013 |
| | <u>12,685,357</u> | 12,383,138 |
| On investments: | | |
| Available for sale securities | <u>12,144,958</u> | 9,166,139 |
| Held to maturity securities | <u>2,395,740</u> | 308,824 |
| | <u>14,540,698</u> | 9,474,963 |
| On deposits with financial institutions | <u>16,589</u> | 43,525 |
| On securities purchased under resale agreements | <u>236,166</u> | 217,572 |
| On call money lendings | <u>1,988</u> | 3,517 |
| | <u>27,480,798</u> | 22,122,715 |
| 27. MARK-UP / RETURN / INTEREST EXPENSED | | |
| Deposits | <u>14,226,694</u> | 11,260,534 |
| Sub-ordinated loans | <u>660,345</u> | 539,349 |
| Repurchase agreement borrowings | <u>452,191</u> | 341,386 |
| Borrowings from SBP | <u>1,321,670</u> | 874,927 |
| Other borrowings | <u>5,589</u> | 26,920 |
| | <u>16,666,489</u> | 13,043,116 |



| | Note | 2010 (Rupees in '000) | 2009 |
|--|--|--------------------------|------------------|
| 28. GAIN ON SALE / REDEMPTION OF SECURITIES - NET | | | |
| Listed shares | | 72,627 | 30,054 |
| Government securities | | 112 | 108,549 |
| Mutual funds | | (3,131) | 29,836 |
| | | 69,608 | 168,439 |
| 29. OTHER INCOME | | | |
| Gain on sale of operating fixed assets | | 41,574 | 31,073 |
| Recovery of expenses from customers | 29.1 | 85,537 | 82,289 |
| Lockers rent | | 5,107 | 5,515 |
| Others | 29.2 | 192,290 | 165,246 |
| | | 324,508 | 284,123 |
| 29.1 | Includes courier, telex, postage and other charges recovered from customers. | | |
| 29.2 | Includes income from various general banking services such as cheque book charges, cheque return charges, cheque handling charges etc. | | |
| 30. ADMINISTRATIVE EXPENSES | | | |
| Salaries, allowances, etc. | | 2,614,827 | 2,175,029 |
| Charge for defined benefit plan | | 79,558 | 68,285 |
| Contribution to defined contribution plan | | 108,901 | 91,708 |
| Provision for compensated absences | | 39,000 | 25,000 |
| Non-executive directors' fees, allowances and other expenses | | 1,630 | 860 |
| Rent, taxes, insurance, electricity, etc. | | 926,361 | 685,057 |
| Legal and professional charges | | 54,722 | 26,530 |
| Communications | | 166,080 | 150,256 |
| Repairs and maintenance | | 296,764 | 231,785 |
| Financial charges on leased assets | | 125 | 16,100 |
| Security charges | | 244,956 | 205,661 |
| Stationery and printing | | 162,934 | 146,801 |
| Advertisement and publicity | | 231,170 | 166,307 |
| Donations | 30.1 | 77,373 | 71,810 |
| Auditors' remuneration | 30.2 | 2,545 | 2,470 |
| Depreciation | 13.2 | 658,861 | 562,335 |
| Amortisation | | 40,302 | 33,338 |
| Travelling and conveyance | | 35,570 | 35,932 |
| Vehicle running expenses | | 174,901 | 138,609 |
| Commission and brokerage | | 33,183 | 30,585 |
| Subscriptions and publications | | 51,758 | 41,961 |
| Clearing charges (NIFT) | | 37,159 | 33,129 |
| Others | | 186,777 | 163,718 |
| | | 6,225,457 | 5,103,266 |



| | Note | 2010 (Rupees in '000) | 2009 |
|------|---|--------------------------|---------------|
| 30.1 | The details of donations in excess of Rupees One hundred thousand are given below: | | |
| | Al-Sayyeda Benevolent Trust | 925 | 925 |
| | C.A.S. Flood Relief Fund | 5,000 | – |
| | Government College University Endowment Fund Trust | – | 1,000 |
| | Habib Education Trust | 900 | 900 |
| | Habib Education Trust (for Habib Girls' School Renovation Project) | 10,000 | – |
| | Habib Medical Trust | 925 | 925 |
| | Habib Medical Trust (for Masoomeen Hospital) | 22,000 | 3,000 |
| | Habib Poor Fund | 900 | 900 |
| | Institute of Business Administration, Karachi | – | 50,000 |
| | Kashmir Education Foundation | – | 200 |
| | Lahore University of Management Sciences / National Management Foundation | 15,000 | – |
| | Memon Health and Education Foundation | – | 6,000 |
| | Prime Minister's Flood Relief Fund - 2010 | 10,000 | – |
| | Rahmatbai Habib Food & Clothing Trust | 900 | 900 |
| | Rahmatbai Habib Widows & Orphans Trust | 900 | 900 |
| | Relief for Flood Victims via 5 Corps Headquarters, Karachi | 9,923 | – |
| | Sindh Institute of Urology and Transplantation | – | 2,500 |
| | The Citizens Foundation | – | 1,100 |
| | The Indus Hospital | – | 2,500 |
| | None of the Directors or their spouse had any interest in the above donees. | | |
| 30.2 | Auditors' remuneration | | |
| | Audit fee | 1,664 | 1,493 |
| | Fee for half yearly review, audit of provident and gratuity fund, special certifications and sundry advisory services | 650 | 715 |
| | Out of pocket expenses | 231 | 262 |
| | | <u>2,545</u> | <u>2,470</u> |
| 31. | OTHER (REVERSALS) / PROVISIONS / WRITE-OFFS / (GAINS) | | |
| | (Reversal of provision) / provision against off-balance sheet items | (8,364) | 65,688 |
| | (Gain) / loss on closure of subsidiary | 31.1 (21,283) | – |
| | | <u>(29,647)</u> | <u>65,688</u> |
| 31.1 | During the year, the Bank has completed the process of closure of AL Habib Financial Services Limited (the subsidiary) and consequently, the subsidiary ceased to exist as a legal entity effective 28 December 2010. The Bank has received net proceeds of Rs. 27.972 million upon the said closure of the subsidiary as against the carrying value of net assets of the subsidiary of Rs. 6.689 million which resulted in a gain of Rs. 21.283 million. | | |



The results of the subsidiary for the period ended 28 December 2010 and the year ended 31 December 2009 are as follows:

| | Period ended 28 December 2010 | Year ended 31 December 2009 |
|--|--|-----------------------------------|
| | (Rupees in '000) | |
| Income | 469 | 13,273 |
| Expenses | 24,047 | 30,974 |
| Net Loss | 23,578 | 17,701 |
| | (Rupees in '000) | |
| 32. OTHER CHARGES | | |
| Workers' welfare fund | 116,255 | 95,831 |
| Penalties imposed by the SBP | 18,998 | 703 |
| | 135,253 | 96,534 |
| 33. TAXATION | | |
| For the year | | |
| Current | 2,014,032 | 1,651,309 |
| Deferred | 42,423 | 1,556 |
| | 2,056,455 | 1,652,865 |
| 33.1 Relationship between tax expense and accounting profit | | |
| Profit before taxation | 5,724,435 | 4,561,391 |
| Tax at the applicable rate of 35% (2009: 35%) | 2,003,552 | 1,596,487 |
| Tax effect of: | | |
| Expenses that are not deductible in determining taxable income | 159,796 | 151,021 |
| Income not subject to tax | (33,317) | (39,662) |
| Dividend income taxed at reduced rate | (60,260) | (21,933) |
| Provision for diminution in the value of available for sale investments being allowable at reduced rate | - | (20,814) |
| Others | (13,316) | (12,234) |
| | 2,056,455 | 1,652,865 |
| 34. BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE HOLDING COMPANY | | |
| Profit after taxation - attributable to shareholders of the Holding company | 3,664,329 | 2,903,240 |
| | (Number) | |
| Weighted average number of ordinary shares | 732,164,306 | 732,164,306 |
| | (Rupees) | |
| Basic and diluted earnings per share | 5.00 | 3.97 |



34.1 The weighted average number of shares for 2009 has been adjusted for the effect of bonus shares issued during the year.

Note **2010** 2009
(Rupees in '000)

35. CASH AND CASH EQUIVALENTS

| | | | |
|---------------------------------------|------|--------------------|------------|
| Cash and balances with treasury banks | 8 | 19,000,990 | 14,377,626 |
| Balances with other banks | 9 | 2,132,806 | 4,642,110 |
| Overdrawn nostros | 16.2 | (1,216,623) | (74,131) |
| | | 19,917,173 | 18,945,605 |

(Numbers)

36. STAFF STRENGTH

| | | | |
|-------------------------------------|--|--------------|-------|
| Permanent | | 3,988 | 3,524 |
| Temporary / on contractual basis | | 139 | 143 |
| Bank's own staff at end of the year | | 4,127 | 3,667 |
| Outsourced | | 1,148 | 1,011 |
| Total staff strength | | 5,275 | 4,678 |

37. DEFINED BENEFIT PLAN

37.1 General description

The Bank operates an approved gratuity fund for all its confirmed employees, which is administered by the Trustees. The benefits under the gratuity scheme are payable on retirement at the age of 60 years or on earlier cessation of service as under:

Number of years of eligible service completed:

- Less than 5 years
- 5 years or more but less than 10 years
- 10 years or more but less than 15 years
- 15 years or more

Amount of gratuity payable:

- Nil
- 1/3rd of basic salary for each year served
- 2/3rd of basic salary for each year served
- Full basic salary for each year served

37.2 Principal actuarial assumptions

The latest actuarial valuation of the scheme was carried out on 31 December 2010 and the significant assumptions used for actuarial valuation were as follows:

| | | |
|---|--------------------|-------------|
| | 2010 | 2009 |
| Discount rate | 14.50% p.a. | 12.75% p.a. |
| Expected rate of increase in salary in future years | 13.50% p.a. | 11.75% p.a. |
| Expected rate of return on plan assets | 14.00% p.a. | 12.75% p.a. |

2010 2009
(Rupees in '000)

