


HBL



Annual Report

2012



The numbers
speak for
themselves



0 1500
branches
nationwide



1 trillion
deposits



AAA
Credit Rating

2012

Table of Contents

| | | | |
|--|-----|--|-----|
| Corporate Information | 04 | Unconsolidated Financial Statements | |
| Financial Highlights - Consolidated | 10 | Directors' Report | 106 |
| Progress since 2002 to 2012 - Consolidated | 11 | Auditors' Report to the Members - Unconsolidated | 113 |
| Directors' Report | 12 | Unconsolidated Statement of Financial Position | 115 |
| Statement of Internal Control | 19 | Unconsolidated Profit & Loss Account | 116 |
| Review Report on Statement of Compliance | 20 | Unconsolidated Statement of Comprehensive Income | 117 |
| Statement of Compliance | 21 | Unconsolidated Statement of Changes in Equity | 118 |
| Consolidated Financial Statements | | Unconsolidated Cash Flow Statement | 119 |
| Auditors' Report to the Members - Consolidated | 24 | Notes to the Unconsolidated Financial Statements | 120 |
| Consolidated Statement of Financial Position | 25 | Annexures - Unconsolidated | 181 |
| Consolidated Profit & Loss Account | 26 | Pattern of Shareholding | 197 |
| Consolidated Statement of Comprehensive Income | 27 | Category of Shareholders | 198 |
| Consolidated Statement of Changes in Equity | 28 | Notice of Annual General Meeting | 199 |
| Consolidated Cash Flow Statement | 29 | Admission Slip | 217 |
| Notes to the Consolidated Financial Statements | 30 | Form of Proxy | 219 |
| Annexures - Consolidated | 94 | | |
| HBL Domestic Network | 102 | | |
| HBL International Franchise | 103 | | |

Corporate Information

Board of Directors

Sultan Ali Allana

Chairman

Director

Aga Khan Fund for Economic Development, S.A.

Jubilee Holdings Limited (East Africa)

Jubilee Life Insurance Company Limited (formerly NJLI)

Tourism Promotion Services (Pakistan) Limited

Industrial Promotion Services (Pakistan) Limited

Allana Watch (Pvt.) Limited

Partner

Oriental Boats (Partnership)

Nauman K. Dar

President & CEO

Chairman

Habib Bank Financial Services (Pvt.) Limited

Habib Finance International Limited, Hong Kong

Habibsons Bank Limited UK

Director

Habib Allied International Bank Plc. UK

Council Member

The Institute of Bankers Pakistan

Member

Pakistan Bank's Association

Pakistan Business Council

Moez Ahamed Jamal

Director

Director

Marcuard Family Office

Diamond Trust Bank, Kenya

Director and Partner JAAM AG, Switzerland

Absolute Investment Services, Switzerland

Proprietor

Global Finanz Agency AG

Sajid Zahid

Director

Director

Pakistan Petroleum Limited

Jt. Senior Partner

Orr, Dignam & Co. Advocates

Trustee

HBL Foundation

R. Zakir Mahmood

Director

ChairmanHabib Allied International
Bank Plc., UK.**Director**

Khushhali Bank

Jubilee General Insurance
Company Limited
(formerly NJI)**Chairman/Trustee**

HBL Foundation

Ahmed Jawad

Director

Director

Bizcorp (Pvt.) Limited

Trustee

HBL Foundation

Mushtaq Malik

Director

Consultant

Byco Petroleum Limited

Sikandar Mustafa Khan

Director

Chairman

Millat Tractors Limited

Bolan Castings Limited

Millat Equipment Limited

Millat Industrial Products
Limited**Vice Chairman**

Pakistan Business Council

Board MemberPakistan Aeronautical
Complex Board KAMRA**Director**Arabian Sea Country Club
Limited

Pakistan Business Council

National Productivity
OrganisationNamal Education
Foundation

Board Committees

Audit Committee

| | |
|-----------------------|-----------|
| Mr. Moez Ahamed Jamal | Chairman |
| Mr. Sajid Zahid | Member |
| Mr. Ahmed Jawad | Member |
| Mr. Salim Amlani | Secretary |

Risk Management Committee

| | |
|---------------------------|-----------|
| Mr. Sajid Zahid | Chairman |
| Mr. Nauman K. Dar | Member |
| Mr. Mushtaq Malik | Member |
| Mr. Sikandar Mustafa Khan | Member |
| Mr. Rizwan Haider | Secretary |

Human Resource and Remuneration Committee

| | |
|-----------------------|-----------|
| Mr. Sultan Ali Allana | Chairman |
| Mr. Nauman K. Dar | Member |
| Mr. Moez Ahamed Jamal | Member |
| Dr. Razi Azmat | Secretary |

Chief Financial Officer

Mr. Ayaz Ahmed

Legal Advisor

Mandviwala and Zafar

Advocates and Legal Consultants

Company Secretary

Ms. Nausheen Ahmad

Auditors

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants

Registrars

THK Associates (Pvt.) Ltd.

Ground Floor, State Life Bldg. No. 3

Dr. Ziauddin Ahmed Road

Karachi

Phone : 021-111-000-322

Fax : 021-35655595

HBL Shares Office

Phone : 021-32474396

Fax : 021-32415623

Head Office

Habib Bank Limited

Habib Bank Plaza

I. I. Chundrigar Road

Karachi - 75650, Pakistan

Phone: 021-32418000 [50 lines]

Registered Office

Habib Bank Limited

4th Floor, Habib Bank Tower,

Jinnah Avenue, Blue Area,

Islamabad, Pakistan.

Phone: 051-2872203, 051-2821183

Fax : 051-287205

Websites

Corporate website:

www.hbl.com

ibank (internet banking)

www.hbllibank.com

Management

Mr. Nauman K. Dar

President & CEO

Mr. Ayaz Ahmed

Chief Financial Officer

Mr. Rizwan Haider

Chief Risk Officer

Mr. Jamil Iqbal

Chief Compliance Officer

Mr. Salahuddin Manzoor

Global Treasurer

Mr. Faiq Sadiq

Head - Payment Services

Ms. Nausheen Ahmad

Company Secretary & Head Legal

Mr. Aslam Gadit

Special Advisor to the President & CEO

Mr. Aamir Irshad

Head - Corporate Banking

Ms. Sima Kamil

Head - Retail & Consumer Banking

Mr. Abid Sattar

Head - Global Operations

Mr. Aman Aziz Siddiqui

Head - Strategic Planning & Development

Mr. Salim Amlani

Chief Internal Auditor

Mr. Mudassir H. Khan

Chief Information Officer

Mr. Hassan Raza

Head - Structured Credits

Mr. Shahid Ghaffar

Head - Investor Relations & Corporate Representation

Dr. Razi Azmat

Head - Human Resources

Mr. Mubashar Maqbool

Head - Commercial Banking

Mr. Shahid Fakhruddin

G.M. International & Market Risk Management

Mr. Mohammad Ali

Chief Representative Islamabad

Mr. Aly Mustansir

Head - Marketing & Brand Management

Mr. Habib Yousuf

Head - Financial Institution Division

Mr. Wajahat Rasul Khan

G.M. Network Management - International

Mr. Mirza Saleem Baig

Head - Islamic Banking

Mr. Aamir Kureshi

Head - Consumer Banking

Mr. Tulu Islam

G.M. Branch & Trade Operations

Mr. Farhan Talib

Head - Investment Banking

Mr. Tauqir Mazhar

Chief Representative Lahore

Financial Highlights - Consolidated

| | 2012 | 2011 | Variance |
|---|-------------------|-----------|------------|
| | Rupees in Million | | Percentage |
| FINANCIAL POSITION | | | |
| Total Deposits | 1,214,964 | 933,632 | 30.13 |
| Total Assets - Net | 1,610,309 | 1,139,554 | 41.31 |
| Advances - Net | 499,818 | 457,368 | 9.28 |
| Liquid Assets | 920,709 | 511,913 | 79.86 |
| Shareholders Equity & Revaluation Surplus | 131,810 | 108,351 | 21.65 |

PROFIT & LOSS

| | | | |
|---|--------|--------|------|
| Total Income* | 73,720 | 71,181 | 3.57 |
| Total Expenditure | 31,784 | 30,114 | 5.55 |
| Provision for non-performing loans & Others | 7,045 | 6,745 | 4.45 |
| Pre-Tax Profit | 34,891 | 34,321 | 1.66 |
| Profit after Taxation | 22,356 | 22,333 | 0.10 |
| Earnings per share (Rs/Share) | 18.36 | 18.30 | |

FINANCIAL RATIOS

| | Percentage | |
|--|------------|-------|
| Non-Interest Income to Total Income* | 21.65 | 20.77 |
| Operating Expenses to Total Income* | 42.13 | 41.26 |
| Total Assets Growth Rate | 41.31 | 23.24 |
| Non-Performing Loans (NPL) to Gross Loans | 10.30 | 11.23 |
| Provision against NPL's to NPL | 81.74 | 81.50 |
| Capital Adequacy Ratio | 15.81 | 15.62 |
| Total Risk Weighted Assets to Total Assets | 48.25 | 59.43 |
| Net Advances to Total Deposits | 41.14 | 48.99 |
| Liquid Assets to Deposits Ratio | 75.78 | 54.83 |
| Return on Average Assets | 1.63 | 2.16 |
| Return on Average Equity | 20.40 | 21.70 |

OTHERS

| | Rupees in Million | | |
|-------------------------------|-------------------|---------|---------|
| Home Remittances | 271,090 | 226,536 | 19.67 |
| Exports / Imports Remittances | 544,192 | 608,265 | (10.53) |
| Number of Branches | 1,540 | 1,506 | 2.26 |
| Number of Staff | 13,978 | 13,661 | 2.32 |

*Total Income is the sum of Net Interest Income and Non-interest Income

Progress Since 2002 to 2012 - At a Glance - Consolidated

Balance Sheet

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|-----------|
| Shareholders Equity & Revaluation Surplus | 19,707 | 23,485 | 31,190 | 40,331 | 52,530 | 59,274 | 65,418 | 83,227 | 95,038 | 108,351 | 131,810 |
| Total Assets | 403,037 | 434,932 | 487,765 | 528,894 | 594,062 | 689,001 | 749,807 | 863,925 | 924,699 | 1,139,554 | 1,610,309 |
| Total Deposits | 328,182 | 360,648 | 404,629 | 432,545 | 459,140 | 531,298 | 597,091 | 682,750 | 747,375 | 933,632 | 1,214,964 |
| Advances - Net | 167,523 | 183,654 | 259,089 | 316,882 | 349,433 | 382,173 | 456,356 | 454,662 | 459,750 | 457,368 | 499,818 |
| Investments - Net | 142,878 | 158,871 | 134,523 | 107,384 | 119,587 | 175,197 | 129,833 | 216,468 | 254,909 | 418,604 | 797,095 |

Operating Results

| | | | | | | | | | | | |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Income | 18,564 | 21,363 | 23,588 | 32,870 | 38,971 | 39,875 | 48,133 | 53,830 | 59,757 | 71,181 | 73,720 |
| Total Expenditure | 11,811 | 9,803 | 13,789 | 15,766 | 17,204 | 18,382 | 21,814 | 23,149 | 24,953 | 30,114 | 31,784 |
| Provision for NPL & Others | 2,450 | 5,804 | 2,552 | 3,270 | 2,927 | 7,823 | 9,388 | 9,300 | 7,764 | 6,745 | 7,045 |
| Provision for Taxation | 2,054 | 1,452 | 1,484 | 4,187 | 6,140 | 3,749 | 6,068 | 7,981 | 10,006 | 11,988 | 12,535 |
| Profit/(Loss) before Taxation | 4,088 | 5,469 | 7,247 | 13,834 | 18,840 | 13,670 | 16,932 | 21,382 | 27,040 | 34,321 | 34,891 |
| Profit/(Loss) after Taxation | 2,034 | 4,018 | 5,763 | 9,647 | 12,700 | 9,921 | 10,864 | 13,401 | 17,034 | 22,333 | 22,356 |

Others

| | | | | | | | | | | | |
|------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Home Remittances | 38,229 | 46,326 | 47,423 | 54,759 | 66,656 | 79,322 | 94,530 | 128,970 | 158,693 | 226,536 | 271,090 |
| Imports Remittances | 118,689 | 139,515 | 162,402 | 153,392 | 189,125 | 178,684 | 298,933 | 245,006 | 320,115 | 327,172 | 284,746 |
| Exports Remittances | 95,901 | 118,642 | 134,090 | 118,882 | 117,593 | 129,742 | 172,518 | 177,101 | 229,379 | 281,093 | 259,446 |
| Number of Branches | 1,473 | 1,470 | 1,469 | 1,470 | 1,477 | 1,489 | 1,508 | 1,494 | 1,501 | 1,506 | 1,540 |
| Number of Staff of HBL | 19,005 | 18,800 | 18,625 | 16,314 | 14,572 | 14,552 | 14,123 | 13,211 | 13,269 | 13,661 | 13,978 |

Directors' Report

On behalf of the Board of Directors, I am pleased to present the Consolidated Financial Statements and the Auditors' Report for the year ended December 31, 2012.

Economic and Market Review

The economy witnessed modest recovery despite challenging economic environment, both locally and around the globe. The real GDP grew by 3.7 percent during the FY2012 as compared to 3 percent in the previous year. The economy however, underperformed compared with growth target of 4.2 percent for the FY 2012 primarily due to the severe energy crises, deteriorating law and order and weakening global economy. The agriculture sector recorded a growth of 3.1 percent in FY2012 compared to 2.4 percent in FY 2011. The livestock sub-sector (with a 55.1 percent share in agriculture) remained the main contributor to growth, followed by major crops i.e. cotton, rice and sugarcane. The industrial sector showed growth of 3.4 percent as against 0.7 percent in the previous year. Small Scale Manufacturing contributed about 45% in the industrial growth, while contribution by Large Scale Manufacturing was limited to 26%. The service sector, the largest contributor (over 55 percent) in the GDP, grew by 4 percent in FY2012 as against 4.4 percent in the corresponding period last year.