37.3 Movement in defined benefit plan

| | | |
|--------------------------|-----------------|----------|
| Charge for the year | 79,009 | 67,684 |
| Contribution to the fund | (79,009) | (67,684) |
| Closing balance | - | - |



| | 2010 | 2009 | | | |
|---|------------------|-----------|-----------|-----------|-----------|
| | (Rupees in '000) | | | | |
| 37.4 Reconciliation of defined benefit plan | | | | | |
| Present value of defined benefit obligations | 555,050 | 418,650 | | | |
| Fair value of plan assets | (384,224) | (268,835) | | | |
| Unrecognised actuarial loss | (170,826) | (149,815) | | | |
| | — | — | | | |
| 37.5 Movement in present value of defined benefit obligations: | | | | | |
| Opening balance | 418,650 | 314,703 | | | |
| Current service cost | 53,803 | 43,437 | | | |
| Interest cost | 54,781 | 45,333 | | | |
| Benefits paid | (5,249) | (6,419) | | | |
| Actuarial gain | 33,065 | 21,596 | | | |
| Closing balance | 555,050 | 418,650 | | | |
| 37.6 Movement in fair value of plan assets | | | | | |
| Opening balance | 268,835 | 181,364 | | | |
| Expected return on plan assets | 37,287 | 28,363 | | | |
| Actuarial gain / (loss) on plan assets | 4,342 | (2,157) | | | |
| Contribution to the fund | 79,009 | 67,684 | | | |
| Benefits paid | (5,249) | (6,419) | | | |
| Closing balance | 384,224 | 268,835 | | | |
| 37.7 Movement in unrecognised actuarial loss | | | | | |
| Opening balance | 149,815 | 133,339 | | | |
| Amount recognised during the year | (7,712) | (7,277) | | | |
| Actuarial loss during the year | 28,723 | 23,753 | | | |
| Closing balance | 170,826 | 149,815 | | | |
| 37.8 Charge for defined benefit plan | | | | | |
| Current service cost | 53,803 | 43,437 | | | |
| Interest cost | 54,781 | 45,333 | | | |
| Expected return on plan assets | (37,287) | (28,363) | | | |
| Actuarial loss recognised | 7,712 | 7,277 | | | |
| Charge for the year | 79,009 | 67,684 | | | |
| 37.9 Actual return on plan assets | 41,630 | 26,206 | | | |
| 37.10 Historical information | | | | | |
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| | (Rupees in '000) | | | | |
| – Present value of defined benefit obligation | (555,050) | (418,650) | (314,703) | (223,093) | (158,620) |
| – Fair value of plan assets | 384,224 | 268,835 | 181,364 | 135,505 | 96,453 |
| – Deficit | (170,826) | (149,815) | (133,339) | (87,588) | (62,167) |
| – Experience gain / (loss) on obligation | 33,065 | 21,596 | 47,098 | (26,831) | (19,199) |
| – Experience gain / (loss) on plan assets | 4,342 | (2,157) | (3,315) | (1,898) | (320) |



| | 2010 | 2009 |
|---|----------------|----------------|
| 37.11 Components of plan assets as a percentage of total plan assets | | |
| – Government securities | 65.11% | 28.67% |
| – Term finance certificates | 8.52% | 12.15% |
| – Bank balances | 26.37% | 59.18% |
| | 100.00% | 100.00% |

37.12 Expected contribution to be paid to the funds in the next financial year

The Bank contributes to the gratuity fund according to the actuary's advice. Based on actuarial advice, the management estimates that the charge and contribution to defined benefit plan for the year ending 31 December 2011 would be Rs. 103.403 million.

38. DEFINED CONTRIBUTION PLAN

The general description of the plan is included in note 5.8.

39. COMPENSATION OF DIRECTORS AND EXECUTIVES

| | Chief Executive | | *Directors | | Executives | |
|---|------------------|---------------|---------------|---------------|------------------|----------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | (Rupees in '000) | | | | | |
| Fee ** | – | – | 1,630 | 860 | – | – |
| Managerial remuneration | 8,498 | 7,945 | 5,014 | 4,331 | 556,659 | 438,031 |
| Charge for defined benefit plan | 2,543 | 2,891 | 1,551 | 1,073 | 85,401 | 50,508 |
| Contribution to defined contribution plan | 850 | 795 | 501 | 433 | 44,780 | 34,938 |
| Rent and house maintenance | 3,399 | 3,178 | 2,005 | 1,733 | 219,397 | 171,360 |
| Utilities | 1,465 | 1,254 | 501 | 433 | 54,849 | 42,840 |
| Medical | 5 | 12 | 154 | 150 | 12,714 | 10,228 |
| Bonus | 2,099 | 2,016 | 1,238 | 1,073 | 132,903 | 103,673 |
| Others | – | – | – | – | 15,948 | 12,317 |
| | 18,859 | 18,091 | 12,594 | 10,086 | 1,122,651 | 863,895 |
| Number of person(s) | 1 | 1 | 9 | 9 | 521 | 409 |

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

*Directors include one Executive Director (2009: 01).

** This represents fee paid to non-executive directors for attending Board of Directors and its committees meetings.



40. FAIR VALUE OF FINANCIAL INSTRUMENTS

| | 2010 | | 2009 | |
|---|--------------------|--------------------|--------------------|--------------------|
| | Book value | Fair value | Book value | Fair value |
| | (Rupees in '000) | | | |
| On-balance sheet financial instruments | | | | |
| Assets | | | | |
| Cash and balances with treasury banks | 19,000,990 | 19,000,990 | 14,377,626 | 14,377,626 |
| Balances with other banks | 2,132,806 | 2,132,806 | 4,642,110 | 4,642,110 |
| Lendings to financial institutions | 1,139,268 | 1,139,268 | - | - |
| Investments | 137,234,656 | 137,015,659 | 110,907,416 | 110,810,377 |
| Advances | 125,773,292 | 125,773,292 | 105,985,495 | 105,985,495 |
| Other assets | 4,691,283 | 4,691,283 | 3,698,224 | 3,698,224 |
| | <u>289,972,295</u> | <u>289,753,298</u> | <u>239,610,871</u> | <u>239,513,832</u> |
| Liabilities | | | | |
| Bills payable | 2,989,989 | 2,989,989 | 3,187,383 | 3,187,383 |
| Borrowings | 22,579,348 | 22,579,348 | 33,517,109 | 33,517,109 |
| Deposits and other accounts | 249,760,885 | 249,760,885 | 189,148,427 | 189,148,427 |
| Sub-ordinated loans | 4,842,260 | 4,842,260 | 4,845,000 | 4,845,000 |
| Liabilities against assets subject to finance lease | 386 | 386 | 1,508 | 1,508 |
| Other liabilities | 3,269,347 | 3,269,347 | 2,834,245 | 2,834,245 |
| | <u>283,442,215</u> | <u>283,442,215</u> | <u>233,533,672</u> | <u>233,533,672</u> |
| Off-balance sheet financial instruments | | | | |
| Commitment to extend credit | 1,232,005 | 1,232,005 | 1,147,277 | 1,147,277 |
| Forward purchase of foreign exchange contracts | 27,675,282 | 27,692,581 | 11,702,277 | 11,733,991 |
| Forward sale of foreign exchange contracts | 24,435,789 | 24,701,626 | 8,584,253 | 8,598,107 |
| Forward purchase of securities | 121,294 | 121,294 | 712,371 | 712,371 |

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. Fair value of financial instruments is based on:

| | |
|-------------------------------|--|
| Federal Government Securities | PKRV rates (Reuters page) |
| Listed securities | Market prices |
| Mutual funds | Net asset values |
| Unlisted equity investments | Break-up value as per latest available audited financial statements. |

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. The provision for impairment of loans and advances and debt securities has been calculated in accordance with the Bank's accounting policies as stated in note 5.5 and 5.6.



41. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The segment analysis with respect to business activity is as follows:

| | 2010 | | | | | |
|------------------------------------|------------------|--------------------|------------------|------------------|---------------------------|------------------|
| | Retail Banking | Commercial Banking | Retail Brokerage | Advisory Service | Inter Segment Elimination | Total |
| | (Rupees in '000) | | | | | |
| Total income | 13,517,116 | 25,815,633 | 43,704 | 569 | (9,708,584) | 29,668,438 |
| Total expenses | (10,073,697) | (23,481,392) | (49,874) | (47,624) | 9,708,584 | (23,944,003) |
| Net income | <u>3,443,419</u> | <u>2,334,241</u> | <u>(6,170)</u> | <u>(47,055)</u> | <u>-</u> | <u>5,724,435</u> |
| Segment assets (net of provisions) | 203,097,066 | 294,012,735 | 420,691 | - | (195,734,146) | 301,796,346 |
| Segment non performing loans | 51,429 | 2,892,434 | - | - | - | 2,943,863 |
| Segment provision required | 43,189 | 1,639,108 | - | - | - | 1,682,297 |
| Segment liabilities | 202,149,243 | 278,883,655 | 280,811 | - | (195,734,146) | 285,579,563 |
| Segment return on net assets (%)* | 6.66% | 8.78% | 10.39% | - | - | - |
| Segment cost of funds (%)* | 4.98% | 8.42% | 17.76% | - | - | - |
| | 2009 | | | | | |
| | Retail Banking | Commercial Banking | Retail Brokerage | Advisory Service | Inter Segment Elimination | Total |
| | (Rupees in '000) | | | | | |
| Total income | 11,053,698 | 20,285,919 | 54,292 | 13,272 | (7,354,158) | 24,053,023 |
| Total expenses | (7,770,618) | (18,989,657) | (50,456) | (35,059) | 7,354,158 | (19,491,632) |
| Net income | <u>3,283,080</u> | <u>1,296,262</u> | <u>3,836</u> | <u>(21,787)</u> | <u>-</u> | <u>4,561,391</u> |
| Segment assets (net of provisions) | 158,065,218 | 237,739,738 | 328,988 | 51,708 | (146,368,580) | 249,817,072 |
| Segment non performing loans | 42,540 | 2,025,116 | - | - | - | 2,067,656 |
| Segment provision required | 32,157 | 1,178,415 | - | - | - | 1,210,572 |
| Segment liabilities | 156,869,070 | 224,807,300 | 204,462 | 84,291 | (146,368,580) | 235,596,543 |
| Segment return on net assets (%)* | 6.99% | 8.53% | 16.50% | 25.67% | - | - |
| Segment cost of funds (%)* | 4.95% | 8.45% | 24.68% | 41.59% | - | - |

*These percentages have been computed on closing assets / liabilities figures.

42. TRUST ACTIVITIES

The Bank provides services as a trustee to Dawood Money Market Fund (the Fund). The market value of securities held by the Bank in safe custody on behalf of the Fund as on 30 June 2010 was Rs. 327.065 (30 June 2009: Rs. 628.807) million.



43. RELATED PARTY TRANSACTIONS

Related parties of the Group comprise associates (including entities having directors in common with the Group), retirement benefit funds, major share holders, directors and key management personnel and their close family members.

Transactions with related parties of the Bank are carried out on an arm's length basis in terms of the policy as approved by the Board of Directors. The transactions with employees of the Group are carried out in accordance with the terms of their employment.