The inflationary pressure eased significantly as CPI reduced from 13.7 percent from FY 2011 to 11 percent in FY 2012 and further to 6.9 percent as on December 31, 2012. Worker remittances showed robust increase of 17.8% to US\$ 13.2 billion for the FY 2012.

Trade deficit increased to US \$ 15.5 billion for FY 2012 as against US \$ 10.5 billion in the previous year. Rising trade deficit, declining foreign direct investment and lower disbursement of fresh loan put pressure on country's total liquid foreign exchange reserves, which declined from US \$ 18.24 billion to US \$ 15.23 billion as on June 30, 2012. The decline in foreign exchange reserves coupled with appreciation of US Dollar against major world currencies resulted in depreciation to Pak Rupee by 9.1% against US Dollar during FY 2012 as against 0.6 percent in FY 2011.

The State Bank of Pakistan continued its policy of reducing policy rate. During the year under review, the policy rate was first reduced to 10.50% from 12% on August 13, 2012. It was again reduced to 10% on October 8, 2012 and further to 9.5% on December 17, 2012. In all the policy rate was reduced by 250 bps during the year under review.

Financial Performance:

The financials of the Group are summarized below :-

| | 2012 | 2011 |
|---|--------------------------|-----------------|
| | <u>Rupees in million</u> | |
| Profit after tax | <u>22,356</u> | <u>22,333</u> |
| Un-appropriated profit bought forward | 56,981 | 47,468 |
| Profit attributable to equity holders of the Bank | 22,256 | 22,190 |
| Transferred from surplus on revaluation of fixed assets- net of tax | 248 | 263 |
| | <u>22,504</u> | <u>22,453</u> |
| Profit available for appropriation | 79,485 | 69,921 |
| Appropriations: | | |
| Transfer to statutory reserves | (2,209) | (2,120) |
| Cash dividend | (4,408) | (6,512) |
| Issued as bonus shares | (1,102) | (1,002) |
| Half year interim dividend | (4,243) | (3,306) |
| Total appropriations | <u>(11,962)</u> | <u>(12,940)</u> |
| Un-appropriated Profit carried forward | <u>67,523</u> | <u>56,981</u> |
| Basic and Diluted Earnings after tax-Rupees per Share | <u>18.36</u> | <u>18.30</u> |

In spite of challenging economic environment, HBL continued to show strong growth in deposit. Total deposits of HBL stood at 1,215 billion as on December 31, 2012 showing an impressive growth of 30% compared to corresponding period last year. The domestic deposit at Rs.1,041 billion witnessed robust growth of 32% which is much above the industry growth of 11%. Retail deposits contributed significantly in increasing the deposits base of HBL. The strong performance by Retail banking helped HBL to cross Rupee One Trillion in domestic deposits, making HBL the first banking company to have achieved this milestone in the history of Pakistan. The CASA stood at 67% as on December 31, 2012 as against 69% in the corresponding period last year. The Capital Adequacy Ratio (CAR) improved further and stood at 15.81% as on 31 December 2012 as against 15.62% as on December 31, 2011. The investment stood at Rs. 797 billion while advances at Rs. 500 billion as on December 31, 2012 as against Rs. 419 billion and Rs. 457 billion respectively in the previous year.

Net Interest Income of HBL increased by 2% to Rs. 57.76 billion as compared to previous year. The non- interest income was up by 8% from Rs. 14.78 billion for the year ended 31 December 2011 to Rs. 15.96 billion for the year ended December 31, 2012.

The profit before tax stood at Rs. 34.9 billion for the year ended December 31, 2012 indicating an increase of 1.7% over previous year while after tax profit at Rs.22.4 billion was maintained at last year level. The earning per share before and after tax was Rs. 28.78 and Rs. 18.36 respectively for the year ended December 31, 2012 as against Rs. 28.31 and Rs. 18.30 respectively in the corresponding period last year.

The overall improvement in HBL performance is attributable to diversified range of products and services for our valued customers, quality of investment portfolio, diversified advances and stringent cost and internal controls. The management of the Bank is fully committed to provide best possible services and product range to its customers in a challenging local and international economic environment.

During the year HBL Islamic Banking (HBL-IB) showed robust growth. The HBL Islamic Banking deposits increased sharply by 160% to Rs.31 billion as on December 31, 2012 against Rs.12 billion as on December 31, 2011. The exponential growth in HBL-IB deposits was possible due to addition of 11 new branches along with two sub branches, relocation of 11 branches to high potential areas and addition of 33 new windows for Islamic Banking. By December 2012 the HBL-IB comprised of 33 branches, 2 sub-branches and 266 windows making it one of the biggest Islamic Banking network amongst conventional commercial banks. The HBL-IB has developed a strong asset team to target new businesses based on HBL synergies. During the year HBL-IB participated in several syndications and is now well positioned to acquire syndication and structuring mandates at its own.

International Banking (IB) is an integral part of HBL and one of the oldest franchises in the markets we operate in. It has contributed 18% towards Group total assets, 14 % of total deposit and 14% in operating profits. The International Banking witnessed strong growth of 20% in Deposits to Rs. 175 billion in 2012 from Rs.145 billion in 2011. The IB advances grew by 12% to Rs. 143 billion in 2012 from Rs. 127 billion in 2011. The operating profit of IB showed impressive growth of 60% to Rs.5.7 billion in 2012.

Payment Services activities which covers cash management, cards, branchless banking and alternate delivery channels to customers are one of the fastest growing activities of HBL. In 2012 the cash management processed Rs.751 billion in transaction depicting handsome growth of 42%. The card business is rapidly growing and HBL today has the largest network of ATMs deployed in the Country: during the year 242 ATMS were added taking the total number of ATMs to 750 all over Pakistan. Branchless Banking Pilot Project was launched pan Pakistan in the last quarter of 2012. HBL is committed to provide convenient and efficient banking solutions for its customers. The Bank has entered into an agreement with Union Pay (UP) of China to issue UP cards in Pakistan and global markets where HBL has presence. This alliance will give HBL the ability to advance its financial inclusion plan by providing innovative and affordable product solutions for its customers. HBL also plans to launch a new state of art internet banking platform to include web portal access via smart application.

In order to increase the customer base, enhanced services and improve efficiency 33 new branches were added to the HBL network, increasing the total number of branches to 1540 by 2012. The number of online branches as of December 31, 2012 is 1404. A new web based Home Remittances system was launched during the year to provide enhanced transaction processing and enquiry capability to our customers, correspondent banks and HBL branches.

Other Initiatives

It is the endeavor of HBL to continue to be a key developer of consumer finance products for its customers. To achieve this objective HBL has entered into an agreement with Citibank Pakistan to acquire its Credit Card and Consumer Lending Portfolio in Pakistan. The acquisition of this business will strengthen HBL position in consumer banking particularly Credit Card market.

With a view to further strengthen risk management, the Bank set itself the goal of implementing the Foundation Internal Rating Based (FIRB) approach of Basel II for the management of credit risk. During 2012 the Bank achieved significant milestones in this regard. The implementation of FIRB approach will provide impetus to the Bank in its efforts in organizational realignment, better portfolio and capital management, streamlining and automation of credit processes and, most importantly, risk based strategic planning. The Bank is in the process of development of Internal Credit Risk Rating Models. The rating models are expected to be developed during 2013 as is the

substantial completion of the second and final phase of data collection for the purpose of refinement and validation of these models. Roll out of these models is targeted for 2014.

The Internal Audit function of the Bank is being further strengthened. The Internal Audit is in the process of shifting Internal Audit's Strategy from protecting value to adding-value to the business processes of the organization, adoption of Risk Based Audit Approach to target high-risk areas of the audit universe and continue the shift away from traditional 100% transactional audit. The Internal Audit Function also intends to enhance expertise to assist implementation of Basel II in the areas of credit risks, market risk and operational risk within the time limit as prescribed by State Bank of Pakistan.

The current financial global crises has posed serious challenges to the financial services industry, worldwide. Pakistan is also facing serious economic challenges due to high commodity prices, energy crises, huge losses to public sector enterprises (PSEs), and decline in foreign direct investment and increasing current account deficit. As a result certain businesses in the country have been severely affected leading to cash flow and debt repayment issues. In today's volatile economic environment, managing stressed accounts require specialized and complex relationship skill in legal and business issues to support private sector as engine for growth. A new "Structural Credits Function" has been set up to manage the classified portfolio along with all those complex relationships that require specialized management.

The Bank has also set up a new "Investor Relations and Corporate Representation Function" with a view to maintaining HBL's profile as a Public Listed Company and to monitor performance of HBL's subsidiaries and associates.

Dividend / Bonus

The Board has recommended a final dividend of Rs.4.00 per share for the year ended December 31, 2012. The Board had earlier declared and paid interim dividend @ Rs.3.5 per share, making total dividend for the year to Rs.7.50 per share. In addition to above the Board has also decided to issue Bonus Share at the rate of 10% in proportion of 10 shares for every 100 shares held.

Credit Rating Upgraded

JCR VIS Credit Rating Agency of Pakistan has upgraded the entity ratings of the Bank to "AAA / A-1+" (Triple A / A-One Plus) from "AA+/A-1+" (Double A Plus / A-One Plus) with 'Stable' outlook. HBL has therefore become the first private sector bank of Pakistan to achieve this landmark.

Awards

HBL was conferred with following awards:

1. "Leading Bank in Home Remittances" Award for the year 2011 by the Pakistan Remittance Initiative
2. "Strongest Bank in Pakistan" by Asian Banker Magazine.

Future Outlook

The reduction in policy rate by 450 bps since 2011, without any reduction in minimum deposit rate on saving accounts will significantly reduce banking sector spreads. Continuing energy crises and slow down in global economy would continue to arrest growth and as a consequence the demand for fresh credit from private sector is likely to be slow in the near future. The banks would, therefore, be forced to invest in low yield government securities and as a result profit margin of the banking sector may be affected.

Changes in Directorship

Mr. R. Zakir Mahmood retired as President & CEO of the Bank after serving for over twelve years on September, 28 2012. He will, however, continue as a Director on the Board of HBL. Mr. Nauman K. Dar has been appointed as President & CEO of HBL. The Board places on record their appreciation for the contribution of Mr. R. Zakir Mahmood and wish the new President and CEO Mr. Nauman K. Dar every success.

Meetings of the Board:

Eleven Board meetings were held during 2012 and were attended by the Directors as follows:

| Name | | Attendance |
|---------------------------|---------------------------------------|------------|
| Mr. Sultan Ali Allana | Chairman | 11 |
| Mr. Nauman K. Dar* | President and Chief Executive Officer | 3 |
| Mr. R. Zakir Mahmood** | Director | 11 |
| Mr. Moez Ahamed Jamal | Director | 11 |
| Mr. Sajid Zahid | Director | 11 |
| Mr. Ahmed Jawad | Director | 11 |
| Mr. Mushtaq Malik | Director | 11 |
| Mr. Sikandar Mustafa Khan | Director | 11 |

*Appointed as President & CEO w.e.f September 29,2012

**Retired as President & CEO w.e.f September 28,2012

Auditors:

The present auditors, Messrs Ernst & Young Ford Rhodes Sidat Hyder, retire. As per Code of Corporate Governance they are eligible for reappointment. Accordingly, the Board of Directors endorses the recommendation of the Audit Committee for the appointment of Messrs Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, as the auditors of the bank for the financial year 2013.

Statement under Section XVI of the Code of Corporate Governance:

The Board is committed to ensure that requirements of corporate governance set by Securities and Exchange Commission of Pakistan are fully met and the Directors are pleased to report that:

- a) The financial statements prepared by the management of the Bank present a true and fair view of the state of its affairs, operational results, cash flows and changes in equity.
- b) Proper books of accounts of the Bank have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) The Bank has followed international accounting standards (as applicable to Banks in Pakistan) in the preparation of accounts and there is no departure from the said standards.
- e) As a continuous process, efforts have been made to effectively implement the internal control system. HBL is in the process of adopting an internationally accepted COSO Internal Control – Integrated Framework as part of compliance with SBP Internal Control Guidelines. The Bank has also evaluated its Internal Control over Financial Reporting (ICFR) using the US PCAOB Auditing Standard (AS – 5). A dedicated Management Testing and Reporting Framework for ICFR is being developed as a part of COSO implementation project.
- f) There are no doubts about the Banks' ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance as detailed in the regulations.
- h) Key operating and financial data for the last ten years is presented in the financial statements under the section "Progress since 2002 to 2012 – Consolidated".
- i) The Directors, CEO, CFO and Company Secretary have confirmed that neither they nor their spouses are engaged in the business of stock brokerage.
- j) Risk Management, Human Resource and Audit Committees constituted by the Board are functioning efficiently in accordance with their Terms of Reference. The Board has met regularly and held eleven meetings in the year.

The Statement of Internal Control, Statement of Compliance with Review Report and the Auditors' reports are attached to the Financial Statements.

Statement of Corporate Social Responsibility – (CSR)

HBL as a responsible Corporate Citizen is committed in fulfilling its role to serve society in areas such as health, education, low cost housing, disaster mitigation, environment protection, preservation of craft, culture and heritage, arts, poverty alleviation, empowerment of women, rural/socio economic development, entrepreneurial development and strengthening of civil society.

To achieve above objectives the Bank established HBL Foundation in 2009 with the mandate to promote development and well being of the people with the objective of improving their quality of life. The Bank has been consistently donating huge amount to the Fund towards achievement of its objective. A sum of Rs.218 million was donated to the Fund in 2012, whereas total donation by the Bank amounted to Rs. 255 million (including donation to the Foundation) for 2012 for the achieving objectives as set out above.