Transactions with related parties, other than those disclosed elsewhere in financial statements, are summarised as follows:

| | 2010 | | | | Total |
|---|------------------|-------------------------|--|--------------------------|------------------|
| | Associates | Non Executive Directors | Key Management Personnel (Rupees in '000) | Retirement Benefit Funds | |
| Deposits | | | | | |
| At beginning of the year | 674,596 | 13,966 | 80,124 | 513,212 | 1,281,898 |
| Placement during the year | 72,043,744 | 175,774 | 653,408 | 3,542,965 | 76,415,891 |
| Withdrawal during the year | (71,030,400) | (176,102) | (606,728) | (3,745,652) | (75,558,882) |
| At end of the year | <u>1,687,940</u> | <u>13,638</u> | <u>126,804</u> | <u>310,525</u> | <u>2,138,907</u> |
| Advances | | | | | |
| At beginning of the year | 399,584 | 26 | 164 | - | 399,774 |
| Given during the year | 742,345 | 934 | 29,295 | - | 772,574 |
| Repaid during the year | (772,121) | (746) | (11,934) | - | (784,801) |
| At end of the year | <u>369,808</u> | <u>214</u> | <u>17,525</u> | <u>-</u> | <u>387,547</u> |
| Contingencies and commitments | <u>716,726</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>716,726</u> |
| Purchase of fixed assets | <u>1,408</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,408</u> |
| Sale of securities | <u>60,908</u> | <u>-</u> | <u>-</u> | <u>264,827</u> | <u>325,735</u> |
| Mark-up earned | 26,145 | - | 452 | - | 26,597 |
| Mark-up expensed | 84,951 | 1,522 | 8,890 | 43,409 | 138,772 |
| Bank charges and commission | 5,275 | 1 | 2 | - | 5,278 |
| Salaries and allowances | - | - | 106,629 | - | 106,629 |
| Bonus | - | - | 14,333 | - | 14,333 |
| Contribution to defined contribution plan | - | - | 4,020 | - | 4,020 |
| Contribution to defined benefit plan | - | - | 8,290 | - | 8,290 |
| Staff provident fund | - | - | - | 108,901 | 108,901 |
| Staff gratuity fund | - | - | - | 79,558 | 79,558 |
| Directors' fee | - | 1,630 | - | - | 1,630 |
| Insurance claim received | 9,969 | - | - | - | 9,969 |
| Insurance premium paid | 117,313 | - | - | - | 117,313 |
| Dividend income | 82,733 | - | - | - | 82,733 |
| Dividend paid | 22,802 | - | - | - | 22,802 |
| Commission expense | 455 | - | - | - | 455 |
| Others | - | - | - | - | - |
| Gain on sale of securities | 2,285 | - | - | 65 | 2,350 |



| | 2009 | | | | Total |
|---|----------------|-------------------------|--|--------------------------|------------------|
| | Associates | Non Executive Directors | Key Management Personnel (Rupees in '000) | Retirement Benefit Funds | |
| Deposits | | | | | |
| At beginning of the year | 572,537 | 3,843 | 44,710 | 321,102 | 942,192 |
| Placement during the year | 49,523,388 | 152,320 | 8,302,102 | 3,320,962 | 61,298,772 |
| Withdrawal during the year | (49,421,329) | (142,197) | (8,266,688) | (3,128,852) | (60,959,066) |
| At end of the year | <u>674,596</u> | <u>13,966</u> | <u>80,124</u> | <u>513,212</u> | <u>1,281,898</u> |
| Advances | | | | | |
| At beginning of the year | 369,000 | 54 | 641 | - | 369,695 |
| Given during the year | 542,438 | 987 | 8,381 | - | 551,806 |
| Repaid during the year | (511,854) | (1,015) | (8,858) | - | (521,727) |
| At end of the year | <u>399,584</u> | <u>26</u> | <u>164</u> | <u>-</u> | <u>399,774</u> |
| Contingencies and commitments | <u>229,073</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>229,073</u> |
| Purchase of fixed assets | <u>1,503</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,503</u> |
| Sale of securities | <u>35,576</u> | <u>-</u> | <u>-</u> | <u>243,017</u> | <u>278,593</u> |
| Mark-up earned | 43,475 | 3 | 28 | - | 43,506 |
| Mark-up expensed | 70,764 | 1,093 | 6,316 | 73,941 | 152,114 |
| Bank charges and commission | 2,062 | 41 | 258 | - | 2,361 |
| Salaries and allowances | - | - | 87,320 | - | 87,320 |
| Bonus | - | - | 12,047 | - | 12,047 |
| Contribution to defined contribution plan | - | - | 2,473 | - | 2,473 |
| Contribution to defined benefit plan | - | - | 6,293 | - | 6,293 |
| Staff provident fund | - | - | - | 91,708 | 91,708 |
| Staff gratuity fund | - | - | - | 68,285 | 68,285 |
| Directors' fee | - | 860 | - | - | 860 |
| Insurance claim received | 8,233 | - | - | - | 8,233 |
| Insurance premium paid | 100,530 | - | - | - | 100,530 |
| Dividend income | 51,494 | - | - | - | 51,494 |
| Dividend paid | 11,177 | - | - | - | 11,177 |
| Commission expense | 1,523 | - | - | - | 1,523 |
| Others | - | - | - | - | - |
| Gain on sale of securities | 30 | - | - | 197 | 227 |



44. CAPITAL ASSESSMENT AND ADEQUACY - BASEL II SPECIFIC

44.1 Scope of application

The Bank is the only entity in the Group to which Basel II capital adequacy framework applies. The Bank has ownership in the following subsidiary, where the Bank holds more than 50% of voting shares as at 31 December 2010:

| Name | Type of entity | Country of Incorporation |
|--|----------------|--------------------------|
| AL Habib Capital Markets (Private) Limited | Financial | Pakistan |

The assets, liabilities, income, expenses and cash flows of above subsidiary are included in the consolidated financial statements.

The Bank has ownership in the following associated companies, where the Bank either holds more than 20% of voting shares or has common Directors on the Board:

| Name | Type of entity | Country of Incorporation |
|--------------------------------|----------------|--------------------------|
| Habib Asset Management Limited | Financial | Pakistan |
| Habib Sugar Mills Limited | Commercial | Pakistan |

Investment in above associates is accounted for under equity method of accounting in the consolidated financial statements.

44.2 Capital adequacy

The Basel II Framework for a capital adequacy is applicable to the Bank both at the consolidated level (including subsidiaries) and also on a stand alone basis. It is the Bank's policy that the level of capital maintained by it should be such that it maximises the return to shareholders while providing sufficient buffer to absorb risks, including those from any unexpected events. Therefore, the Bank carefully monitors its capital adequacy ratio and endeavours to maintain it at a level sufficiently higher than the minimum regulatory requirement. The capital adequacy assessment process will continue to be further improved and refined, keeping in view the guidelines of the SBP.

The SBP requires that banks in Pakistan should maintain regulatory capital for credit, market, and operational risks, the amount of which should at least be equal to 10% of their risk weighted assets.

The Bank calculates capital requirement as per Basel II regulatory framework, using the following approaches:

| | |
|------------------|--------------------------|
| Credit risk | Standardised Approach |
| Market risk | Standardised Approach |
| Operational risk | Basic Indicator Approach |

Total regulatory capital should be at least 10% of risk-weighted assets and the Bank's capital adequacy ratio is 12.98% (2009: 15.20%).

In addition, the SBP requires that the paid up capital of locally incorporated banks should be raised to Rs. 10 billion by 31 December 2013 in a phased manner. The Bank has been increasing its paid-up share capital to comply with the aforesaid requirement. The paid-up capital requirement as of 31 December 2010 is Rs. 7.000 billion. The Bank's paid-up capital as of 31 December 2010 is Rs. 7.322 billion.

The Bank's exposure to and its management and control of risks is described in note 45. Stress testing is performed for various risks and their impact on capital adequacy ratio as per guidelines of the SBP.



44.3 Capital structure

The Bank's Tier I capital comprises share capital, statutory reserve, special reserve, general reserve and unappropriated profit.

The Bank's Tier II capital includes subordinated loans, general provisions, revaluation reserves and exchange translation reserve.

The Bank does not use any Tier III capital at present, which may include short-term subordinated debt solely for the purpose of meeting a portion of capital requirement for market risk.

| | 2010 | 2009 |
|---|-------------------|-------------------|
| | (Rupees in '000) | |
| <i>Tier I Capital</i> | | |
| Share capital | 7,321,643 | 6,101,370 |
| Reserves | 4,300,673 | 3,580,241 |
| Unappropriated profit | 3,030,199 | 2,495,592 |
| Non-controlling interest | 110,334 | 107,223 |
| Less: Adjustment for investments in subsidiaries and associates* | (33,455) | (16,750) |
| Intangible assets | (66,970) | (65,604) |
| Total Tier I Capital | 14,662,424 | 12,202,072 |
| <i>Tier II Capital</i> | | |
| Subordinated loans (upto 50% of total Tier I Capital) | 3,465,272 | 4,306,080 |
| General provisions subject to 1.25% of total risk weighted assets | 1,628,184 | 1,177,121 |
| Exchange translation reserve | 91,591 | 105,109 |
| Revaluation reserves (upto 45%) | 760,263 | 1,112,768 |
| Less: Adjustment for Investment in subsidiaries and associates* | (33,455) | (16,750) |
| Total Tier II Capital | 5,911,855 | 6,684,328 |
| <i>Eligible Tier III Capital</i> | - | - |
| Total Regulatory Capital | 20,574,279 | 18,886,400 |

* 50% deduction from Tier I capital and 50% deduction from Tier II capital as required by BASEL II framework.



44.4 The risk weighted assets to capital ratio, calculated in accordance with the SBP's guidelines on capital adequacy is as follows:

| | Capital Requirements | | Risk Weighted Assets | |
|--|-----------------------------|--------------------|-----------------------------|--------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | | | | (Rupees in '000) |
| Credit Risk | | | | |
| Sovereign | 40,047 | 111,657 | 400,473 | 1,116,571 |
| Public sector enterprises | 141,897 | 79,435 | 1,418,967 | 794,349 |
| Corporates | 10,452,470 | 7,863,147 | 104,524,704 | 78,631,472 |
| Banks | 354,046 | 366,048 | 3,540,466 | 3,660,492 |
| Retail | 1,064,703 | 738,283 | 10,647,030 | 7,382,825 |
| Residential mortgages | 42,100 | 37,300 | 420,997 | 372,998 |
| Equity exposures | 285,899 | 301,114 | 2,858,987 | 3,011,136 |
| Other assets | 1,308,480 | 1,262,618 | 13,084,798 | 12,626,177 |
| | <u>13,689,642</u> | <u>10,759,602</u> | <u>136,896,422</u> | <u>107,596,020</u> |
| Market Risk | | | | |
| Interest rate risk | 54,319 | 19,949 | 678,994 | 249,356 |
| Foreign exchange risk | 15,044 | 17,382 | 188,052 | 217,278 |
| | 69,363 | 37,331 | 867,046 | 466,634 |
| Operational Risk | <u>1,654,687</u> | <u>1,292,207</u> | <u>20,683,584</u> | <u>16,152,589</u> |
| Total | <u>15,413,692</u> | <u>12,089,140</u> | <u>158,447,052</u> | <u>124,215,243</u> |
| Capital Adequacy Ratio | | | | |
| Total regulatory capital (a) | 20,574,279 | 18,886,400 | | |
| Total risk weighted assets (b) | <u>158,447,052</u> | <u>124,215,243</u> | | |
| Capital Adequacy Ratio [(a) / (b) x 100] | <u>12.98%</u> | <u>15.20%</u> | | |

45. RISK MANAGEMENT

The Bank has a risk management framework commensurate with its size and the nature of its business. The Board of Directors has approved risk management policies covering key areas of activities for the guidance of management and committees of the Board, management committees, and Divisions / Departments of the Bank.