HBL is an equal opportunity employer based on merit without any discrimination in race, religion and gender. It provides extensive in house training facilities for continuous personal development of its employees.

HBL is extremely active in promoting sports in Pakistan. In this connection the Bank regularly sponsors / co-sponsors several sports events.

Value of Investments in employee retirement benefits fund:

The following is the value of investments of provident, gratuity, pension and benevolent funds maintained by the Bank, based on the latest audited financial statements.

| | Rupees in Million |
|--|-------------------|
| Employee's Provident Fund | 8,224 |
| Employee's Pension Fund | 3,620 |
| Employee's Gratuity Fund | 1,146 |
| Employee's Benevolent Fund – Executive and Officers | 997 |
| Employee's Benevolent Fund – Clerical and Non-Clerical | 354 |

Pattern of Shareholding:

The pattern of Shareholding as at December 31, 2012 is annexed to the financial statements.

Training programs attended by Directors:

Details have been provided in Statement of Compliance.

Appreciation and Acknowledgement:

I would like to appreciate the efforts of our Regulators and Government of Pakistan and in particular the Ministry of Finance and the State Bank of Pakistan for developing and strengthening the banking and financial service industry through improved regulatory and governance framework.

I would like to take this opportunity to also thank on behalf of the Board and Management of the Group, the customers and the shareholders for entrusting their confidence in us and assure them that we remain committed to maintaining high service standards and a strong culture of good corporate governance and compliance in all our endeavors.

On behalf of the Board

Nauman K. Dar

President & Chief Executive Officer

February 12, 2013

Statement of Internal Control

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievements of the Bank's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. Management assumes the responsibility of establishing and maintaining adequate internal controls and procedures under the policies approved by the Board. In this connection the Bank has documented Procedures and Manuals, which incorporates the internal controls applicable while conducting any banking transactions. These procedures are revised and updated as and when required.

The Internal Audit Group (IAG) of the Bank reviews the adequacy and implementation of internal controls on a regular basis and deficiencies if any are followed up until they are rectified. Quarterly updates on unresolved significant issues highlighted by the IAG are reviewed by the Audit Committee of the Board of Directors together with the recommendations for improvements.

The system of internal control is designed to minimize the risk of failure to achieve the organization's policies, aims and objectives; it can therefore, only provide reasonable and not absolute assurance against material misstatements or loss. The system of internal controls being followed by the Bank is considered adequate and sound in design and is being effectively implemented and monitored.

HBL is in compliance with the requirements and timelines of Staged Roadmap for implementation of the State Bank of Pakistan (SBP) Internal Control Guidelines. The Bank has adopted internationally accepted COSO Internal Control – Integrated Framework for overall set of Internal Controls and is submitting quarterly status report on the progress of the Bank's compliance with the Internal Controls over Financial Reporting (ICFR) based on the road map issued vide BSD Circular dated February 24, 2009. There is a formal process of approval by the Board audit committee on a quarterly basis as required under BSD Circular dated January 16, 2012. The External Auditors of the Bank has completed the Long Form Report on the Bank's internal controls as of September 30, 2012 which has been submitted to SBP.

Jamil Iqbal
Chief Compliance Officer

Ayaz Ahmed
Chief Financial Officer

Salim Amlani
Chief Internal Auditor

Review Report

To the Members, Statement of Compliance with the best practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) for the year ended 31 December 2012 prepared by the Board of Directors (the Board) of Habib Bank Limited (the Bank) to comply with the Regulation G-1 of Prudential Regulation for Corporate / Commercial Banking issued by the State Bank of Pakistan.

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

As part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Bank's corporate governance procedures and risks.

Further, Sub - Regulation (x) of Listing Regulation 35 notified by The Karachi Stock Exchange Limited requires the Bank to place before the Board for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code, effective for the year ended 31 December 2012.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: February 12, 2013
Karachi

Statement of Compliance

With the best practices of Code of Corporate Governance for the year ended December 31, 2012

This Statement is being presented to comply with the Code of Corporate Governance (the Code) contained in the Regulation No. 35 of the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Board has adopted the Code of Corporate Governance and applies the principles in the following manner:

- The Board has eight Directors in which except for the Chief Executive Officer, four Directors including the Chairman are non-executive and three are independent Directors i.e. Mr. Moez Jamal, Mr. Sajid Zahid and Mr. Sikandar Mustafa Khan.
- The Directors have confirmed that none of them is serving as a director in more than seven listed companies.
- All the resident Directors have confirmed that they are registered taxpayers and none of them have defaulted in the payment of any loans to a banking company, a development financial institution or non-banking finance company or stock exchange.
- The Board of Directors of Habib Bank Limited was elected in 2012 for a three year term which will expire on March 26, 2015.
- No casual vacancy occurred on the Board during the year. However under section 200(2) of the Companies Ordinance, 1984 and Article 67(iii) of the Article of Association of the Bank the new President and CEO was appointed on September 28, 2012.
- The Board adopted a vision / mission statement, overall corporate strategy and significant policies of the Bank. The Bank maintains a complete record/ log of all policies along with the dates on which these were approved or amended including the dates when these are required to be updated.
- All the major decisions relating to investment and disinvestment of funds are taken in accordance with the policies laid down by the Board of Directors.
- The Board of Directors has approved the appointment, remuneration and terms and conditions of employment of the Chief Executive Officer.
- All meetings of the Board of Directors were chaired by Mr. Sultan A. Allana, Chairman of the Board. The Board met eleven times during the year and continued to closely monitor the Bank's performance. The committees of the Board also met regularly during the year. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated. The Chief Financial Officer and the Company Secretary also attended the meetings of the Board.
- As the Directors had undergone training with the Institute of Directors, UK at the onset of their Term on the Board, this year no training was planned. However, the Directors have familiarized themselves

with their responsibilities under the Code of Corporate Governance and other relevant laws / regulations have received a Directors Manual explaining the relevant laws and regulations. .

- The Board has approved the appointments of the Chief Financial Officer, Head of Internal Audit and Company Secretary including their remuneration and terms and conditions of their employment.
- The Director's Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
- The Directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank, except as mentioned in the Pattern of Share Holding.
- The Bank has circulated the Code of Ethics and Business Conduct, which has been approved by the Board of Directors.
- The Chief Executive Officer and Chief Financial Officer have duly endorsed the financial statements of the Bank before its approval by the Board.
- The Bank has complied with the applicable corporate and financial reporting requirements of the Code.
- The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan and the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on Code of ethics as adopted by the Institute of Chartered Accountants of Pakistan. The auditors have also confirmed that they or any of the partners of the firm, their spouses and minor children do not hold any shares in the Bank.
- The statutory auditors or the persons associated with them have not been appointed to provide other services other than approved services and the auditors have confirmed that they have observed IFAC guidelines in this regard.
- The Board Audit Committee comprises of three members, all of whom are non-executive directors including the Chairman of the Committee. The Board Risk Management Committee and Board HR Committee comprise of three members each, a majority of whom are non-executive directors. The Chairman of both the Committees is a non-executive director. The IT Steering Committee was discontinued by the Board on October 31, 2012.
- An effective Internal Audit Group is in place. The Head of Internal Audit reports directly to the Board Audit Committee.
- The Audit Committee met eleven times during the year 2012. On the recommendation of the Audit Committee, the Board approves the Financial Statements of the bank. The Terms of Reference of the Audit Committee have been formulated and approved by the Board.
- The other Board Committees met as follows:
 - i. Board Risk Management Committee six times in the year.
 - ii. Board Human Resource Committee six times in the year.
 - iii. Board IT Steering Committee one time in the year.
- The Board considers and approves the related party transactions after review of the Audit Committee.

- We confirm that all other material principles contained in the Code have been complied with.
- The 'Closed period' prior to announcement of interim/final results, and business decisions, which may materially affect the market price of companies' securities, was determined and intimated to Directors, Employees and Stock Exchanges.
- Material / price sensitive information has been disseminated among all market participants at once through stock exchanges.

This Statement of Compliance with best practices of corporate governance is being published and circulated along with the annual report of the Bank.

For and on behalf of the Board

Nauman K. Dar

President & Chief Executive Officer

February 12, 2013

Auditors' Report

To the members - Consolidated

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of Habib Bank Limited ("the Bank") and its subsidiary companies as at 31 December 2012 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flows statement together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions / conclusions on the financial statements of Habib Bank Limited and its subsidiary companies namely HBL Asset Management Limited, First Habib Bank Modaraba and HBL Currency Exchange (Private) Limited. The financial statements of remaining subsidiary companies were audited / reviewed by other firms of Chartered Accountants whose reports have been furnished to us and our opinion in so far as it relates to the amounts included for such companies, is based solely on the reports of such other auditors.

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.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of Habib Bank Limited and its subsidiary companies as at 31 December 2012 and the results of their operations for the year then ended.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: February 12, 2013
Karachi

Consolidated Statement of Financial Position

As At December 31, 2012

| 2012 (US \$ in '000) | 2011 (US \$ in '000) | | Note | 2012 (Rupees in '000) | 2011 (Rupees in '000) |
|--------------------------------------|-------------------------|---|------|--------------------------|--------------------------|
| ASSETS | | | | | |
| 1,618,425 | 1,064,333 | Cash and balances with treasury banks | 5 | 157,229,517 | 103,399,623 |
| 493,877 | 487,387 | Balances with other banks | 6 | 47,980,032 | 47,349,505 |
| 255,567 | 428,010 | Lendings to financial institutions | 7 | 24,828,255 | 41,581,029 |
| 8,204,807 | 4,308,857 | Investments | 8 | 797,094,548 | 418,604,147 |
| 5,144,822 | 4,707,865 | Advances | 9 | 499,817,906 | 457,367,656 |
| 243,257 | 197,300 | Operating fixed assets | 10 | 23,632,324 | 19,167,654 |
| 62,342 | 74,894 | Deferred tax asset | 11 | 6,056,483 | 7,275,888 |
| 552,441 | 461,234 | Other assets | 12 | 53,669,507 | 44,808,703 |
| <u>16,575,538</u> | <u>11,729,880</u> | | | <u>1,610,308,572</u> | <u>1,139,554,205</u> |
| LIABILITIES | | | | | |
| 194,990 | 143,022 | Bills payable | 13 | 18,943,207 | 13,894,502 |
| 2,023,481 | 406,318 | Borrowings | 14 | 196,580,548 | 39,473,670 |
| 12,506,098 | 9,610,236 | Deposits and other accounts | 15 | 1,214,963,700 | 933,631,525 |
| 56,003 | 51,839 | Sub-ordinated loans | 16 | 5,440,654 | 5,036,100 |
| - | - | Liabilities against assets subject to finance lease | | - | - |
| - | - | Deferred tax liability | | - | - |
| 425,555 | 390,442 | Other liabilities | 17 | 41,342,703 | 37,931,420 |
| <u>15,206,127</u> | <u>10,601,857</u> | | | <u>1,477,270,812</u> | <u>1,029,967,217</u> |
| <u>1,369,411</u> | <u>1,128,023</u> | NET ASSETS | | <u>133,037,760</u> | <u>109,586,988</u> |
| REPRESENTED BY: | | | | | |
| Shareholders' equity | | | | | |
| 124,784 | 113,440 | Share capital | 18 | 12,122,748 | 11,020,680 |
| 405,347 | 330,889 | Reserves | | 39,379,354 | 32,145,755 |
| 695,045 | 586,525 | Unappropriated profit | | 67,523,215 | 56,980,697 |
| <u>1,225,176</u> | <u>1,030,854</u> | Total equity attributable to the equity holders of the Bank | | <u>119,025,317</u> | <u>100,147,132</u> |
| 12,632 | 12,726 | Non-controlling interest | | 1,227,207 | 1,236,290 |
| 131,603 | 84,443 | Surplus on revaluation of assets - net of deferred tax | 19 | 12,785,236 | 8,203,566 |
| <u>1,369,411</u> | <u>1,128,023</u> | | | <u>133,037,760</u> | <u>109,586,988</u> |
| CONTINGENCIES AND COMMITMENTS | | | | | |
| 20 & 21 | | | | | |

The annexed notes 1 to 49 and annexures I to V form an integral part of these consolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Consolidated Profit and Loss Account