This section presents information about the Bank's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments.

45.1 Credit risk

Credit risk is the risk of loss arising from failure by a client or counterparty to meet its contractual obligation. It emanates from loans and advances, commitments to lend, contingent liabilities such as letters of credit and guarantees, and other similar transactions both on and off balance sheet. These exclude investments and treasury-related exposures, which are covered under market risk.

It is the Bank's policy that all credit exposures shall be adequately collateralised, except when specially exempted by the SBP as in case of personal loans and credit cards, and those at overseas branch where the accepted local banking practice is followed.



The objective of credit risk management is to keep credit risk exposure within permissible level, relevant to the Bank's risk capital, to maintain the soundness of assets and to ensure returns commensurate with risk.

Credit risk of the Bank is managed through the credit policy approved by the Board, a well defined credit approval mechanism, prescribed documentation requirement, post disbursement administration, review and monitoring of all credit facilities; and continuous assessment of credit worthiness of counterparties. Decisions regarding the credit portfolio are taken mainly by the Central Credit Committee. Credit Risk Management Committee of the Board provides overall guidance in managing the Bank's credit risk.

Counterparty exposure limits are approved in line with the Prudential Regulations and the Bank's own policies, by taking into account both qualitative and quantitative criteria. There is an established system for continuous monitoring of credit exposures and follow-up of any past due loans with the respective business units. All past due loans, including trade bills, are reviewed on fortnightly basis and pursued for recovery. Any non-performing loans are classified and provided for as per Prudential Regulations.

Credit facilities, both fund based and non-fund based, extended to large customer groups and industrial sectors are regularly monitored. The Bank has concentration of credit in textile which is the largest sector of Pakistan's economy. Concentration risk is managed by diversification within sub-sectors like spinning, weaving and composites, credit worthiness of counterparties, and adequate collateralisation of exposures.

Credit administration function has been placed under a centralised set-up. Its main focus is on compliance with terms of sanction of credit facilities and the Bank's internal policies and procedures, scrutiny of documentation, monitoring of collateral, and maintenance of borrowers' limits, mark-up rates, and security details.

The Bank has implemented its own internal risk rating system for the credit portfolio, as per guidelines of the SBP. Credit ratings by external rating agencies, if available, are also considered.

The Bank lends primarily against the cash flow of the business with recourse to the assets being financed as primary security. Collaterals in the form of liquid securities, tangible securities, and other acceptable securities are obtained to hedge the risk, as deemed appropriate. Main types of collaterals taken by the Bank include charge on stock-in-trade, receivables, and machinery, mortgage of properties, pledge of goods, shares and other marketable securities, government securities, government guarantees, bank guarantees and cash margins and bank deposits.

Specific provisions on credit portfolio are determined in accordance with the Prudential Regulations. General provision on the consumer portfolio is also determined as per Prudential Regulations. The Bank maintains additional general provision in line with its prudent policies. Particulars of provisions against advances are given in note 12.6.

The Bank uses the Standardised Approach to calculate capital charge for credit risk as per Basel II regulatory framework, with comprehensive approach for credit risk mitigation.

Stress testing for credit risk is carried out regularly to estimate the impact of increase in non-performing loans and downward shift in these categories.



45.1.1 Credit risk: Disclosures on portfolio subject to Standardised Approach - Basel II Specific

The Bank uses the ratings issued by The Pakistan Credit Rating Agency Limited (PACRA) and JCR-VIS Credit Rating Company Limited (JCR-VIS) for its local currency exposures and ratings issued by Moody's, S&P, and Fitch for its foreign currency exposures. These External Credit Assessments Institutions (ECAIs) have been approved by the SBP.

For foreign currency claims on sovereigns, the Bank also uses risk scores of Export Credit Agencies (ECAs).

| Types of exposures | JCR-VIS (local currency) | PACRA (local currency) | Moody's, S&P, and Fitch (foreign currency) | ECA Score (foreign currency) |
|------------------------------------|--------------------------------|------------------------------|---|------------------------------------|
| Corporates | ✓ | ✓ | – | – |
| Banks | ✓ | ✓ | ✓ | – |
| Sovereigns | – | – | ✓ | ✓ |
| Small and Medium Enterprises | – | – | – | – |
| Securitisations | – | – | – | – |
| Others (public sector enterprises) | ✓ | ✓ | – | – |

The Bank has not transferred public issue ratings onto comparable assets in the banking book in its calculations. ECAI ratings and ECA scores are aligned with risk buckets as determined by the SBP.

Credit exposures subject to Standardised Approach

| Risk buckets | Amount outstanding/ credit equivalent (rated and unrated) | Credit Risk Mitigation (CRM) deduction | Net amount |
|--------------|--|---|--------------------|
| | | (Rupees in '000) | |
| 0% | 144,205,126 | – | 144,205,126 |
| 20% | 16,629,869 | 5,389,099 | 11,240,770 |
| 35% | 1,202,848 | – | 1,202,848 |
| 50% | 25,694,918 | 16,103,707 | 9,591,211 |
| 75% | 17,805,449 | 3,609,409 | 14,196,040 |
| 100% | 121,180,853 | 2,447,023 | 118,733,830 |
| 150% | 33,870 | – | 33,870 |
| | <u>326,752,933</u> | <u>27,549,238</u> | <u>299,203,695</u> |

45.1.2 Credit risk: Disclosures on CRM for Standardised Approach – Basel II Specific

Eligible collaterals used by the Bank for credit risk mitigation are cash margins and cash deposits, government securities, financial guarantees, listed shares, and other listed, quoted or rated securities. The Bank requires perfection of collaterals by marking lien on cash margins and deposits, pledging of shares and other securities and verifying the authenticity of guarantees received. Shares and securities including marketable government securities are taken at market value and other government securities are taken at encashment value. Appropriate hair-cuts are applied as per Basel II regulatory framework. Among the mitigants used by the Bank, there is concentration in cash margins, cash deposits and financial guarantees.



45.1.3 Segment by class of business

2010

| | Gross Advances | | Deposits | | Contingencies and Commitments | |
|---------------------------------------|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| | (Rupees in '000) | % | (Rupees in '000) | % | (Rupees in '000) | % |
| Agriculture / Agri business | 1,894,948 | 1.47 | 219,098 | 0.09 | 707,709 | 1.18 |
| Automobiles and Transportation | | | | | | |
| Equipment | 1,228,133 | 0.95 | 1,614,167 | 0.65 | 1,398,138 | 2.33 |
| Cement | 3,414,391 | 2.65 | 101,153 | 0.04 | 806,451 | 1.34 |
| Chemicals / Pharmaceuticals | 2,555,399 | 1.98 | 1,158,349 | 0.46 | 1,561,684 | 2.60 |
| Commerce and Trade | 11,403,511 | 8.83 | 9,741,662 | 3.90 | 10,114,461 | 16.86 |
| Electronics and Electrical appliances | 1,197,188 | 0.93 | 325,304 | 0.13 | 1,082,094 | 1.80 |
| Fertilizers | 1,143,115 | 0.89 | 3,229,404 | 1.29 | 747,131 | 1.25 |
| Financial | 2,013,004 | 1.56 | 10,869,318 | 4.36 | 306,698 | 0.51 |
| Food and Allied | 5,742,127 | 4.45 | 1,183,256 | 0.47 | 1,408,439 | 2.35 |
| Ghee and Edible Oil | 3,502,559 | 2.71 | 1,297,663 | 0.52 | 4,972,586 | 8.29 |
| Individuals | 2,844,900 | 2.20 | 149,165,862 | 59.72 | 875 | - |
| Iron and Steel | 4,131,632 | 3.20 | 1,785,014 | 0.71 | 2,303,189 | 3.84 |
| Oil refinery / marketing | 4,263,570 | 3.30 | 20,560,573 | 8.23 | 498,802 | 0.83 |
| Paper and Board | 333,550 | 0.26 | 79,078 | 0.03 | 1,202,597 | 2.00 |
| Plastic products | 834,580 | 0.65 | 153,248 | 0.06 | 1,942,838 | 3.24 |
| Production and Transmission of Energy | 6,589,713 | 5.10 | 6,720,076 | 2.69 | 2,077,661 | 3.46 |
| Real estate / Construction | 2,209,815 | 1.71 | 3,148,862 | 1.26 | 2,090,602 | 3.48 |
| Services (other than financial) | 1,423,306 | 1.10 | 7,437,744 | 2.98 | 1,336,680 | 2.23 |
| Shoes and Leather garments | 859,580 | 0.67 | 338,502 | 0.14 | 305,120 | 0.51 |
| Sugar | 3,154,165 | 2.44 | 1,547,768 | 0.62 | 335,325 | 0.56 |
| Surgical Equipments | 381,181 | 0.30 | 174,451 | 0.07 | 327,995 | 0.55 |
| Textile | | | | | | |
| Spinning | 30,068,536 | 23.30 | 1,015,147 | 0.41 | 8,388,193 | 13.98 |
| Weaving | 11,361,829 | 8.80 | 532,759 | 0.21 | 2,397,848 | 4.00 |
| Composite | 13,753,432 | 10.65 | 1,034,081 | 0.42 | 2,770,880 | 4.62 |
| Ready-made Garments | 2,351,475 | 1.82 | 1,355,881 | 0.54 | 1,672,312 | 2.79 |
| | 57,535,272 | 44.57 | 3,937,868 | 1.58 | 15,229,233 | 25.39 |
| Others | 10,428,134 | 8.08 | 24,972,465 | 10.00 | 9,248,602 | 15.40 |
| | <u>129,083,773</u> | <u>100.00</u> | <u>249,760,885</u> | <u>100.00</u> | <u>60,004,910</u> | <u>100.00</u> |