For the year ended December 31, 2012

| 2012 (US \$ in '000) | 2011 | | Note | 2012 (Rupees in '000) | 2011 |
|---------------------------------------|-----------|--|-----------|--------------------------|------------|
| 1,201,987 | 1,014,727 | Mark-up / return / profit / interest earned | 22 | 116,772,653 | 98,580,423 |
| 607,438 | 434,198 | Mark-up / return / profit / interest expensed | 23 | 59,012,392 | 42,182,220 |
| 594,549 | 580,529 | Net mark-up / profit / interest income | | 57,760,261 | 56,398,203 |
| 74,564 | 68,941 | Provision against non-performing loans and advances | 9.4 / 9.6 | 7,243,887 | 6,697,555 |
| 72 | (797) | Charge / (reversal) against off-balance sheet obligations | 17.1 | 7,015 | (77,393) |
| (4,981) | 2,440 | (Reversal) / charge against diminution in the value of investments | 8.7 | (483,865) | 237,083 |
| - | - | Bad debts written off directly | | - | - |
| 69,655 | 70,584 | | | 6,767,037 | 6,857,245 |
| 524,894 | 509,945 | Net mark-up / profit / interest income after provisions | | 50,993,224 | 49,540,958 |
| Non mark-up / interest income | | | | | |
| 69,848 | 62,645 | Fee, commission and brokerage income | | 6,785,687 | 6,085,970 |
| 5,046 | 4,474 | Dividend income | | 490,213 | 434,606 |
| 17,397 | 11,131 | Share of profit of associates and joint venture | | 1,690,100 | 1,081,358 |
| 26,434 | 38,663 | Income from dealing in foreign currencies | | 2,568,079 | 3,756,094 |
| 14,005 | 5,580 | Gain on sale of securities | 24 | 1,360,596 | 542,118 |
| 260 | (379) | Unrealised gain / (loss) on held for trading securities | 8.13 | 25,253 | (36,820) |
| 31,294 | 30,052 | Other income | 25 | 3,040,178 | 2,919,535 |
| 164,284 | 152,166 | Total non mark-up / interest income | | 15,960,106 | 14,782,861 |
| 689,178 | 662,111 | | | 66,953,330 | 64,323,819 |
| Non mark-up / interest expense | | | | | |
| 319,727 | 302,334 | Administrative expenses | 26 | 31,061,370 | 29,371,659 |
| 2,860 | (1,152) | Other provisions / write offs - net | 12.1 | 277,848 | (111,873) |
| 188 | 799 | Other charges | 27 | 18,285 | 77,588 |
| 7,253 | 6,846 | Workers welfare fund | 28 | 704,620 | 665,047 |
| 330,028 | 308,827 | Total non mark-up / interest expenses | | 32,062,123 | 30,002,421 |
| 359,150 | 353,284 | | | 34,891,207 | 34,321,398 |
| Profit before taxation | | | | | |
| Taxation | | | | | |
| 129,469 | 107,662 | - current | 29 | 12,577,897 | 10,459,376 |
| 4,336 | 291 | - prior years | | 421,210 | 28,264 |
| (4,772) | 15,447 | - deferred | | (463,640) | 1,500,736 |
| 129,033 | 123,400 | | | 12,535,467 | 11,988,376 |
| 230,117 | 229,884 | Profit after taxation | | 22,355,740 | 22,333,022 |
| Attributable to: | | | | | |
| 229,092 | 228,410 | Equity holders of the Bank | | 22,256,064 | 22,189,763 |
| (578) | 587 | Non-controlling interest | | (56,174) | 57,063 |
| 1,603 | 887 | Minority investor of HBL Funds | | 155,850 | 86,196 |
| 230,117 | 229,884 | | | 22,355,740 | 22,333,022 |
| -----Rupees----- | | | | | |
| | | Basic and diluted earnings per share | 30 | 18.36 | 18.30 |

The annexed notes 1 to 49 and annexures I to V form an integral part of these consolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2012

| 2012 (US \$ in '000) | 2011 | | 2012 (Rupees in '000) | 2011 |
|-------------------------|----------------|---|--------------------------|-------------------|
| 230,116 | 229,883 | Profit for the year | 22,355,740 | 22,333,022 |
| | | Other comprehensive income | | |
| (1,604) | (887) | Minority share of HBL funds transferred to other liabilities | (155,850) | (86,196) |
| 52,526 | 7,177 | Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates | 5,102,885 | 697,203 |
| <u>281,038</u> | <u>236,173</u> | Comprehensive income transferred to equity | <u>27,302,775</u> | <u>22,944,029</u> |
| | | Components of comprehensive income not recognized as income and equity | | |
| 17,203 | - | Surplus on revaluation of fixed assets | 1,671,231 | - |
| (1,811) | - | Deferred tax on revaluation of fixed assets | (175,930) | - |
| 50,751 | 4,946 | Surplus on revaluation of investments | 4,930,408 | 480,500 |
| (16,421) | (2,300) | Deferred tax on revaluation of investments | (1,595,283) | (223,430) |
| <u>330,760</u> | <u>238,819</u> | | <u>32,133,201</u> | <u>23,201,099</u> |
| | | Attributable to: | | |
| 329,614 | 237,884 | Equity holders of the Bank | 32,021,819 | 23,110,263 |
| 566 | 715 | Non-controlling interest | 55,035 | 69,415 |
| 580 | 220 | Minority investor | 56,347 | 21,421 |
| <u>330,760</u> | <u>238,819</u> | | <u>32,133,201</u> | <u>23,201,099</u> |

The annexed notes 1 to 49 and annexures I to V form an integral part of these consolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2012

| Share capital | Attributable to shareholders of the Group | | | | | | Sub Total | Non-controlling interest | Total |
|---------------|---|--------------------------------|------|------------------|-----------------------|--|-----------|--------------------------|-------|
| | Exchange translation reserve | Reserves | | Revenue reserves | | | | | |
| | | Statutory reserves | Bank | General | Unappropriated profit | | | | |
| | | Joint venture and subsidiaries | | | | | | | |

------(Rupees in '000)-----

Balance as at December 31, 2010 10,018,800 9,216,986 254,641 13,810,116 6,073,812 47,467,704 86,842,059 1,212,656 88,054,715

Total comprehensive income for the year

| | | | | | | | | | |
|---|---|---------|---|---|---|------------|------------|--------|------------|
| Profit for the year ended December 31, 2011 | - | - | - | - | - | 22,275,959 | 22,275,959 | 57,063 | 22,333,022 |
| Minority share of HBL funds transferred to other liabilities | - | - | - | - | - | (86,196) | (86,196) | - | (86,196) |
| - Other comprehensive income | | | | | | | | | |
| Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates | - | 670,235 | - | - | - | - | 670,235 | 26,968 | 697,203 |
| | - | 670,235 | - | - | - | 22,189,763 | 22,859,998 | 84,031 | 22,944,029 |

Transactions with owners, recorded directly in equity

| | | | | | | | | | |
|--|-----------|---|--------|-----------|---|--------------|-------------|----------|-------------|
| Final cash dividend paid at Rs. 6.5 per share for the year ended December 31, 2010 | - | - | - | - | - | (6,512,220) | (6,512,220) | - | (6,512,220) |
| Issued as bonus shares | 1,001,880 | - | - | - | - | (1,001,880) | - | - | - |
| Half year interim cash dividend paid at Rs. 3 per share | - | - | - | - | - | (3,306,204) | (3,306,204) | - | (3,306,204) |
| Cash dividend paid at Rs. 1.3 per certificate by modaraba | - | - | - | - | - | - | - | (46,458) | (46,458) |
| | 1,001,880 | - | - | - | - | (10,820,304) | (9,818,424) | (46,458) | (9,864,882) |
| Transferred from surplus on revaluation of fixed assets - net of tax | - | - | - | - | - | 263,499 | 263,499 | - | 263,499 |
| Transferred to statutory reserve | - | - | 45,783 | 2,074,182 | - | (2,119,965) | - | - | - |
| Minority share of surplus on revaluation of securities of subsidiaries | - | - | - | - | - | - | - | (13,939) | (13,939) |

Balance as at December 31, 2011

11,020,680 9,887,221 300,424 15,884,298 6,073,812 56,980,697 100,147,132 1,236,290 101,383,422

Total comprehensive income for the year

| | | | | | | | | | |
|---|---|-----------|---|---|---|------------|------------|----------|------------|
| Profit for the year ended December 31, 2012 | - | - | - | - | - | 22,411,914 | 22,411,914 | (56,174) | 22,355,740 |
| Minority share of HBL funds transferred to other liabilities | - | - | - | - | - | (155,850) | (155,850) | - | (155,850) |
| - Other comprehensive income | | | | | | | | | |
| Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates | - | 5,024,599 | - | - | - | - | 5,024,599 | 78,286 | 5,102,885 |
| | - | 5,024,599 | - | - | - | 22,256,064 | 27,280,663 | 22,112 | 27,302,775 |

Transactions with owners, recorded directly in equity

| | | | | | | | | | |
|--|-----------|---|--------|-----------|---|-------------|-------------|----------|-------------|
| Final Cash dividend paid at Rs. 4 per share for the year ended December 31, 2011 | - | - | - | - | - | (4,408,272) | (4,408,272) | - | (4,408,272) |
| Half year interim cash dividend paid at Rs. 3.5 per share | - | - | - | - | - | (4,242,962) | (4,242,962) | - | (4,242,962) |
| Cash dividend at Rs. 1.475 per certificate by modaraba | - | - | - | - | - | - | - | (52,713) | (52,713) |
| Issued as bonus shares | 1,102,068 | - | - | - | - | (1,102,068) | - | - | - |
| | 1,102,068 | - | - | - | - | (9,753,302) | (8,651,234) | (52,713) | (8,703,947) |
| Transferred from surplus on revaluation of fixed assets - net of tax | - | - | - | - | - | 248,756 | 248,756 | - | 248,756 |
| Transferred to statutory reserve | - | - | 52,583 | 2,156,417 | - | (2,209,000) | - | - | - |
| Minority share of surplus on revaluation of securities of subsidiaries | - | - | - | - | - | - | - | 21,518 | 21,518 |

Balance as at December 31, 2012

12,122,748 14,911,820 353,007 18,040,715 6,073,812 67,523,215 119,025,317 1,227,207 120,252,524

The annexed notes 1 to 49 and annexures I to V form an integral part of these consolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Consolidated Cash Flow Statement

For the year ended December 31, 2012

| 2012 (US \$ in '000) | 2011 (US \$ in '000) | | Note | 2012 (Rupees in '000) | 2011 (Rupees in '000) |
|-------------------------|-------------------------|---|------|--------------------------|--------------------------|
| 359,151 | 353,284 | CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| | | Profit before taxation | | 34,891,207 | 34,321,398 |
| (22,443) | (15,604) | Dividend income and share of profit of associates and joint venture | | (2,180,313) | (1,515,964) |
| (14,005) | (5,580) | Gain on sale of securities | | (1,360,596) | (542,117) |
| (36,448) | (21,184) | | | (3,540,909) | (2,058,081) |
| 322,703 | 332,100 | | | 31,350,298 | 32,263,317 |
| | | Adjustment for: | | | |
| 14,629 | 14,661 | Depreciation | | 1,421,212 | 1,424,290 |
| 820 | 453 | Amortisation | | 79,704 | 44,024 |
| (4,981) | 2,440 | (Reversal) / charge against diminution in the value of investments | | (483,865) | 237,083 |
| 74,564 | 68,941 | Provision against non-performing loans and advances | | 7,243,887 | 6,697,555 |
| (260) | 379 | Unrealised (gain) / loss on held for trading securities | | (25,253) | 36,820 |
| 1,836 | 7,764 | Exchange (gain) / loss on sub-ordinated loans / Goodwill - net | | 178,325 | 754,265 |
| 317 | (80) | Loss / (gain) on sale of operating fixed assets - net | | 30,821 | (7,798) |
| (491) | - | Gain on sale of non-banking assets | | (47,707) | - |
| 2,932 | (2,589) | Miscellaneous provisions | | 284,863 | (251,568) |
| 89,366 | 91,969 | | | 8,681,987 | 8,934,671 |
| 412,069 | 424,069 | | | 40,032,285 | 41,197,988 |
| | | (Increase) / decrease in operating assets | | | |
| 172,443 | (115,715) | Landings to financial institutions | | 16,752,774 | (11,241,685) |
| (281,239) | (33,296) | Investments - held for trading | | (27,322,283) | (3,234,710) |
| (511,521) | (44,418) | Advances | | (49,694,137) | (4,315,199) |
| (92,367) | (75,476) | Other assets | | (8,973,417) | (7,332,423) |
| (712,684) | (268,905) | | | (69,237,063) | (26,124,017) |
| | | Increase / (decrease) in operating liabilities | | | |
| 51,968 | 42,403 | Bills payable | | 5,048,705 | 4,119,409 |
| 1,617,163 | (10,151) | Borrowings | | 157,106,878 | (986,190) |
| 2,895,863 | 1,917,214 | Deposits and other accounts | | 281,332,175 | 186,256,726 |
| 33,071 | 116,836 | Other liabilities | | 3,212,720 | 11,350,560 |
| 4,598,065 | 2,066,302 | | | 446,700,478 | 200,740,505 |
| 4,297,450 | 2,221,466 | | | 417,495,700 | 215,814,476 |
| (135,843) | (126,805) | Income tax paid - net | | (13,197,145) | (12,319,038) |
| 4,161,607 | 2,094,661 | Net cash flows from operating activities | | 404,298,555 | 203,495,438 |
| | | CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| (3,527,318) | (1,632,843) | Net investments | | (342,677,896) | (158,630,248) |
| 5,042 | 4,228 | Dividend income received | | 489,850 | 410,732 |
| (42,051) | (31,836) | Fixed capital expenditure | | (4,085,247) | (3,092,889) |
| (2,002) | (15,917) | Goodwill | | (194,483) | (1,546,303) |
| 1,861 | 1,712 | Proceeds from sale of fixed assets | | 180,783 | 166,312 |
| 823 | - | Proceeds from sale of non-banking assets | | 80,000 | - |
| 51,720 | 6,899 | Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates | | 5,024,599 | 670,235 |
| (3,511,925) | (1,667,757) | Net cash flows used in investing activities | | (341,182,394) | (162,022,161) |
| | | CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| 806 | 278 | Exchange adjustment on translation of non-controlling interest in subsidiary | | 78,286 | 26,968 |
| (89,903) | (100,922) | Dividend paid | | (8,734,026) | (9,804,548) |
| (89,097) | (100,644) | Net cash flows used in financing activities | | (8,655,740) | (9,777,580) |
| 560,585 | 326,260 | Increase in cash and cash equivalents during the year | | 54,460,421 | 31,695,697 |
| 1,467,081 | 1,207,154 | Cash and cash equivalents at beginning of the year | | 142,526,488 | 117,274,665 |
| 84,639 | 18,306 | Effects of exchange rate changes on cash and cash equivalents | | 8,222,640 | 1,778,766 |
| 1,551,720 | 1,225,460 | | | 150,749,128 | 119,053,431 |
| 2,112,305 | 1,551,720 | Cash and cash equivalents at end of the year | 31 | 205,209,549 | 150,749,128 |

The annexed notes 1 to 49 and annexures I to V form an integral part of these consolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

1. THE GROUP AND ITS OPERATIONS

Habib Bank Limited (the Bank) is incorporated in Pakistan and is engaged in commercial banking, modaraba management and asset management related services in Pakistan and overseas. The Bank's Registered office is situated at Habib Bank Tower, 4th Floor, Jinnah Avenue, Islamabad and principal office is at Habib Bank Plaza, I.I.Chundrigar Road, Karachi. The Bank's shares are listed on all three stock exchanges in Pakistan. The Bank operates 1,497 (2011: 1,464) branches inside Pakistan including 33 (2011: 22) Islamic Banking Branches and 43 branches (2011: 42) outside the country including Karachi Export Processing Zone (KEPZ).