2009

| | Gross Advances | | Deposits | | Contingencies and Commitments | |
|---------------------------------------|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| | (Rupees | % | (Rupees | % | (Rupees | % |
| | in '000) | | in '000) | | in '000) | |
| Agriculture / Agri business | 1,189,758 | 1.10 | 118,261 | 0.06 | 542,266 | 1.27 |
| Automobiles and Transportation | | | | | | |
| Equipment | 1,395,116 | 1.29 | 2,564,471 | 1.36 | 1,753,248 | 4.11 |
| Cement | 3,129,467 | 2.89 | 103,654 | 0.05 | 268,395 | 0.63 |
| Chemicals / Pharmaceuticals | 2,713,517 | 2.50 | 769,041 | 0.41 | 1,817,125 | 4.26 |
| Commerce and Trade | 9,585,165 | 8.84 | 8,564,287 | 4.53 | 5,946,773 | 13.95 |
| Electronics and Electrical appliances | 213,490 | 0.20 | 418,556 | 0.22 | 876,479 | 2.06 |
| Fertilizers | 1,663,009 | 1.53 | 3,540,790 | 1.87 | 1,259,379 | 2.95 |
| Financial | 1,806,036 | 1.67 | 7,689,954 | 4.07 | 690,832 | 1.62 |
| Food and Allied | 3,940,533 | 3.64 | 1,120,265 | 0.59 | 887,478 | 2.08 |
| Ghee and Edible Oil | 1,756,712 | 1.62 | 335,705 | 0.18 | 1,835,548 | 4.31 |
| Individuals | 2,458,115 | 2.27 | 113,755,061 | 60.14 | 1,554 | - |
| Iron and Steel | 3,125,428 | 2.88 | 2,629,963 | 1.39 | 2,000,984 | 4.69 |
| Oil refinery / marketing | 8,735,486 | 8.06 | 9,012,176 | 4.76 | 4,988,780 | 11.70 |
| Paper and Board | 466,585 | 0.43 | 52,004 | 0.03 | 83,373 | 0.20 |
| Plastic products | 684,699 | 0.63 | 90,807 | 0.05 | 1,292,041 | 3.03 |
| Production and Transmission of Energy | 5,475,517 | 5.05 | 5,463,459 | 2.89 | 2,017,261 | 4.73 |
| Real estate / Construction | 2,654,885 | 2.45 | 1,978,577 | 1.05 | 2,160,655 | 5.07 |
| Services (other than financial) | 1,038,828 | 0.96 | 7,094,329 | 3.75 | 567,620 | 1.33 |
| Shoes and Leather garments | 1,083,576 | 1.00 | 188,760 | 0.10 | 194,052 | 0.46 |
| Sugar | 2,770,242 | 2.56 | 638,810 | 0.34 | 54,789 | 0.13 |
| Surgical Equipments | 428,852 | 0.40 | 214,487 | 0.11 | 219,998 | 0.52 |
| Textile | | | | | | |
| Spinning | 21,997,652 | 20.30 | 627,847 | 0.33 | 3,050,716 | 7.16 |
| Weaving | 7,095,938 | 6.55 | 628,311 | 0.33 | 2,190,506 | 5.14 |
| Composite | 12,037,860 | 11.11 | 1,154,809 | 0.61 | 2,416,154 | 5.67 |
| Ready-made Garments | 2,048,195 | 1.89 | 447,545 | 0.24 | 845,210 | 1.98 |
| | 43,179,645 | 39.85 | 2,858,512 | 1.51 | 8,502,586 | 19.95 |
| Others | 8,878,527 | 8.18 | 19,946,498 | 10.54 | 4,673,496 | 10.95 |
| | <u>108,373,188</u> | <u>100.00</u> | <u>189,148,427</u> | <u>100.00</u> | <u>42,634,712</u> | <u>100.00</u> |



45.1.4 Details of non-performing advances and specific provisions by class of business segment

| | 2010 | | 2009 | |
|--|---------------------|-------------------------|---------------------|-------------------------|
| | Classified Advances | Specific Provision held | Classified Advances | Specific Provision held |
| | (Rupees in '000) | | | |
| Agriculture / Agri business | 74,156 | 73,912 | 1,998 | 400 |
| Automobiles and Transportation Equipment | 29,199 | 29,199 | 31,632 | 16,654 |
| Chemical / Pharmaceuticals | 5,169 | 5,169 | 5,765 | 5,765 |
| Commerce and Trade | 467,370 | 418,658 | 172,793 | 148,838 |
| Food and Allied | 10,937 | 3,513 | 2,613 | 2,613 |
| Financial | 190,378 | 95,180 | 190,478 | 60,943 |
| Ghee and Edible oil | 2,075 | 2,075 | 2,075 | 2,075 |
| Individuals | 51,476 | 43,236 | 42,540 | 32,157 |
| Oil refinery / marketing | 17,998 | 8,999 | – | – |
| Plastic products | 87,350 | 63,214 | 90,129 | 51,464 |
| Production and transmission of energy | 18,000 | 18,000 | 18,000 | 18,000 |
| Real estate / Construction | 163,593 | 98,764 | 38,575 | 38,575 |
| Services (other than financial) | 840 | 420 | – | – |
| Shoes and Leather garments | 12,991 | 6,495 | 15,000 | 7,500 |
| Textile | | | | |
| Spinning | 943,441 | 532,986 | 1,022,482 | 549,006 |
| Weaving | – | – | 247,921 | 123,961 |
| Composite | 799,835 | 263,820 | 105,687 | 102,309 |
| Ready-made garments | 10,220 | 9,096 | 45,188 | 45,188 |
| | 1,753,496 | 805,902 | 1,421,278 | 820,464 |
| Others | 58,835 | 9,561 | 34,780 | 5,124 |
| | 2,943,863 | 1,682,297 | 2,067,656 | 1,210,572 |

45.1.5 Segment by sector

| | 2010 | | | | | |
|---------------------|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| | Gross Advances | | Deposits | | Contingencies and Commitments | |
| | (Rupees in '000) | % | (Rupees in '000) | % | (Rupees in '000) | % |
| Public / Government | 13,813,783 | 10.70 | 41,174,787 | 16.48 | 4,555,990 | 7.59 |
| Private | 115,269,990 | 89.30 | 208,586,098 | 83.52 | 55,448,920 | 92.41 |
| | 129,083,773 | 100.00 | 249,760,885 | 100.00 | 60,004,910 | 100.00 |
| | 2009 | | | | | |
| | Gross Advances | | Deposits | | Contingencies and Commitments | |
| | (Rupees in '000) | % | (Rupees in '000) | % | (Rupees in '000) | % |
| Public / Government | 15,621,677 | 14.41 | 25,269,556 | 13.36 | 3,262,350 | 7.65 |
| Private | 92,751,511 | 85.59 | 163,878,871 | 86.64 | 39,372,362 | 92.35 |
| | 108,373,188 | 100.00 | 189,148,427 | 100.00 | 42,634,712 | 100.00 |



45.1.6 Details of non-performing advances and specific provisions by sector

| | 2010 | | 2009 | |
|---------------------|---------------------|---|---------------------|-------------------------|
| | Classified Advances | Specific Provision held (Rupees in '000) | Classified Advances | Specific Provision held |
| Public / Government | – | – | – | – |
| Private | 2,943,863 | 1,682,297 | 2,067,656 | 1,210,572 |
| | 2,943,863 | 1,682,297 | 2,067,656 | 1,210,572 |

45.1.7 GEOGRAPHICAL SEGMENT ANALYSIS

| | 2010 | | | |
|-------------|------------------------|---|---------------------|-------------------------------|
| | Profit before taxation | Total assets employed (Rupees in '000) | Net assets employed | Contingencies and Commitments |
| Pakistan | 5,619,273 | 296,000,264 | 15,649,097 | 57,706,649 |
| Middle East | 105,162 | 5,796,082 | 567,686 | 2,298,261 |
| | 5,724,435 | 301,796,346 | 16,216,783 | 60,004,910 |
| | 2009 | | | |
| | Profit before taxation | Total assets employed (Rupees in '000) | Net assets employed | Contingencies and Commitments |
| Pakistan | 4,412,096 | 244,961,837 | 13,733,072 | 41,962,145 |
| Middle East | 149,295 | 4,855,235 | 487,457 | 672,567 |
| | 4,561,391 | 249,817,072 | 14,220,529 | 42,634,712 |

45.2 Market risk

Market risk is the risk of loss arising from movements in market rates or prices, such as interest rates, foreign exchange rates, and equity prices.

The Bank takes positions in securities for the purpose of investment and not to run a trading book. As regards foreign exchange positions, the purpose is to serve the needs of clients. The Bank does not engage in trading or market making activities.

Market risk is managed through the market risk policy approved by the Board, approval of counterparty and dealer limits, specific senior management approval for each investment and regular review and monitoring of the investment portfolio by the Asset Liability Management Committee (ALCO). A key element of the Bank's market risk management is to balance safety, liquidity, and income in their order of priority. Another key element is separation of functions and reporting lines for the Treasury Division which undertakes dealing activities within the limits and parameters set by ALCO, Settlements Department which confirms and settles the aforesaid deal and Middle Office which independently monitors and analyses the risks inherent in treasury operations. Risk Management Committee of the Board provides supervision and guidance in managing the Bank's market risk.



Dealing activities of the Bank include investment in Government Securities, Term Finance Certificates, sukuks / bonds, shares and mutual funds, money market transactions and foreign exchange transactions catering to the needs of its customers. All such activities are carried out within the prescribed limits. Any excess over limits noted by the Settlements Department and / or the Middle Office is reported to senior management and ALCO. Stress testing is performed as per guidelines of the SBP.

The Bank uses the Standardised Approach to calculate capital charge for market risk as per Basel II regulatory framework .Details of capital charge for market risk are given in note 44.4.

45.2.1 Interest rate / yield risk

Interest rate risk is the risk of loss from adverse movements in interest rates. The ALCO monitors and manages the interest rate 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.

The Bank's interest rate exposure is calculated by categorising its interest sensitive assets and liabilities into various time bands based on the earlier of their contractual repricing or maturity dates.

Interest rate risk exposures of the Bank are controlled through dealer limits, counter-party exposure limits and (when necessary) type-of-instrument limits. Duration and modified duration of various types of debt securities as well as their entire portfolio are also calculated, and the impact of adverse change in interest rates on the market value of the securities is estimated. Stress testing for interest rate risk is carried out regularly to estimate the impact of adverse changes in the interest rates.

Interest rate / yield risk in the banking book – Basel II Specific

The Bank holds financial assets and financial liabilities with different maturities or repricing dates and linked to different benchmark rates, thus creating exposure to unexpected changes in the level of interest rates. Interest rate risk in the banking book refers to the risk associated with interest-bearing financial instruments that are not held in the trading book of the Bank.

Repricing gap analysis presents the Bank's interest sensitive assets (ISA) and interest sensitive liabilities (ISL), categorised into various time bands based on the earlier of their contractual repricing or maturity dates (or settlement dates for off-balance sheet instruments). Deposits with no fixed maturity dates (for example, saving deposits and treasurer's call deposits) are included in the lowest, one-month time band, but these are not expected to be payable within a one-month period. The difference between ISA and ISL for each time band signifies the gap in that time band, and provides a workable framework for determining the impact on net interest income.

The Bank reviews the repricing gap analysis periodically to monitor and manage interest rate risk in the banking book.