Holding company

Habib Bank Limited, Pakistan

Subsidiaries

- Habib Finance International Limited, Hong Kong – wholly owned
- Habib Bank Financial Services (Private) Limited, Pakistan – wholly owned
- HBL Currency Exchange (Private) Limited, Pakistan – wholly owned
- HBL Asset Management Limited, Pakistan – wholly owned
- Habib Allied International Bank Plc., United Kingdom – shareholding at 90.50%
- Habibsons Bank Limited, United Kingdom – shareholding at 90.50%
- First Habib Bank Modaraba, Pakistan
- HBL Stock Fund, Pakistan – shareholding 81.08%
- HBL Multi Asset Fund, Pakistan - shareholding 89.96%
- HBL Income Fund, Pakistan - shareholding 61.57%

The subsidiary company of the Bank, Habib Bank Financial Services (Private) Limited exercises control over Habib Bank Modaraba as its management company and also has a direct economic interest in it. The Bank has consolidated the financial statements of the modaraba as the ultimate holding company. Habibsons Bank Limited is wholly owned subsidiary of Habib Allied International Bank Plc.

2. BASIS OF PRESENTATION

- In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.
- The US Dollar amounts shown in the consolidated financial statements are stated solely for information convenience. The statement of consolidated financial position, profit and loss account, statement of comprehensive income and cash flow statement for the year ended December 31, 2012 and 2011 and have been converted using the exchange rate of Rs. 97.1497 per US Dollar.

2.1 Basis of measurement

These financial statements have been prepared under the historical cost convention except that certain classes of fixed assets are stated at revalued amounts less accumulated depreciation, trading and available for sale investments, derivative financial instruments and forward foreign exchange contracts are measured at fair value.

The consolidated financial statements are presented in Pakistan Rupees, which is Bank's functional currency. The amounts are rounded to nearest thousand.

2.2 Basis of consolidation

- Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, so as to obtain economic benefits from its activities.

- The consolidated financial statements incorporate the financial statements of Habib Bank Limited and the financial statements of subsidiary companies from the date that control commences until the date that control ceases. The financial statements of such subsidiary companies are incorporated on a line-by-line basis and the investment held by the Bank is eliminated against the corresponding share capital of subsidiaries in the consolidated financial statements.
- Material intra-group balances and transactions are eliminated.
- Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control established by contractual agreement. Associates and joint ventures are accounted for using the equity method.

2.3 Use of estimates and judgments

The preparation of consolidated financial statements in conformity with the approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Group's financial statements or where judgment was exercised in application of accounting policies are as follows:

- i) Classification of investments (refer 4.3)
- ii) Valuation and impairment of available for sale equity investments and associates (refer 4.12)
- iii) Provision against non performing advances (refer 4.4)
- iv) Fixed assets, depreciation and amortisation (refer 4.5)
- v) Fair value of derivatives (refer 4.17)
- vi) Defined benefits plans and other benefits (refer 4.8)

2.3.1 Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

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 of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP and Securities and Exchange Commission of Pakistan (SECP). Whenever the requirements of Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the directives issued by SBP and SECP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the said directives shall prevail.

The SBP, vide its BSD Circular Letter No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments Recognition and Measurement and International Accounting Standard 40, Investment Property for banking companies till further instructions. Further, SECP has deferred applicability of IFRS - 7, Financial Instruments: Disclosures on banks through S.R.O 411(1)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2013:

- Amendments to IAS 1 Presentation of Financial Statements: Financial statement presentation' regarding other comprehensive income (effective for annual periods beginning on or after 1 July 2012). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position.

- Amendments to IAS 19 - Employee benefits (Revised): For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognized in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income / expense. All other changes in the net defined benefit asset / liability are recognized in other comprehensive income with no subsequent recycling to profit and loss. Had the change been taken in current year, profit before taxation would have been higher by Rs. 1.18 billion and comprehensive income would have been lower by Rs. 1.18 billion.
- Amendments in IAS 28 Investments in Associates: As a consequence of the new IFRS 11 Joint Arrangements, IAS 28 Investments in Associates, has been renamed as IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment results in no impact on the Group's financial position as it is already accounting joint ventures through equity method. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.
- Amendments in IAS 32 Financial Instruments: Presentation Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014). These amendments clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. It is clarified that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event. Further clarifying offsetting criteria to settlement systems, the IAS 32 requires the reporting entity to intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion. These amendments are likely to affect presentation of assets and liabilities in the Group's financial position.
- Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

IASB Effective date
(annual periods beginning
Standard on or after)

| | |
|--|------------------|
| IFRS 9 – Financial Instruments: Classification and Measurement | January 01, 2015 |
| IFRS 10 – Consolidated Financial Statements | January 01, 2013 |
| IFRS 11 – Joint arrangements | January 01, 2013 |
| IFRS 12 – Disclosure of Interest in Other Entities | January 01, 2013 |
| IFRS 13 – Fair Value Measurement | January 01, 2013 |

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury and other banks in current and deposit accounts.

4.2 Lendings / borrowings (reverse repo / repo)

Where securities are sold subject to a commitment to re-purchase them at a pre-determined price, they remain on the statement of financial position and a liability is recorded in respect of the consideration received in "borrowings". Conversely, securities purchased under analogous commitments to resell are not recognized on the statement of financial position and the consideration paid is recorded in "lendings to financial institutions".

The difference between the sale and purchase price is recognized as mark-up / return expensed or earned on time proportion basis as the case may be.

4.3 Investments

The Group classifies its investment portfolio into the following categories:

Held-for-trading

These are securities, which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term trading exists.

Held-to-maturity

These are securities with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold till maturity.

Available-for-sale

These are investments that do not fall under the held-for-trading or held-to-maturity categories.

Investments, including those referred to in para above, are accounted for as follows:

- Quoted securities are carried at fair value.
- Unquoted equity securities are valued at lower of cost and break-up value. Break-up value of unquoted equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.
- Securities classified as held-to-maturity are carried at amortised cost less impairment loss if any.

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 those categorised as held for trading includes transaction costs associated with the investments. In case of investments classified as held for trading, transaction costs are expensed in the profit and loss account.

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulation issued by the SBP.

Any unrealized surplus / deficit arising on revaluation of investments classified as 'held-for-trading' are taken to the profit and loss account and unrealized surplus / deficit arising on revaluation of investments classified as 'available-for-sale' is taken directly to "surplus / deficit on revaluation of securities" in the statement of financial position.

Investment in associates / joint venture

Associates and joint venture are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost and the carrying amount is increased /decreased to recognize the investor's share of the profit and loss / reserve of the investee subsequent to the date of acquisition.

4.4 Advances

Advances are stated net of provision against non-performing advances. Provision against non-performing advances of Pakistan operations and domestic subsidiaries, including general provision is made in accordance with the requirements of the prudential regulations issued by the SBP. Provision against non-performing advances of overseas branches and subsidiary companies are made as per the requirements of the respective regulatory regimes. Advances are written off when there are no realistic prospects of recovery in accordance with the requirements of the prudential regulations issued by the SBP or the requirements of respective regulatory regimes.

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 recognized at an amount equal to the present value of the lease payments including any guaranteed residual value. Net investment in finance lease is included in advances to customers.

Ijarah

Assets given on Ijarah, after taking into account the estimated residual value, are stated at cost less accumulated depreciation using straight line method over the life of the asset. Impairment evaluation of loss on sale expected from the unilateral commitment given by the customer to purchase the asset at the expiry of the Ijarah term and the Group's policy to accept the offer is carried out by comparing the Written Down Value to the Net Present Value of the expected cash flows at the date of statement of financial position. Impairment losses evaluated, are booked in the Profit and Loss Account as and when occurred. The residual value of the Ijarah asset is the estimated amount that Group could obtain from disposal of assets as defined in para 6 of IAS 16 - Property, plant and equipment. This has been estimated on the basis that all assets given on Ijarah have an economic life of ten years and if the assets were depreciated over this life the written down value at end of Ijarah term would represent the residual value.

These Ijarah are shown under advances and further analysis is provided in annexure V of these consolidated financial statements.

4.5 Operating fixed assets and depreciation

4.5.1 Tangible

Fixed assets and capital work-in-progress, are stated at cost, except for land and buildings which are carried at revalued amount less accumulated depreciation, where applicable, and accumulated impairment losses (if any).

Cost of fixed assets of foreign branches and subsidiary companies include exchange differences arising on translation at year-end rates. 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. Surplus arising on revaluation is credited to the 'surplus on revaluation of fixed assets' account (net of deferred tax). Under the provision of the Companies Ordinance, 1984, deficit arising on revaluation of fixed assets is adjusted against the balance in the above surplus account.

All operating assets are being depreciated over their expected useful lives using the straight-line method from the date the assets are available for use.

Depreciation is calculated so as to write-off the assets over their expected useful lives at the rates specified in note 10.3 to these consolidated financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each date of statement of financial position.

Depreciation on addition and deletion of tangible assets during the year is charged in proportion to the period of use.

Normal repairs and maintenance are charged to the profit and loss account as and when incurred. However, renewals are capitalized.

Gains or losses arising on the disposal of fixed assets are included in income currently. Surplus on revaluation of fixed assets (net of deferred tax) realized on disposal and incremental depreciation during the year is transferred directly to un-appropriated profit.

4.5.2 Intangible

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method over their estimated useful lives. Amortization is charged at the rate stated in note 10.2. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful lives and amortization method are reviewed and adjusted, if appropriate at each date of statement of financial position. Intangible assets having an indefinite useful life are stated at acquisition cost less impairment, if any.

4.5.3 Goodwill

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at its cost less accumulated impairment losses, if any. Goodwill acquired in a business combination is tested for impairment annually or whenever there is an indication of impairment as per the requirements of International Accounting Standard (IAS) 36, 'Impairment of Assets'. Impairment charge in respect of goodwill is recognized in the profit and loss account.

4.6 Borrowings / deposits

- a) Borrowings / deposits are recorded at the proceeds received.
- b) The cost of borrowings / deposits is recognized as an expense in the period in which this is incurred.

4.7 Sub - Ordinated Debt

Sub-ordinated debt is initially recorded at the amount of proceeds received. Mark-up accrued on sub-ordinated debt is charged to the profit and loss account.

4.8 Employee benefits

The Bank operates the following schemes for its employees:

i) Approved Pension Fund (Defined benefit scheme)

For those who opted for pension scheme introduced in 1977, the Bank operates a pension scheme to its executives / officers and clerical employees. However, for the executives / officers this benefit is based on the salary and services as at March 31, 2005. The Provident Fund and Gratuity benefit were offered to such executives / officers in respect of the future service after that date. During the year, the Bank has shifted the gross pension calculation basis to the last drawn basic salary at the time of retirement. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

ii) Approved Gratuity Fund (Defined benefit scheme)

For those who did not opt for pension scheme introduced in 1977 and opted for Gratuity scheme instead and for the new employees hired on or after 01.01.2002, the Bank operates approved gratuity scheme. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

iii) Provident Fund (Defined contributory scheme)

Under this scheme, both employees and the Bank contribute to the fund.

iv) Benevolent Fund (Defined contributory scheme)

The Bank operates funded benevolent schemes for its executives / officers and clerical employees. Under this scheme, the employees of the Bank are entitled to receive defined grants / facilities during their service and after retirement. The benevolent fund plan covers all the employees of the Bank. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

v) Post Retirement Medical Benefits

The Bank also provides post retirement medical benefits to its officers/executives and clerical employees retiring before December 31, 2005. The employees under officers and executives cadre are entitled to receive lump sum payments in lieu of post retirement medical facilities as a full and final settlement, effective January 01, 2006 onwards. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

vi) Compensated Absences

The Bank also makes provision in the financial statements for its liabilities towards compensated absences. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

vii) Other Post Retirement Benefits

The scheme offers a maximum of six months' benefits to executives retiring after completing 25 years of service. However in case of death of an executive, the house rent benefit is paid for one year. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

Actuarial gain / loss

Actuarial gain / loss arise out of differences between actuarial assumptions and actual experience are recognized immediately in profit and loss.

Other schemes

Employee benefits offered by subsidiary companies are as follows:

| | |
|---|--|
| Habib Allied International Bank Plc. United Kingdom | Defined Contribution Pension scheme |
| Habibsons Bank Limited, United Kingdom | Defined Contribution Pension scheme |
| Habib Finance International Limited, Hong Kong | Provident fund and long service payment scheme |

4.9 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to Pakistani rupees at the exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of statement of financial position. The fair value of forward cover taken from the SBP for foreign currency deposits is added / deducted from value of foreign currency deposits. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

Foreign operations

The assets and liabilities of foreign operations are translated to Pakistani rupees at exchange rates prevailing at the date of statement of financial position. The income and expenses of foreign operations are translated at average rate of exchange for the year.

Translation gains and losses

Translation gains and losses are included in the profit and loss account, except those arising on the translation of net investment in foreign operations i.e., foreign branches, subsidiaries, joint ventures or associates which are taken to equity under "Exchange Translation Reserve" and are recognized in profit or loss account on disposal.

Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of statement of financial position.

4.10 Revenue recognition

Advances and investments

Income on advances is recognized on a time proportion basis as per terms of contract. Debt security investments are recognized on a time proportion basis that takes into account effective yield on the asset. Where debt securities are purchased at a premium or discount, those premiums / discounts are amortized through the profit and loss account over the remaining maturity, using the effective yield method.

Interest or mark-up / profit recoverable on classified advances and investments is recognized on receipt basis. Interest / mark-up / profit on rescheduled / restructured advances and investments is recognized as permitted by the regulations of SBP or overseas regulatory authorities of countries where the branches / companies operate, except where in the opinion of the management it would not be prudent to do so.

Dividend income from investments (other than those which are accounted for under the equity method) is recognized when the right to receive is established.

Lease financing

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) 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.

Unrealized lease income is suspended on classified leases, in accordance with the requirements of the Prudential Regulations of the SBP. Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognized as income on receipt basis. Repossessed vehicles on account of default are recorded in memorandum account.

Murabaha

Murabaha transactions are reflected as receivable at the invoiced amount. However, the profit on that sale revenue not due for payment is deferred by recording a credit to the "Deferred Murabaha Income" account.

Letters of credit and guarantees

Commission on letters of credit and guarantees etc. is recognized on time proportion basis.

Customer Loyalty Programmes

The revenue from award credits for loyalty points earned on use of various products of the Group is measured by reference to their fair value and is recognised when award credits are redeemed.

Fee, Commission and Brokerage Income

Fee, Commission and Brokerage income is recognized on accrual basis

4.11 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity.

Current

Current taxation is the tax payable on taxable income earned from local as well as foreign operations for the year using tax rates enacted at the date of statement of financial position and, any adjustments to tax payable relating to prior years.

Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences between the amounts attributed to the assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognized on differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

4.12 Impairment

i) Available for sale equity securities

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

ii) Impairment in associates and subsidiaries

The Group considers that the decline in the recoverable value of the investment in associates and subsidiaries below their cost may be evidence of impairment. Recoverable value is calculated as the higher of fair value less costs to sell and value in use. An impairment loss is recognized when the recoverable amount falls below the carrying value and is charged to the profit and loss account. Subsequent reversal of impairment loss, upto the cost of the investment in associates and subsidiaries, is credited to the profit and loss account.

iii) Impairment in non-financial assets

The carrying amount of the Groups' assets (other than deferred tax asset) are reviewed at each date of statement of financial position to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account except for an impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the revaluation surplus. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

4.13 Provision for guarantee claim

Provision for guarantee claim is recognized when intimated and reasonable certainty exists that the Group will settle the obligation. Expected recoveries are recognized by debiting customer's account. Charge to profit and loss account is stated net of expected recoveries.

4.14 Other provisions

Other provisions are recognized when the Group has a legal or constructive obligation as a result of past events and it is probable that 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 date of statement of financial position and are adjusted to reflect the current best estimate.

4.15 Off setting

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

4.16 Financial Assets and Liabilities

Financial instruments carried on the statement of financial position include cash and bank balances, lending to financial institutions, investments, advances, certain receivables, bills payable, borrowings, deposits, sub-ordinated loans and certain other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the relevant policy notes.

4.17 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value using valuation techniques. All the derivative financial instruments are carried as an asset when the fair value is positive and liability when the fair value is negative. Any change in the fair value of derivative financial instruments is taken directly to the profit and loss account.

4.18 Dividend distribution

Declarations of dividend to holders of the equity instruments of the Group are recognised as liability in the period in which it is approved.

4.19 Earnings per share

The Group presents basic and diluted earnings per share (EPS). Basic and diluted earnings per share is calculated by dividing profit for the year attributable to equityholders of the Group by the weighted average number of ordinary shares outstanding during the year.

4.20 Share issuance cost

Share issuance cost directly attributable to issuance of shares, is recognized as deduction from the share premium account.

4.21 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format of reporting is based on business segments.

Business segments

- Retail Banking

Consists of retail lending, deposits and banking services to private individuals and small businesses including credit cards.

- Corporate / Commercial Banking

Consists of lendings for project finance, trade finance, corporate and commercial customers and investment banking, includes advices and placements to corporate mergers and acquisitions, underwriting, privatizations and securitization.

- Treasury

Involves the businesses of proprietary trading, fixed income, equity and foreign exchanges.

- International Banking Group

It represents Group's operations in 25 countries and is considered a separate segment for monitoring purposes.

- Head Office

This includes balances held at Head Office level for regulatory requirements or other operational reasons and business segments not shown separately. This also includes some non performing loans not managed by other business segments, statutory liquidity and shareholders equity related balances and their associated cost / income.

Geographical segments

The group operates in following geographic regions:

- Pakistan
- Asia Pacific (including South Asia)
- Europe
- North America
- Middle East
- Others

| 5. CASH AND BALANCES WITH TREASURY BANKS | Note | 2012 (Rupees in '000) | 2011 |
|--|-----------|--------------------------|--------------------|
| In hand including National Prize Bonds | | | |
| Local currency | | 20,759,210 | 14,845,215 |
| Foreign currency | | <u>3,591,355</u> | <u>2,320,597</u> |
| | | 24,350,565 | 17,165,812 |
| With State Bank of Pakistan in | | | |
| Local currency current account | 5.2 | 33,565,059 | 32,539,366 |
| Foreign currency current account | | 4,996,232 | 3,369,553 |
| Foreign currency deposit account | 5.1 / 5.3 | <u>14,953,636</u> | <u>10,138,523</u> |
| | | 53,514,927 | 46,047,442 |
| With other Central Banks in | | | |
| Foreign currency current account | 5.1 / 5.4 | 49,948,770 | 15,163,891 |
| Foreign currency deposit account | | <u>13,723,506</u> | <u>10,347,857</u> |
| | | 63,672,276 | 25,511,748 |
| With National Bank of Pakistan in | | | |
| Local currency current account | | 15,691,749 | 14,674,621 |
| | | <u>157,229,517</u> | <u>103,399,623</u> |

5.1 The above balances include remunerative accounts amounting to Rs. 62,144.813 million (2011: 25,575.353 million).

5.2 This represents current accounts maintained for Cash Reserve Requirement of SBP.

5.3 This represents deposit accounts maintained for Special Cash Reserve Requirement of SBP and US Dollar Settlement account maintained with the SBP. This carries mark-up at the annual rate of 0% (2011: 0%).

5.4 Balances held with the Central Banks of respective countries in accordance with the local statutory / regulatory requirements. Since, the Group operates in different countries, these carry varied mark-up rates as given by the Central Banks of respective countries.

| 6. BALANCES WITH OTHER BANKS | Note | 2012 (Rupees in '000) | 2011 |
|------------------------------|------|--------------------------|-------------------|
| In Pakistan | | | |
| On current account | | 526,832 | 809,447 |
| On deposit account | | <u>402,282</u> | <u>-</u> |
| | | <u>929,114</u> | <u>809,447</u> |
| Outside Pakistan | 6.1 | | |
| On current account | | <u>8,519,315</u> | 5,473,648 |
| On deposit account | | <u>38,531,603</u> | <u>41,066,410</u> |
| | | <u>47,050,918</u> | <u>46,540,058</u> |
| | | <u>47,980,032</u> | <u>47,349,505</u> |

6.1 This includes remunerative current account balance amounting to Rs. 743.075 million (2011: Rs. 32.866 million). Since, the Group operates in different countries, these carry varied mark-up rates as given by the external banks of respective countries.

| 7. LENDINGS TO FINANCIAL INSTITUTIONS | Note | 2012 (Rupees in '000) | 2011 |
|--|-------|--------------------------|-------------------|
| 7.1. In local currency | | | |
| Call money lendings | 7.2.1 | 6,780,000 | 1,450,000 |
| Repurchase agreement lendings (reverse repo) | 7.2 | <u>18,048,255</u> | <u>40,131,029</u> |
| | | <u>24,828,255</u> | <u>41,581,029</u> |

| 7.2 Securities held as collateral against lendings to financial institutions | Note | 2012 | | | 2011 | | |
|--|-------|-------------------|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | | Held by Group | Further given as collateral | Total | Held by Group | Further given as collateral | Total |
| ----- (Rupees in '000) ----- | | | | | | | |
| Market treasury bills | | 15,763,590 | - | 15,763,590 | 38,058,870 | - | 38,058,870 |
| Pakistan investment bonds | 7.2.1 | <u>2,284,665</u> | - | <u>2,284,665</u> | <u>2,072,159</u> | - | <u>2,072,159</u> |
| | | <u>18,048,255</u> | - | <u>18,048,255</u> | <u>40,131,029</u> | - | <u>40,131,029</u> |

7.2.1 Market value of securities held as collateral against lendings to financial institutions as at December 31, 2012 amounted to Rs. 18,095.918 million (2011: Rs. 40,253.648 million). These carry annual mark-up rates ranging from 7% to 9.75% (2011: 12.15% to 13.10%) and 6.5% to 9.5% (2011: 11.25% to 13.40%) for call money lendings and repurchase agreement lendings respectively.

| 8. INVESTMENTS | Note | 2012 | | | 2011 | | |
|--|------------|------------------------------|---------------------|-------------|---------------|---------------------|-------------|
| | | Held by Group | Given as collateral | Total | Held by Group | Given as collateral | Total |
| 8.1 Investments by type | | ----- (Rupees in '000) ----- | | | | | |
| Held for Trading Securities (HFT) | | | | | | | |
| Federal Government Securities | | | | | | | |
| - Pakistan Investment Bonds | | 2,203,724 | - | 2,203,724 | 395,470 | - | 395,470 |
| - Market Treasury Bills | | 28,676,723 | - | 28,676,723 | 2,870,862 | - | 2,870,862 |
| Fully paid-up ordinary shares | | | | | | | |
| - Listed companies | | 31,195 | - | 31,195 | - | - | - |
| Overseas Government Securities | | | | | | | |
| Debentures and Corporate Debt Instruments / Units | | | | | | | |
| - Unlisted securities | | - | - | - | 1,349,186 | - | 1,349,186 |
| Investments of Mutual Funds | | 847,486 | - | 847,486 | 170,235 | - | 170,235 |
| | | 32,108,036 | - | 32,108,036 | 4,785,753 | - | 4,785,753 |
| Held-to-Maturity Securities (HTM) 8.3 | | | | | | | |
| Federal Government Securities | | | | | | | |
| - Pakistan Investment Bonds | 8.8 / 8.10 | 43,323,255 | - | 43,323,255 | 44,181,840 | - | 44,181,840 |
| Debentures and Corporate Debt Instruments / Units | | | | | | | |
| - Listed securities | | 210,064 | - | 210,064 | - | - | - |
| - Unlisted securities | | 4,052,624 | - | 4,052,624 | 4,251,370 | - | 4,251,370 |
| Overseas Government securities | | 12,198,340 | - | 12,198,340 | 8,726,933 | - | 8,726,933 |
| | | 59,784,283 | - | 59,784,283 | 57,160,143 | - | 57,160,143 |
| Available-for-Sale Securities (AFS) | | | | | | | |
| Federal Government Securities | | | | | | | |
| - Market Treasury Bills | 8.8/8.10 | 405,856,222 | 157,998,809 | 563,855,031 | 265,930,965 | - | 265,930,965 |
| - Pakistan Investment Bonds | | 46,136,502 | - | 46,136,502 | 26,335,105 | - | 26,335,105 |
| - Government of Pakistan Guaranteed Bonds | | 425,000 | - | 425,000 | 425,000 | - | 425,000 |
| - Government of Pakistan Bonds / Sukuk / (US Dollar / Euro) | | 32,413,964 | - | 32,413,964 | 16,461,243 | - | 16,461,243 |
| Overseas Government Securities | | | | | | | |
| Fully paid-up ordinary shares | | | | | | | |
| - Listed companies | | 4,232,888 | - | 4,232,888 | 2,510,571 | - | 2,510,571 |
| - Unlisted companies | | 769,510 | - | 769,510 | 761,038 | - | 761,038 |
| Debentures and Corporate Debt Instruments / Units | | | | | | | |
| - Listed securities | | 11,446,544 | - | 11,446,544 | 6,264,740 | - | 6,264,740 |
| - Unlisted securities | | 24,792,522 | - | 24,792,522 | 22,521,055 | - | 22,521,055 |
| NIT Units | | 11,113 | - | 11,113 | 11,529 | - | 11,529 |
| Preference shares | | 100,000 | - | 100,000 | 200,000 | - | 200,000 |
| Investments of mutual funds | | 3,031,728 | - | 3,031,728 | 3,436,951 | - | 3,436,951 |
| | | 536,022,884 | 157,998,809 | 694,021,693 | 352,827,146 | - | 352,827,146 |
| Investment in Associates and Joint Venture | 8.4 | 8,352,908 | - | 8,352,908 | 6,604,823 | - | 6,604,823 |
| Investment at cost | | 636,268,111 | 157,998,809 | 794,266,920 | 421,377,865 | - | 421,377,865 |
| Provision for diminution / impairment in the value of investments including associates | 8.7 | (1,755,518) | - | (1,755,518) | (2,364,383) | - | (2,364,383) |
| Net investment | | 634,512,593 | 157,998,809 | 792,511,402 | 419,013,482 | - | 419,013,482 |
| Surplus / (deficit) on revaluation of held for trading securities | 8.13 | 25,253 | - | 25,253 | (36,820) | - | (36,820) |
| Surplus / (deficit) on revaluation of available for sale securities | 19.2 | 4,477,925 | - | 4,477,925 | (366,720) | - | (366,720) |
| Surplus / (deficit) on revaluation of investment of associates | | 79,968 | - | 79,968 | (5,795) | - | (5,795) |
| Total investments at market value | | 639,095,739 | 157,998,809 | 797,094,548 | 418,604,147 | - | 418,604,147 |

8.2 Investments by segments

| | Note | 2012 (Rupees in '000) | 2011 |
|--|------|--------------------------|--------------------|
| Federal Government Securities | | | |
| - Market Treasury Bills | | 592,531,754 | 268,801,827 |
| - Pakistan Investment Bonds | | 91,663,481 | 70,912,415 |
| - Government of Pakistan Guaranteed Bonds | | 425,000 | 425,000 |
| - Government of Pakistan Bonds / Sukuk / (US Dollar / Euro) | | 32,413,964 | 16,461,243 |
| Overseas Government Securities | | 19,354,140 | 16,695,882 |
| Fully paid-up Ordinary Shares | | | |
| - Listed companies | | 4,264,083 | 2,510,571 |
| - Unlisted companies | | 769,511 | 761,038 |
| Debentures and Corporate Debt Instruments / Units | | | |
| - Listed securities | | 11,656,608 | 6,264,740 |
| - Unlisted securities | | 28,845,143 | 28,121,613 |
| Preference Shares | | 100,000 | 200,000 |
| NIT Units | | 11,113 | 11,529 |
| Investments of mutual funds | | 3,879,215 | 3,607,184 |
| Investment in Associates and Joint Venture | 8.4 | 8,352,908 | 6,604,823 |
| | | <u>794,266,920</u> | <u>421,377,865</u> |
| Less: Provision for diminution / impairment in the value of investments including associates | 8.7 | <u>(1,755,518)</u> | <u>(2,364,383)</u> |
| Net investment | | 792,511,402 | 419,013,482 |
| Surplus / (deficit) on revaluation of held for trading securities | 8.13 | 25,253 | (36,820) |
| Surplus / (deficit) on revaluation of available for sale securities | 19.2 | 4,477,925 | (366,720) |
| Surplus / (deficit) on revaluation of investment of associates | | 79,968 | (5,795) |
| | | <u>797,094,548</u> | <u>418,604,147</u> |

8.3 The market value of securities classified as "held-to-maturity" as at December 31, 2012 amounted to Rs. 61,691.295 million (2011: Rs. 56,195.087 million).