45.2.2 Mismatch of interest rate sensitive assets and liabilities

2010

| | Effective Yield/ Interest Rate | Total | Exposed to Yield / Interest rate risk | | | | | | | | Non interest bearing financial instruments | |
|---|-----------------------------------|--------------|---------------------------------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|--|--------------|
| | | | Upto 1 month | Over 1 month to 3 months | Over 3 months to 6 months | Over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years | | |
| (Rupees in '000) | | | | | | | | | | | | |
| On-balance sheet financial Instruments | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | |
| Cash and balances with treasury banks | - | 19,000,990 | 4,130,555 | - | - | - | - | - | - | - | - | 14,870,435 |
| Balances with other banks | 0.93% | 2,132,806 | 1,351,636 | - | - | - | - | - | - | - | - | 781,170 |
| Lendings to financial institutions | 12.82% | 1,139,268 | 1,139,268 | - | - | - | - | - | - | - | - | - |
| Investments | 12.61% | 137,234,656 | 19,573,356 | 55,305,852 | 38,621,653 | 7,343,880 | 2,661,548 | 2,798,987 | 2,279,125 | 6,496,147 | - | 2,154,108 |
| Advances | 11.92% | 125,773,292 | 35,950,455 | 30,850,388 | 28,616,251 | 23,768,933 | 632,713 | 906,804 | 3,090,752 | 978,270 | 978,726 | - |
| Other assets | - | 4,691,283 | - | - | - | - | - | - | - | - | - | 4,691,283 |
| | | 289,972,295 | 62,145,270 | 86,156,240 | 67,237,904 | 31,112,813 | 3,294,261 | 3,705,791 | 5,369,877 | 7,474,417 | 978,726 | 22,496,996 |
| Liabilities | | | | | | | | | | | | |
| Bills payable | - | 2,989,989 | - | - | - | - | - | - | - | - | - | 2,989,989 |
| Borrowings | 8.58% | 22,579,348 | 2,603,419 | 9,946,193 | 6,444,361 | 86,582 | 151,022 | 619,331 | 1,854,770 | 871,036 | - | 2,634 |
| Deposits and other accounts | 8.62% | 249,760,885 | 108,919,150 | 30,206,642 | 10,834,397 | 22,872,974 | 2,250,249 | 5,681,225 | 4,398,324 | - | - | 64,597,924 |
| Sub-ordinated loans | 13.74% | 4,842,260 | 270 | 1,498,300 | 400 | 449,630 | 899,260 | 1,600 | 1,992,800 | - | - | - |
| Liabilities against assets subject to finance lease | 11.00% | 386 | 63 | 128 | 111 | 56 | 28 | - | - | - | - | - |
| Other Liabilities | - | 3,269,347 | - | - | - | - | - | - | - | - | - | 3,269,347 |
| | | 283,442,215 | 111,522,902 | 41,651,263 | 17,279,269 | 23,409,242 | 3,300,559 | 6,302,156 | 8,245,894 | 871,036 | - | 70,859,894 |
| On-balance sheet gap | | 6,530,080 | (49,377,632) | 44,504,977 | 49,958,635 | 7,703,571 | (6,298) | (2,596,365) | (2,876,017) | 6,603,381 | 978,726 | (48,362,898) |
| Off-balance sheet financial instruments | | | | | | | | | | | | |
| Forward purchase of foreign exchange contracts | | 27,675,282 | 6,921,868 | 5,028,264 | 9,230,838 | 6,475,416 | 18,896 | - | - | - | - | - |
| Forward sale of foreign exchange contracts | | (24,435,789) | (9,402,188) | (7,682,311) | (7,351,290) | - | - | - | - | - | - | - |
| Forward purchase of securities | | 121,294 | 121,294 | - | - | - | - | - | - | - | - | - |
| Forward commitments to extend credit | | 1,232,005 | 1,178,969 | 53,036 | - | - | - | - | - | - | - | - |
| Off-balance sheet gap | | 4,592,792 | (1,180,057) | (2,601,011) | 1,879,548 | 6,475,416 | 18,896 | - | - | - | - | - |
| Total interest / yield risk sensitivity gap | | 11,122,872 | (50,557,689) | 41,903,966 | 51,838,183 | 14,178,987 | 12,598 | (2,596,365) | (2,876,017) | 6,603,381 | 978,726 | - |
| Cumulative interest / yield risk sensitivity gap | | | (50,557,689) | (8,653,723) | 43,184,460 | 57,363,447 | 57,376,045 | 54,779,680 | 51,903,663 | 58,507,044 | 59,485,770 | - |



2009

| | Effective Yield/ Interest Rate | Total | Exposed to Yield / Interest rate risk | | | | | | | | Non interest bearing financial instruments | |
|---|-----------------------------------|-------------|---------------------------------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|--|--------------|
| | | | Upto 1 month | Over 1 month to 3 months | Over 3 months to 6 months | Over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years | | |
| (Rupees in '000) | | | | | | | | | | | | |
| On-balance sheet financial Instruments | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | |
| Cash and balances with treasury banks | - | 14,377,626 | 2,959,618 | - | - | - | - | - | - | - | - | 11,418,008 |
| Balances with other banks | 0.26% | 4,642,110 | 4,006,555 | - | - | 2,500 | - | - | - | - | - | 633,055 |
| Lendings to financial institutions | - | - | - | - | - | - | - | - | - | - | - | - |
| Investments | 12.67% | 110,907,416 | 9,409,790 | 45,001,415 | 6,470,767 | 35,687,505 | 2,646,171 | 864,257 | 1,776,063 | 6,790,992 | - | 2,260,456 |
| Advances | 12.15% | 105,985,495 | 22,214,487 | 19,393,713 | 27,228,698 | 17,256,806 | 2,075,876 | 3,286,821 | 6,724,137 | 5,519,747 | 2,285,210 | - |
| Other assets | - | 3,698,224 | - | - | - | - | - | - | - | - | - | 3,698,224 |
| | | 239,610,871 | 38,590,450 | 64,395,128 | 33,699,465 | 52,946,811 | 4,722,047 | 4,151,078 | 8,500,200 | 12,310,739 | 2,285,210 | 18,009,743 |
| Liabilities | | | | | | | | | | | | |
| Bills payable | - | 3,187,383 | - | - | - | - | - | - | - | - | - | 3,187,383 |
| Borrowings | 9.50% | 33,517,109 | 17,537,019 | 9,047,794 | 4,477,131 | 95,101 | 146,256 | 202,733 | 1,343,873 | 667,202 | - | - |
| Deposits and other accounts | 6.88% | 189,148,427 | 75,447,828 | 16,354,832 | 10,506,007 | 22,114,470 | 2,033,231 | 2,128,740 | 6,474,735 | - | - | 54,088,584 |
| Sub-ordinated loans | 13.52% | 4,845,000 | 270 | 1,498,900 | 400 | 1,070 | 450,700 | 899,260 | 3,200 | 1,991,200 | - | - |
| Liabilities against assets subject to finance lease | 11.16% | 1,508 | 123 | 249 | 386 | 368 | 354 | 28 | - | - | - | - |
| Other Liabilities | - | 2,834,245 | - | - | - | - | - | - | - | - | - | 2,834,245 |
| | | 233,533,672 | 92,985,240 | 26,901,775 | 14,983,924 | 22,211,009 | 2,630,541 | 3,230,761 | 7,821,808 | 2,658,402 | - | 60,110,212 |
| On-balance sheet gap | | 6,077,199 | (54,394,790) | 37,493,353 | 18,715,541 | 30,735,802 | 2,091,506 | 920,317 | 678,392 | 9,652,337 | 2,285,210 | (42,100,469) |
| Off-balance sheet financial instruments | | | | | | | | | | | | |
| Forward purchase of foreign exchange contracts | | 11,702,277 | 3,917,544 | 3,332,768 | 2,984,163 | 1,467,802 | - | - | - | - | - | - |
| Forward sale of foreign exchange contracts | | (8,584,253) | (5,450,802) | (1,407,482) | (1,723,347) | (2,622) | - | - | - | - | - | - |
| Forward purchase of securities | | 712,371 | 62,371 | 150,000 | 150,000 | 350,000 | - | - | - | - | - | - |
| Forward commitments to extend credit | | 1,147,277 | 200,237 | 290,490 | 596,544 | 60,006 | - | - | - | - | - | - |
| Off-balance sheet gap | | 4,977,672 | (1,270,650) | 2,365,776 | 2,007,360 | 1,875,186 | - | - | - | - | - | - |
| Total interest / yield risk sensitivity gap | | 11,054,871 | (55,665,440) | 39,859,129 | 20,722,901 | 32,610,988 | 2,091,506 | 920,317 | 678,392 | 9,652,337 | 2,285,210 | - |
| Cumulative interest / yield risk sensitivity gap | | | (55,665,440) | (15,806,311) | 4,916,590 | 37,527,578 | 39,619,084 | 40,539,401 | 41,217,793 | 50,870,130 | 53,155,340 | - |



45.2.3 Foreign exchange risk

Foreign exchange risk is the risk of loss from adverse changes in currency exchange rates. The Bank's foreign exchange exposure comprises forward contracts, purchase of foreign bills, foreign currency loans and investments, foreign currency cash in hand, balances with banks abroad, foreign currency deposits and foreign currency placements with the SBP and other banks. Focus of the Bank's foreign exchange activities is on catering to the needs of its customers, both in spot and forward markets.

Foreign exchange risk exposures of the Bank are controlled through dealer limits, open foreign exchange position limits, counterparty exposure limits, and country limits. The Bank manages its foreign exchange exposure by matching foreign currency assets and liabilities within strict limits. The net open position in any single currency and the overall foreign exchange exposure are both managed within the statutory limits as prescribed by the SBP as well as the internal limits set by the Bank itself. Stress testing for foreign exchange risk is carried out regularly to estimate the impact of adverse changes in foreign exchange rates.

| | 2010 | | | |
|----------------------|--------------------|--------------------|------------------------------------|--------------------------------------|
| | Assets | Liabilities | Off-balance sheet items | Net currency exposure |
| | (Rupees in '000) | | | |
| Pakistan Rupee | 269,550,890 | 250,951,067 | (3,249,342) | 15,350,481 |
| United States Dollar | 30,501,859 | 29,325,423 | (422,716) | 753,720 |
| Great Britain Pound | 461,527 | 3,088,898 | 2,659,110 | 31,739 |
| Japanese Yen | 52 | 1,995 | 2,113 | 170 |
| Euro | 1,241,040 | 2,209,083 | 1,032,092 | 64,049 |
| Other currencies | 40,978 | 3,097 | (21,257) | 16,624 |
| | 301,796,346 | 285,579,563 | – | 16,216,783 |
| | 2009 | | | |
| | Assets | Liabilities | Off-balance sheet items | Net currency exposure |
| | (Rupees in '000) | | | |
| Pakistan Rupee | 227,706,415 | 210,950,220 | (3,127,257) | 13,628,938 |
| United States Dollar | 20,879,777 | 19,237,053 | (1,149,125) | 493,599 |
| Great Britain Pound | 329,158 | 3,184,894 | 2,877,645 | 21,909 |
| Japanese Yen | 66,876 | 6 | (68,340) | (1,470) |
| Euro | 737,575 | 2,140,269 | 1,467,077 | 64,383 |
| Other currencies | 97,271 | 84,101 | – | 13,170 |
| | 249,817,072 | 235,596,543 | – | 14,220,529 |



45.3 Liquidity risk

Liquidity risk is the risk of loss to a bank arising from its inability to meet obligations as they fall due or to fund growth in assets, without incurring unacceptable losses.