8.4 Investment in associates and joint venture company

2012
(Rupees in '000)

Kyrgyz Investment and Credit Bank, Kyrgyz Republic - Holding - 18% (2011: 18%)

- Unlisted

| | | |
|---|----------|---------|
| Opening balance | 561,913 | 335,536 |
| Investment during the year | - | 116,235 |
| Share of profit for the year - net of tax | 145,716 | 92,608 |
| Exchange translation reserve for the year | 50,624 | 22,158 |
| Dividend received during the year | (38,604) | (4,624) |
| | 719,649 | 561,913 |

Diamond Trust Bank Limited, Kenya - Holding - 11.68% (2011: 11.21%) - Listed

| | | |
|---|-----------|-----------|
| Opening balance | 2,000,634 | 1,502,241 |
| Investment during the year | 321,021 | 211,546 |
| Share of profit for the year - net of tax | 475,664 | 293,872 |
| Surplus on investment / fixed assets | 37,868 | - |
| Exchange translation reserve for the year | 109,388 | 20,665 |
| Dividend received during the year | (40,128) | (27,690) |
| | 2,904,447 | 2,000,634 |

Himalayan Bank Limited, Nepal, - Holding - 20% (2011: 20%) - Listed

| | | |
|---|-----------|-----------|
| Opening balance | 1,074,062 | 1,005,171 |
| Share of profit for the year - net of tax | 253,705 | 244,555 |
| Exchange translation reserve for the year | 56,161 | (130,066) |
| Dividend received during the year | (71,838) | (45,598) |
| | 1,312,090 | 1,074,062 |

| | Note | 2012 (Rupees in '000) | 2011 |
|--|-------|--------------------------|----------|
| Jubilee General Insurance Company Limited, - Holding - 16.24% (2011: 14.27%) - Listed | | | |
| Opening balance | | 935,504 | 561,790 |
| Investment during the year | | 139,800 | 297,722 |
| Share of profit for the year - net of tax | | 141,486 | 91,246 |
| Dividend received during the year | | (44,327) | (15,254) |
| | | 1,172,463 | 935,504 |
| Jubilee Life Insurance Company Limited, Holding - 17.95% (2011: 17.95%) - Listed | | | |
| Opening balance | | 518,781 | 482,871 |
| Investment during the year | | - | - |
| Share of profit for the year - net of tax | | 92,875 | 52,793 |
| Dividend received during the year | | (33,765) | (16,883) |
| | | 577,891 | 518,781 |
| HBL Money Market Fund, Holding - 3.18% (2011: 2.76%) - Listed | | | |
| Opening balance | | 231,315 | 175,477 |
| Investment during the year | | 52,000 | 29,000 |
| Share of profit for the year | | 26,393 | 26,762 |
| Surplus on investment | | 121 | 76 |
| | | 309,829 | 231,315 |
| | 8.5.2 | | |
| HBL Islamic Stock Fund, Holding - 97.65% (2011: 96.14%) - Listed | | | |
| Opening balance | | 256,349 | - |
| Investment during the year | | - | 250,000 |
| Share of profit for the year | | 65,524 | 11,260 |
| Surplus / (deficit) on investment | | 28,409 | (4,911) |
| | | 350,282 | 256,349 |
| HBL Islamic Money Market Fund, Holding - 73.14% (2011: 64.08%) - Listed | | | |
| Opening balance | | 267,158 | - |
| Investment during the year | | - | 250,000 |
| Share of profit for the year | | 26,041 | 17,158 |
| Deficit on investment | | (4) | - |
| | | 293,195 | 267,158 |
| HBL Pension Equity SubFund - Holding 92.53% (2011: 99.28%) - Unlisted | | | |
| Opening balance | | 29,713 | - |
| Investment during the year | | - | 30,000 |
| Share of profit for the year | | 3,281 | 105 |
| Surplus / (deficit) on investment | | 9,903 | (392) |
| | | 42,897 | 29,713 |
| HBL Pension Debt SubFund - Holding 44.50% (2011: 96.34%) - Unlisted | | | |
| Opening balance | | 30,169 | - |
| Investment during the year | | - | 30,000 |
| Share of profit for the year | | 3,416 | 171 |
| Surplus / (deficit) on investment | | 71 | (2) |
| | | 33,656 | 30,169 |
| HBL Pension Money Market SubFund - Holding 39.55% (2011: 97.26%)- Unlisted | | | |
| Opening balance | | 30,169 | - |
| Investment during the year | | - | 30,000 |
| Share of profit for the year | | 3,338 | 171 |
| Surplus / (deficit) on investment | | 18 | (2) |
| | | 33,525 | 30,169 |
| HBL Islamic Pension Equity SubFund - Holding 83.44% (2011: 99.93%)- Unlisted | | | |
| Opening balance | | 29,598 | - |
| Investment during the year | | - | 30,000 |
| Share of profit for the year | | 4,275 | 162 |
| Surplus / (deficit) on investment | | 9,559 | (564) |
| | | 43,432 | 29,598 |

| | 2012 (Rupees in '000) | 2011 (Rupees in '000) |
|--|--------------------------|--------------------------|
| HBL Islamic Pension Debt SubFund - Holding 65.25% (2011: 99.93%)- Unlisted | | |
| Opening balance | 30,200 | - |
| Investment during the year | - | 30,000 |
| Share of profit for the year | 2,983 | 200 |
| Deficit on investment | (91) | - |
| | 33,092 | 30,200 |
| HBL Islamic Pension Money Market SubFund - Holding 61.47% (2011: 99.97%) - Unlisted | | |
| Opening balance | 30,199 | - |
| Investment during the year | - | 30,000 |
| Share of profit for the year | 3,049 | 199 |
| Deficit on investment | (92) | - |
| | 33,156 | 30,199 |
| | 7,859,604 | 6,025,764 |

8.4.1 The market value of shares of above investments in listed associates at December 31, 2012 amounted to Rs. 9,972.507 million (2011: Rs. 4,857.766 million).

8.5 The Group has significant influence in Diamond Trust Bank Limited, Kyrgyz Investment and Credit Bank, Jubilee General Insurance Company Limited and Jubilee Life Insurance Company Limited because of Aga Khan Fund for Economic Development's (parent of Group) holding in these entities.

8.5.1 The investments have been tested for impairment under the policy of the Group as given in note no. 4.12 and provision has been made where required and disclosed in note no. 8.7.

8.5.2 The Group has subscribed for units of these funds. Currently, the holding of the Group is high due to initial investments which are expected to go down with sale of units. Accordingly, these investments have been accounted for as investment in associates under IAS 28.

8.6 Summary of financial information of associates and joint venture company

| | | 2012 | | | | | Profit / (loss) |
|---|--------------------|---|-------------|-------------|------------|-----------|--------------------|
| | | Based on the financial statements as on | Assets | Liabilities | Equity | Revenue | |
| ----- (Rupees in '000) ----- | | | | | | | |
| Diamond Trust Bank Limited, Kenya | September 30, 2012 | 146,682,771 | 126,868,021 | 19,814,750 | 13,721,613 | 3,225,369 | |
| Himalayan Bank Limited, Nepal | October 16, 2012 | 62,117,775 | 56,421,320 | 5,696,454 | 1,168,732 | 220,475 | |
| Kyrgyz Investment and Credit Bank | December 31, 2011 | 16,408,390 | 12,777,420 | 3,630,970 | 1,438,107 | 558,965 | |
| Jubilee Life Insurance Company Limited | September 30, 2012 | 21,001,275 | 19,408,222 | 1,593,053 | 107,922 | 360,791 | |
| Jubilee General Insurance Company Limited | September 30, 2012 | 10,860,248 | 7,030,003 | 3,830,245 | 2,828,804 | 583,993 | |
| HBL Money Market Fund | December 31, 2012 | 8,835,789 | 52,299 | 8,783,490 | 1,042,378 | 913,188 | |
| HBL Islamic Stock Fund | December 31, 2012 | 375,442 | 8,925 | 366,517 | 81,347 | 67,853 | |
| HBL Islamic Money Market Fund | December 31, 2012 | 414,391 | 3,305 | 411,086 | 44,249 | 35,567 | |
| HBL Pension Equity Sub Fund | December 31, 2012 | 46,635 | 310 | 46,325 | 4,265 | 3,429 | |
| HBL Pension Debt Sub Fund | December 31, 2012 | 74,793 | 414 | 74,379 | 5,976 | 5,768 | |
| HBL Pension Money Market Sub Fund | December 31, 2012 | 83,241 | 320 | 82,921 | 5,801 | 5,831 | |
| HBL Islamic Pension Equity Sub Fund | December 31, 2012 | 52,476 | 408 | 52,068 | 5,745 | 4,915 | |
| HBL Islamic Pension Debt Sub Fund | December 31, 2012 | 50,515 | 334 | 50,181 | 4,245 | 3,773 | |
| HBL Islamic Pension Money Market Sub Fund | December 31, 2012 | 53,328 | 233 | 53,095 | 4,144 | 3,856 | |



| | | 2011 | | | | |
|---|--------------------|-------------|-------------|------------|-----------|-----------------|
| Based on the financial statements as on | | Assets | Liabilities | Equity | Revenue | Profit / (loss) |
| ------(Rupees in '000)----- | | | | | | |
| Diamond Trust Bank Limited, Kenya | September 30, 2011 | 113,703,197 | 100,574,944 | 13,128,253 | 6,621,275 | 2,150,182 |
| Himalayan Bank Limited, Nepal | October 16, 2011 | 55,744,110 | 50,972,421 | 4,771,689 | 1,323,860 | 192,760 |
| Kyrgyz Investment and Credit Bank | December 31, 2010 | 10,701,739 | 8,523,794 | 2,177,945 | 959,402 | 158,962 |
| Jubilee Life Insurance Company Limited | September 30, 2011 | 14,455,998 | 13,182,256 | 1,273,742 | 350,947 | 217,937 |
| Jubilee General Insurance Company Limited | September 30, 2011 | 9,387,618 | 6,114,093 | 3,273,525 | 2,068,685 | 527,845 |
| HBL Money Market Fund | December 31, 2011 | 7,772,880 | 28,290 | 7,744,590 | 753,741 | 677,416 |
| HBL Islamic Stock Fund | December 31, 2011 | 280,280 | 6,635 | 273,645 | 21,119 | 11,588 |
| HBL Islamic Money Market Fund | December 31, 2011 | 427,923 | 2,388 | 425,535 | 31,038 | 26,486 |
| HBL Pension Equity Sub Fund | December 31, 2011 | 30,055 | 124 | 29,931 | 199 | 106 |
| HBL Pension Debt Sub Fund | December 31, 2011 | 31,443 | 126 | 31,317 | 272 | 177 |
| HBL Pension Money Market Sub Fund | December 31, 2011 | 31,146 | 126 | 31,020 | 271 | 176 |
| HBL Islamic Pension Equity Sub Fund | December 31, 2011 | 29,744 | 125 | 29,619 | 255 | 162 |
| HBL Islamic Pension Debt Sub Fund | December 31, 2011 | 30,347 | 126 | 30,221 | 294 | 200 |
| HBL Islamic Pension Money Market Sub Fund | December 31, 2011 | 30,335 | 126 | 30,209 | 293 | 199 |

8.6.1 The Group has made further investment in the following associates during the year, consequently, shareholding has increased to:

| | December 31, 2012 | December 31, 2011 |
|---|-------------------|-------------------|
| | Shareholding % | |
| Jubilee General Insurance Company Limited | 16.24% | 14.27% |
| Diamond Trust Bank Limited, Kenya | 11.68% | 11.21% |
| HBL Money Market Fund | 3.18% | 2.76% |

8.7 Particulars of provision held against diminution in value of investments

The balances disclosed in note 8.1 are stated net of specific provision held. The analysis of total provision held is as follows:

| | Note | 2012 (Rupees in '000) | 2011 |
|--|-------|--------------------------|-----------|
| Opening balance | | 2,364,383 | 2,122,286 |
| Charge | | 78,441 | 302,030 |
| Reversal | | (235,367) | (149,755) |
| Impairment charge on listed securities | | 130,434 | 200,166 |
| Impairment reversal on listed securities | | (457,373) | (115,358) |
| Total (reversal) / charge - net | | (483,865) | 237,083 |
| Write offs | | (125,000) | - |
| Exchange adjustment | | - | 5,014 |
| Closing balance | 8.7.1 | 1,755,518 | 2,364,383 |

2012
2011
(Rupees in '000)

8.7.1 Particulars of provision in respect of type and segment

Held to Maturity securities (HTM)

- Debentures and corporate debt instruments 17,623 50,511

Available-for-sale securities (AFS)

- Fully paid-up ordinary shares

- Listed companies 358,552 535,517

- Unlisted companies 57,982 51,241

- Debentures and corporate debt instruments 295,374 440,773

- Preference shares - 100,000

- Units 171,086 256,629

- Investments of mutual funds 281,640 356,451

Associate 573,261 573,261

1,755,518 2,364,383

8.8 Investments held for maintaining the liquidity requirements of the SBP amounted to Rs. 151.245 million as at December 31, 2012 (2011: Rs. 111.394 million).