Liquidity risk is managed through the liquidity risk policy approved by the Board, careful monitoring of daily liquidity position by the Treasury Division and the Middle Office and regular review and monitoring of the liquidity position by the ALCO. Risk Management Committee of the Board provides supervision and guidance in managing the Bank's liquidity risk.

Key elements of the Bank's liquidity risk management are as follows:

- To maintain a comfortable margin of excess liquidity in the form of cash and readily marketable assets to meet the Bank's funding requirements at any time.
- To keep a strong focus on mobilisation of low-cost core deposits from customers.
- To maintain a realistic balance between the behavioral maturity profiles of assets and liabilities.
- To maintain excellent credit rating (as borrowing costs and ability to raise funds are directly affected by credit rating).
- To have a written contingency funding plan to address any hypothetical situations when access to normal sources of funding is constrained.



45.3.1 MATURITIES OF ASSETS AND LIABILITIES

The following maturity profile is based on contractual maturities. In case of saving deposits and current accounts, which have no fixed maturity dates, expected maturities are based on assessment of ALCO.

| | 2010 | | | | | | | | | |
|---|------------------|--------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|---------------|
| | Total | Upto 1 month | Over 1 month to 3 months | Over 3 months to 6 months | Over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years | Over 10 years |
| | (Rupees in '000) | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and balances with treasury banks | 19,000,990 | 19,000,990 | - | - | - | - | - | - | - | - |
| Balances with other banks | 2,132,806 | 2,132,806 | - | - | - | - | - | - | - | - |
| Lendings to financial institutions | 1,139,268 | 1,139,268 | - | - | - | - | - | - | - | - |
| Investments | 137,234,656 | 16,635,385 | 45,574,935 | 38,214,472 | 9,258,003 | 8,223,930 | 5,082,386 | 4,257,251 | 8,737,563 | 1,250,731 |
| Advances | 125,773,292 | 25,539,334 | 29,855,655 | 27,083,957 | 24,397,983 | 4,157,968 | 3,472,945 | 6,813,781 | 3,351,346 | 1,100,323 |
| Operating fixed assets | 10,264,310 | 74,831 | 239,335 | 231,986 | 1,838,793 | 532,410 | 434,541 | 554,760 | 627,910 | 5,729,744 |
| Other assets | 6,251,024 | 4,670,282 | 980,207 | 209,893 | 142,584 | 62,007 | 35,373 | 26,611 | 41,393 | 82,674 |
| | 301,796,346 | 69,192,896 | 76,650,132 | 65,740,308 | 35,637,363 | 12,976,315 | 9,025,245 | 11,652,403 | 12,758,212 | 8,163,472 |
| Liabilities | | | | | | | | | | |
| Bills payable | 2,989,989 | 2,989,989 | - | - | - | - | - | - | - | - |
| Borrowings | 22,579,348 | 2,606,052 | 9,946,193 | 6,444,361 | 86,582 | 151,022 | 619,331 | 1,854,770 | 871,037 | - |
| Deposits and other accounts | 249,760,885 | 37,731,746 | 45,293,900 | 25,921,655 | 37,960,232 | 29,407,315 | 32,838,291 | 33,064,116 | 7,543,630 | - |
| Sub-ordinated loans | 4,842,260 | 270 | 700 | 400 | 449,930 | 899,860 | 2,200 | 1,499,300 | 1,989,600 | - |
| Liabilities against assets subject to finance lease | 386 | 63 | 128 | 111 | 56 | 28 | - | - | - | - |
| Deferred tax liabilities | 644,353 | - | - | - | (359,792) | 158,740 | 151,515 | 272,641 | 92,582 | 328,667 |
| Other Liabilities | 4,762,342 | 3,048,413 | 104,919 | 284,643 | 895,993 | 39,760 | 8,180 | 82,226 | - | 298,208 |
| | 285,579,563 | 46,376,533 | 55,345,840 | 32,651,170 | 39,033,001 | 30,656,725 | 33,619,517 | 36,773,053 | 10,496,849 | 626,875 |
| | 16,216,783 | 22,816,363 | 21,304,292 | 33,089,138 | (3,395,638) | (17,680,410) | (24,594,272) | (25,120,650) | 2,261,363 | 7,536,597 |
| Net assets | | | | | | | | | | |
| Share capital | 7,321,643 | | | | | | | | | |
| Reserves | 4,392,264 | | | | | | | | | |
| Unappropriated profit | 3,030,199 | | | | | | | | | |
| Non-controlling interest | 110,334 | | | | | | | | | |
| Surplus on revaluation of assets - net of tax | 1,362,343 | | | | | | | | | |
| | 16,216,783 | | | | | | | | | |



2009

| | Total | Upto 1 month | Over 1 month to 3 months | Over 3 months to 6 months | Over 6 months to 1 year | Over 1 year to 2 years | Over 2 years to 3 years | Over 3 years to 5 years | Over 5 years to 10 years | Over 10 years |
|---|-------------|--------------|--------------------------|---------------------------|-------------------------|------------------------|-------------------------|-------------------------|--------------------------|---------------|
| (Rupees in '000) | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and balances with treasury banks | 14,377,626 | 14,377,626 | - | - | - | - | - | - | - | - |
| Balances with other banks | 4,642,110 | 4,639,610 | - | - | 2,500 | - | - | - | - | - |
| Lendings to financial institutions | - | - | - | - | - | - | - | - | - | - |
| Investments | 110,907,416 | 6,854,491 | 35,402,207 | 5,565,543 | 36,970,368 | 3,515,646 | 6,700,865 | 5,540,977 | 8,762,187 | 1,595,132 |
| Advances | 105,985,495 | 22,214,338 | 19,393,765 | 27,228,795 | 17,256,806 | 2,075,876 | 3,286,821 | 6,724,137 | 5,519,747 | 2,285,210 |
| Operating fixed assets | 9,620,148 | 95,766 | 301,812 | 174,026 | 346,547 | 2,014,032 | 363,925 | 441,762 | 550,824 | 5,331,454 |
| Other assets | 4,284,277 | 2,899,446 | 848,449 | 185,524 | 110,054 | 51,445 | 40,979 | 23,955 | 38,208 | 86,217 |
| | 249,817,072 | 51,081,277 | 55,946,233 | 33,153,888 | 54,686,275 | 7,656,999 | 10,392,590 | 12,730,831 | 14,870,966 | 9,298,013 |
| Liabilities | | | | | | | | | | |
| Bills payable | 3,187,383 | 3,187,383 | - | - | - | - | - | - | - | - |
| Borrowings | 33,517,109 | 17,537,019 | 9,047,794 | 4,477,131 | 95,101 | 146,256 | 202,733 | 1,343,873 | 667,202 | - |
| Deposits and other accounts | 189,148,427 | 27,514,375 | 27,690,614 | 21,841,788 | 33,450,252 | 22,437,639 | 22,533,146 | 28,012,721 | 5,667,892 | - |
| Sub-ordinated loans | 4,845,000 | 270 | 700 | 400 | 1,370 | 451,300 | 899,860 | 752,000 | 2,739,100 | - |
| Liabilities against assets subject to finance lease | 1,508 | 123 | 249 | 386 | 368 | 354 | 28 | - | - | - |
| Deferred tax liabilities | 816,557 | - | - | - | (302,934) | 353,780 | 148,499 | 264,944 | 75,541 | 276,727 |
| Other Liabilities | 4,080,559 | 2,797,770 | 99,343 | 65,710 | 779,989 | 26,165 | 35,557 | 42,225 | - | 233,800 |
| | 235,596,543 | 51,036,940 | 36,838,700 | 26,385,415 | 34,024,146 | 23,415,494 | 23,819,823 | 30,415,763 | 9,149,735 | 510,527 |
| | 14,220,529 | 44,337 | 19,107,533 | 6,768,473 | 20,662,129 | (15,758,495) | (13,427,233) | (17,684,932) | 5,721,231 | 8,787,486 |
| Net assets | | | | | | | | | | |
| Share capital | 6,101,370 | | | | | | | | | |
| Reserves | 3,685,350 | | | | | | | | | |
| Unappropriated profit | 2,496,135 | | | | | | | | | |
| Non-controlling interest | 106,683 | | | | | | | | | |
| Surplus on revaluation of assets - net of tax | 1,830,991 | | | | | | | | | |
| | 14,220,529 | | | | | | | | | |



The Bank's liquidity risk management addresses the goal of protecting solvency and the ability to withstand stressful events in the marketplace. Stress testing for liquidity risk is carried out regularly to estimate the impact of decline in liquidity on the ratio of liquid assets to deposits plus borrowings.

45.4 **Equity position risk in the banking book – Basel II Specific**

The Bank's policy is to take equity positions for investment purposes and not to run a trading book for buying and selling of equities. Equity holdings include direct investment in shares and in equity-based mutual funds, both closed-end and open-ended. Policies covering their valuation and accounting are disclosed in note 5.5.

Cumulative realised net gain during the year arising from disposal of equity holdings amounted to Rs. 59.46 million.

Equity position risk

Equity position risk is the risk of loss from adverse movements in equity prices. The Bank's policy is to take equity positions for investment purposes and not to run a trading book for buying and selling of shares.

Direct investment in equities and mutual funds is managed within the statutory limits as prescribed by the SBP as well as the internal limits set by the Bank itself. Stress testing for equity price risk is carried out regularly to estimate the impact of decline in stock prices.

45.5 **Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risks but excludes strategic and reputational risks.

Operational risk is managed through the operational risk policy and audit policy approved by the Board, along with the policies on prevention of frauds and forgeries and compliance with "Know Your Customer" and "Anti Money Laundering" requirements; operational manuals and procedures issued from time to time; a system of internal controls and dual authorisation for important transactions and safe-keeping; a Business Continuity Plan, including a Disaster Recovery Plan for I.T., to prevent interruption of business services in the event of a major incident or disaster; an I.T. Security Policy to ensure security and integrity of I.T. systems; and regular audit of the branches. Audit Committee of the Board provides overall guidance in managing the Bank's operational risk.

The Bank's operational risk management framework, as laid down in the operational risk policy, is flexible enough to implement in stages and permits the overall risk management approach to evolve in the light of organisational learning and the future needs of the Bank.

The Bank places a high priority on conducting all business dealings with integrity and fairness, as laid down in the Statement of Ethics & Business Practices, which is required to be signed by all employees.

Internal controls are an essential feature of risk reduction in operational risk management. The Bank is being assisted by external consultants to further improve the effectiveness and efficiency of its internal controls.

Operational risk disclosures – Basel II Specific

The Bank uses Basic Indicator Approach to calculate capital charge for operational risk as per Basel II regulatory framework. This approach is considered to be most suitable in view of the business model of the Bank which relies on an extensive network of branches to offer one-stop, full-service banking to its clients. The Bank has developed and implemented an Operational Loss Database. Operational loss events are reviewed and appropriate corrective actions taken on an ongoing basis, including measures to improve security and control procedures.



46. ISLAMIC BANKING BUSINESS

46.1 The Bank is operating 08 (2009: 06) Islamic banking branches in Pakistan. The statement of financial position and profit and loss account of these branches as at 31 December 2010 and for the year are as follows:

46.1.1 STATEMENT OF FINANCIAL POSITION

| | 2010 | 2009 |
|---|------------------|------------------|
| | (Rupees in 000) | |
| ASSETS | | |
| Cash and balance with treasury banks | 262,642 | 195,926 |
| Balances with and due from financial institutions | 5,013 | 2,291 |
| Investments | 970,498 | 949,431 |
| Financing and receivables | | |
| – Murabaha | 1,495,783 | 2,076,986 |
| – Ijara | 311,897 | 485,659 |
| – Diminishing musharika | 1,320,098 | 327,565 |
| – Export Refinance murabaha | 522,813 | 191,094 |
| – Export Refinance Istisna | 326,000 | – |
| Other assets | 1,076,168 | 142,268 |
| | 6,290,912 | 4,371,220 |
| LIABILITIES | | |
| Bills payable | 12,299 | 6,723 |
| Due to financial institutions | 842,716 | 191,017 |
| Deposits and other accounts | | |
| – Current accounts | 699,030 | 427,044 |
| – Saving accounts | 273,493 | 214,741 |
| – Term deposits | 1,685,109 | 1,225,491 |
| – Others | 34,257 | 1,744 |
| – Deposits from financial institutions - remunerative | 1,670,567 | 1,264,453 |
| – Deposits from financial institutions - non remunerative | 416 | 657 |
| Due to Head Office | 230,000 | 456,099 |
| Other liabilities | 185,045 | 146,200 |
| | 5,632,932 | 3,934,169 |
| NET ASSETS | 657,980 | 437,051 |
| REPRESENTED BY | | |
| Islamic banking fund | 500,000 | 350,000 |
| Unremitted profit | 156,360 | 106,498 |
| | 656,360 | 456,498 |
| Surplus / (deficit) on revaluation of assets | 1,620 | (19,447) |
| | 657,980 | 437,051 |



46.1.2 PROFIT AND LOSS ACCOUNT

| | 2010 | 2009 |
|---|-------------------|-------------------|
| | (Rupees in 000) | |
| Profit / return on financing and placements earned | 561,052 | 403,322 |
| Profit / return on deposits and other dues expensed | <u>(345,251)</u> | <u>(246,000)</u> |
| Net spread earned | 215,801 | 157,322 |
| OTHER INCOME | | |
| Fee, commission and brokerage income | 20,178 | 11,242 |
| Income from dealing in foreign currencies | 3,877 | 3,292 |
| Other income | 2,016 | 1,135 |
| | <u>26,071</u> | <u>15,669</u> |
| | <u>241,872</u> | <u>172,991</u> |
| OTHER EXPENSES | | |
| Administrative expenses | <u>(85,512)</u> | <u>(66,493)</u> |
| PROFIT BEFORE TAXATION | <u>156,360</u> | <u>106,498</u> |
| 46.2 Remuneration to Shariah Advisor / Board | <u>990</u> | <u>720</u> |
| 46.3 CHARITY FUND | | |
| Opening balance | 486 | 404 |
| Additions during the period | 2,059 | 486 |
| Payments / utilisation during the period | <u>(486)</u> | <u>(404)</u> |
| Closing balance | <u>2,059</u> | <u>486</u> |

47. SUBSEQUENT EVENT

Subsequent to the year end, the Board of Directors proposed a final cash dividend of Rs. 2.0 (2009: Rs. 2.0) per share and issue of bonus shares in the ratio of 20 (2009: 20) shares of every 100 shares held.

48. GENERAL

48.1 Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparative and to conform with changes in presentation in the current year.

48.2 Captions, as prescribed by BSD Circular No. 04, dated 17 February 2006, in respect of which there are no amounts have not been reproduced in these financial statements, except for the captions of the statement of financial position and profit and loss account.

48.3 Figures have been rounded off to the nearest thousand rupees.

49. DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue in the Board of Directors' meeting held on February 17, 2011.

ALI RAZA D. HABIB
Chairman

ABBAS D. HABIB
*Chief Executive and
Managing Director*

SYED MAZHAR ABBAS
Director

ANWAR HAJI KARIM
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 31, December 2010**

(Rupees in '000)

| S. No. | Name and address of the borrowers | Name of individuals/ partners/ directors (with CNIC 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. | Knitworks (Pvt) Ltd Plot No. 184, Sector 23 K.I.A. Karachi. | Hasnain Nazim (CNIC No. 42301-4255059-7) | Nazim Muhammad Ali | 21,242 | - | - | 21,242 | 17,242 | - | - | 17,242 |
| | | Altaf Nazim (CNIC No. 42000-0476991-7) | Nazim Muhammad Ali | | | | | | | | |
| 2. | Mustafa Industries 55, Luxmi Building M.A. Jinnah Road Karachi | Nisar Ali Bhagat (CNIC No. 42201-0655748-5) | Ahmed Bhagat | 4,504 | - | - | 4,504 | 4,741 | - | - | 4,741 |
| | | Mohsin Ahmed Bhagat (CNIC No. 42301-0800818-1) | Ahmed Ali Dina | | | | | | | | |
| | | Mohammad Ahmed Bhagat (CNIC No. 42201-0302913-1) | Ahmed Bhagat | | | | | | | | |
| 3. | Javed Pyar Ali Agrawala House No. 31/1/1 8th Gizri Lane, DHA Phase-IV, Karachi. | Javed Pyar Ali Agrawala (CNIC No. 42301-6809144-5) | Pyar Ali Rajab Ali Agrawala | 670 | 3,314 | - | 3,984 | 670 | 3,314 | - | 3,984 |
| 4. | Ariana Trading Company 78-79 Block-C, Awami Market Jamrud Road, Peshawar. | Abdul Rasheed (CNIC No. 15304-9039904-1) | Bakht Ali Jan | 700 | 434 | - | 1,134 | 700 | 434 | - | 1,134 |
| 5. | Madina Oil Mills Chowk Bypass, Shehbazpur Road Rahimyar Khan | Muhammad Aslam Wariach (CNIC No. 31303-9389287-5) | Ch. Sultan Ahmed Wariach | 6,000 | 1,562 | - | 7,562 | - | 786 | - | 786 |
| | | Muhammad Siddiq (CNIC No. 31303-7723923-1) | Sultan Muhammad | | | | | | | | |
| | | | Total | 33,116 | 5,310 | - | 38,426 | 23,353 | 4,534 | - | 27,887 |

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.



Report of Shariah Advisor

We have examined, on test check basis, each class of transaction, the relevant documentation and procedures adopted by Islamic Banking Branches / Division of Bank AL Habib Limited (IBB-BAHL), and we hereby report, for the year ended December 31, 2010, that in our opinion;

- (a) the affairs of IBB-BAHL have been carried out in accordance with rules and principles of Shariah, SBP regulations and guidelines related to Shariah compliance and other rules as well as with specific fatawa and rulings issued by the Shariah Advisor from time to time;
- (b) the allocation of funds, weightages, profit sharing ratios, profits and charging of losses, if any, relating to PLS accounts conform to the basis vetted by the Shariah Advisor in accordance with Shariah rules and principles and;
- (c) any earnings that have been realised from sources or by means prohibited by Shariah rules and principles have been credited to charity account.

Karachi: February 17, 2011

ISMATULLAH
Shariah Advisor
Islamic Banking Division



Branch Network

The Bank has a network of 302 branches including 25 sub-branches, a wholesale branch in the Kingdom of Bahrain, a branch in Karachi Export Processing Zone and 08 Islamic Banking branches. The Bank has branches in the following cities:

- Abbotabad
 - Badin
 - Bahawalpur
 - Bhiria Road (Naushero Feroz)
 - Burewala
 - Chakwal
 - Dadyal (A.K.)
 - Daharki
 - Dera Ghazi Khan
 - Dinga
 - Faisalabad
 - Fazilpur
 - Ferozwatoan
 - Gaggo Mandi
 - Gawadar
 - Ghakhar
 - Gharo
 - Ghotki
 - Gujjar Khan
 - Gujranwala
 - Gujrat
 - Hafizabad
 - Haripur
 - Hingorja
 - Hub Chowki
 - Hyderabad
 - Islamabad
 - Jacobabad
 - Jhelum
 - Joharabad
 - Kamalia Sugar Mills (Kamalia)
 - Kandhkot
 - Karachi
 - Karkhana Bazar (Vehari)
 - Kasur
 - Khanbela
 - Khanewal
 - Khanpur
 - Kharian
 - Khurrianwala
 - Kotla Arab Ali Khan
 - Kunri
 - Lahore
 - Lala Musa
 - Larkana
 - Mandi Bahauddin
 - Mathanichangan Swabi
 - Mehar
 - Mehrabpur
 - Mian Channu
 - Mirpur (A.K.)
 - Mirpurkhas
 - Moro
 - Multan
 - Muridke
 - Muzaffargarh
 - Narowal
 - Nawabshah
 - Okara
 - Peshawar
 - Pir Mahal
 - Pull Kharan (Shujabad)
 - Qasba Gujrat
 - Qazi Ahmed
 - Quetta
 - Rahim Yar Khan
 - Rawalpindi
 - Rohillan Wali
 - Sadiqabad
 - Sahiwal
 - Saleh Khana
 - Sanghar
 - Sargodha
 - Shahdadkot
 - Shahdadpur
 - Shahpur Chakar
 - Sheikhpura
 - Shikarpur
 - Sialkot
 - Sukkur
 - Tando Adam
 - Tibba Sultanpur
 - Tobatek Singh
 - Turbat
 - Wazirabad
 - Zahir Pir
- Off Shore Branches**
- Export Processing Zone - Karachi
 - Manama - Bahrain
- Representative Office**
- Dubai

Principal Office
Mackinnons Building, I. I. Chundrigar Road, Karachi.
Phones: (92-21) 32412421, 32412986 & 111-786-110
Fax: (92-21) 32419752

Registered Office
126-C, Old Bahawalpur Road, Multan.
Phones: (92-61) 4580314-16, & 111-786-110
Fax: (92-61) 4582471

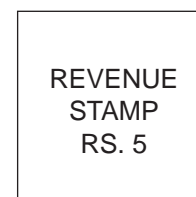
SWIFT CODE : BAHLPKKA website : www.bankalhabib.com



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 Twentieth Annual General Meeting
of the Bank to be held on Thursday, March 17, 2011 and at any adjournment thereof.
As witness my/our hand this _____ day of _____ 2011.



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 CNIC / Passport with the proxy form. The proxy shall also produce his / her original CNIC 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.