8.9 Investments include Rs. 543.114 million as at December 31, 2012 (2011: Rs. 519.958 million) pledged with SBP and National Bank of Pakistan against TT/DD discounting facilities and demand loan facilities.

8.10 Investments include Rs. 9.992 million as at December 31, 2012 (2011: Rs. 9.567 million) pledged with the Controller of Military Accounts in lieu of Regimental Fund Accounts being maintained at various branches of the bank.

8.11 Investments include strategic investments amounting to Rs. 3,311 million as at December 31, 2012 (2011: Rs. 2,850 million) under BPD circular letter no. 16 of 2006 dated August 1, 2006.

8.12 Information relating to investments including credit ratings in shares of listed and unlisted companies, redeemable capital and bonds, required to be disclosed as part of the financial statements by the SBP, is given in Annexure "I" and is an integral part of these financial statements.

2012
2011
(Rupees in '000)

8.13 Unrealized gain / (loss) on revaluation of held for trading securities

Market Treasury Bills 16,298 1,504

Pakistan Investment Bonds 11,699 (2,955)

Shares (1,447) -

Overseas Government Securities 2,033 -

Investments of mutual fund (3,330) (35,369)

25,253 (36,820)

| | Note | 2012 (Rupees in '000) | 2011 (Rupees in '000) |
|--|-------|--------------------------|--------------------------|
| 9. ADVANCES | | | |
| Loans, cash credits, running finances, etc. | | | |
| In Pakistan | | 386,290,218 | 361,688,597 |
| Outside Pakistan | | 98,673,662 | 90,131,791 |
| | | <u>484,963,880</u> | <u>451,820,388</u> |
| Net investment in finance lease - in Pakistan | 9.1.3 | 4,729,126 | 3,852,860 |
| Bills discounted and purchased (excluding Government treasury bills) | | | |
| Payable in Pakistan | | 12,122,572 | 10,420,082 |
| Payable outside Pakistan | | 43,972,534 | 37,360,374 |
| | | 56,095,106 | 47,780,456 |
| Provision against non-performing advances | 9.4 | (45,970,206) | (46,086,048) |
| | | <u>499,817,906</u> | <u>457,367,656</u> |
| Fully provided non-performing advances classified as loss for more than five years | | | |
| In Pakistan | | 18,622,245 | 13,640,851 |
| Provision | 9.6 | (18,622,245) | (13,640,851) |
| | | <u>-</u> | <u>-</u> |
| 9.1 Particulars of advances | | | |
| 9.1.1 In local currency | | 366,324,313 | 334,292,895 |
| In foreign currency including foreign currency financing by domestic branches amounting to Rs. 19,631.886 million (2011: Rs. 20,045.548 million) | | 133,493,593 | 123,074,761 |
| | | <u>499,817,906</u> | <u>457,367,656</u> |
| 9.1.2 Short term (for upto one year) | | 346,365,974 | 248,901,472 |
| Long term (for over one year) | | 153,451,932 | 208,466,184 |
| | | <u>499,817,906</u> | <u>457,367,656</u> |

9.1.3 Net investment in finance lease

| | 2012 | | | | 2011 | | | |
|-----------------------------------|-------------------------|---|----------------------|------------------|-------------------------|---|----------------------|------------------|
| | Not later than one year | Later than one and less than five years | More than five years | Total | Not later than one year | Later than one and less than five years | More than five years | Total |
| ----- (Rupees in '000) ----- | | | | | | | | |
| Lease rentals receivable | 23,491 | 5,039,444 | 1,108,417 | 6,171,352 | 27,970 | 3,940,515 | 1,088,637 | 5,057,122 |
| Residual value | 31 | 6,605 | 1,453 | 8,089 | 215 | 30,006 | 8,393 | 38,614 |
| Gross investment in finance lease | 23,522 | 5,046,049 | 1,109,870 | 6,179,441 | 28,185 | 3,970,521 | 1,097,030 | 5,095,736 |
| Unearned finance income | (1,474) | (1,132,010) | (316,831) | (1,450,315) | (1,991) | (927,568) | (313,317) | (1,242,876) |
| Net investment in finance lease | <u>22,048</u> | <u>3,914,039</u> | <u>793,039</u> | <u>4,729,126</u> | <u>26,194</u> | <u>3,042,953</u> | <u>783,713</u> | <u>3,852,860</u> |

- 9.2 Advances include Rs. 56,236.494 million (2011: Rs. 56,549.062 million) which have been placed under non-performing status, other than those accounts classified as loss and fully provided for more than five years which have been placed in separate category as referred to in note 9.6, as detailed below:

| Category of classification | Note | 2012 | | | | | | | | |
|-----------------------------------|-------|-------------------------|-------------------|-------------------|-----------------------------|-------------------|-------------------|-----------------------------|------------------|-------------------|
| | | Non-performing advances | | | Provision required and held | | | Net non-performing advances | | |
| | | Domestic | Overseas | Total | Domestic | Overseas | Total | Domestic | Overseas | Total |
| ----- (Rupees in '000) ----- | | | | | | | | | | |
| Specific provision | | | | | | | | | | |
| Other assets especially mentioned | | 626,140 | - | 626,140 | - | - | - | 626,140 | - | 626,140 |
| Substandard | | 5,609,462 | 3,771,528 | 9,380,990 | 1,360,027 | 1,112,015 | 2,472,042 | 4,249,435 | 2,659,513 | 6,908,948 |
| Doubtful | | 4,333,278 | 1,899,356 | 6,232,634 | 2,110,217 | 1,220,517 | 3,330,734 | 2,223,061 | 678,839 | 2,901,900 |
| Loss | | 30,200,379 | 9,796,351 | 39,996,730 | 28,267,188 | 9,664,547 | 37,931,735 | 1,933,191 | 131,804 | 2,064,995 |
| | | <u>40,769,259</u> | <u>15,467,235</u> | <u>56,236,494</u> | <u>31,737,432</u> | <u>11,997,079</u> | <u>43,734,511</u> | <u>9,031,827</u> | <u>3,470,156</u> | <u>12,501,983</u> |
| General provision | 9.2.2 | - | - | - | 1,532,092 | 703,603 | 2,235,695 | - | - | - |
| | | <u>40,769,259</u> | <u>15,467,235</u> | <u>56,236,494</u> | <u>33,269,524</u> | <u>12,700,682</u> | <u>45,970,206</u> | <u>9,031,827</u> | <u>3,470,156</u> | <u>12,501,983</u> |

| Category of classification | 2011 | | | | | | | | | |
|-----------------------------------|-------------------------|-------------------|-------------------|-----------------------------|-------------------|-------------------|-----------------------------|------------------|------------------|-------------------|
| | Non-performing advances | | | Provision required and held | | | Net non-performing advances | | | |
| | Domestic | Overseas | Total | Domestic | Overseas | Total | Domestic | Overseas | Total | |
| ----- (Rupees in '000) ----- | | | | | | | | | | |
| Specific provision | | | | | | | | | | |
| Other assets especially mentioned | | 1,112,720 | - | 1,112,720 | - | - | - | 1,112,720 | - | 1,112,720 |
| Substandard | | 5,380,653 | 4,061,518 | 9,442,171 | 1,268,410 | 781,960 | 2,050,370 | 4,112,243 | 3,279,558 | 7,391,801 |
| Doubtful | | 3,963,781 | 2,316,268 | 6,280,049 | 1,981,891 | 1,732,995 | 3,714,886 | 1,981,890 | 583,273 | 2,565,163 |
| Loss | | 30,682,077 | 9,032,045 | 39,714,122 | 29,951,932 | 8,589,936 | 38,541,868 | 730,145 | 442,109 | 1,172,254 |
| | | <u>41,139,231</u> | <u>15,409,831</u> | <u>56,549,062</u> | <u>33,202,233</u> | <u>11,104,891</u> | <u>44,307,124</u> | <u>7,936,998</u> | <u>4,304,940</u> | <u>12,241,938</u> |
| General provision | | - | - | - | 1,277,089 | 501,835 | 1,778,924 | - | - | - |
| | | <u>41,139,231</u> | <u>15,409,831</u> | <u>56,549,062</u> | <u>34,479,322</u> | <u>11,606,726</u> | <u>46,086,048</u> | <u>7,936,998</u> | <u>4,304,940</u> | <u>12,241,938</u> |

- 9.2.1 Classification of overseas non-performing advances and provision there against and general provisioning of overseas advances have been made in accordance with the accounting policy as referred in note 4.4.

- 9.2.2 This includes general provision for agri loans amounting to Rs. 775 million which has been maintained by the Group on prudent basis as the Group is in process of analyzing the impact of flood effected portfolio on account by account level.

- 9.3 The Group monitors non-performing advances classified as loss for more than five years and fully provided as a separate category as shown in note 9.6. This category is not included in note 9.2 and in analytical break-up of other notes.

9.4 Particulars of provision against non-performing advances

| | Note | 2012 | | | 2011 | | |
|--|------|------------------------------|------------------|-------------------|-------------------|------------------|-------------------|
| | | Specific | General | Total | Specific | General | Total |
| | | ----- (Rupees in '000) ----- | | | | | |
| Opening balance | | 44,307,124 | 1,778,924 | 46,086,048 | 41,177,649 | 1,517,976 | 42,695,625 |
| Exchange adjustment / other movements | | 362,172 | 59,245 | 421,417 | 676,468 | 14,765 | 691,233 |
| Transfer of provision on consolidation of Habibsons Bank limited | | - | - | - | 110,342 | - | 110,342 |
| Charge for the year | | 8,610,432 | 489,473 | 9,099,905 | 7,668,524 | 260,441 | 7,928,965 |
| Reversals | | (841,249) | (91,947) | (933,196) | (401,035) | (14,258) | (415,293) |
| Net charge against non-performing loans | | <u>7,769,183</u> | <u>397,526</u> | <u>8,166,709</u> | <u>7,267,489</u> | <u>246,183</u> | <u>7,513,672</u> |
| Write offs | 9.7 | (2,710,584) | - | (2,710,584) | (753,595) | - | (753,595) |
| Transferred to interest suspense | | - | - | - | (2,198,908) | - | (2,198,908) |
| Transferred to over 5 years category | 9.6 | (5,993,384) | - | (5,993,384) | (1,972,321) | - | (1,972,321) |
| Closing balance | | <u>43,734,511</u> | <u>2,235,695</u> | <u>45,970,206</u> | <u>44,307,124</u> | <u>1,778,924</u> | <u>46,086,048</u> |
| In local currency | | 31,737,432 | 1,532,092 | 33,269,524 | 33,202,233 | 1,277,089 | 34,479,322 |
| In foreign currency | | 11,997,079 | 703,603 | 12,700,682 | 11,104,891 | 501,835 | 11,606,726 |
| | | <u>43,734,511</u> | <u>2,235,695</u> | <u>45,970,206</u> | <u>44,307,124</u> | <u>1,778,924</u> | <u>46,086,048</u> |

9.5 Forced sale value (FSV) against non-performing advances

In accordance with BSD Circular No. 2 dated January 27, 2009 and BSD Circular No.10 dated October 20, 2009 issued by the SBP, the Bank has availed the benefit of FSV against the non-performing advances (excluding consumer housing finance portfolio). Had this benefit of FSV not been taken by the Bank, the specific provision against non-performing advances as at December 31, 2012 would have been higher by Rs. 1,707.585 million and profit before taxation for the year ended December 31, 2012 would have been lower by approximately Rs.1,019.859 million (after taking into account the effect of discounting of FSV taken in previous year). Increase in retained earnings net of tax amounting to Rs. 1,109.930 million would not be available for the distribution of cash and stock dividend to share holders.

| | Note | 2012 (Rupees in '000) | 2011 |
|--|------|--------------------------|-------------------|
| 9.6 Particulars of provision against fully provided non-performing advances classified as loss for more than five years | | | |
| Opening balance | | 13,640,851 | 12,527,683 |
| Transferred to interest suspense | | (18,617) | - |
| Reversal | | (922,822) | (816,117) |
| Transferred during the year | 9.4 | 5,993,384 | 1,972,321 |
| Write offs | 9.7 | (70,551) | (43,036) |
| | | <u>18,622,245</u> | <u>13,640,851</u> |
| 9.7 Particulars of write-offs | | | |
| 9.7.1 Against provisions | | <u>2,781,135</u> | <u>796,631</u> |
| 9.7.2 Analysis of write-offs | | | |
| Rs. 500,000 and above in Pakistan (Note 9.8) | | 115,275 | 53,038 |
| Below Rs. 500,000 in Pakistan and overseas | | <u>2,665,860</u> | <u>743,593</u> |
| | | <u>2,781,135</u> | <u>796,631</u> |

9.8 Details of advances write-off of Rs 500,000 and above

The statement required under sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 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 December 31, 2012 is given in Annexure II.

9.9 Particulars of advances to directors, associated companies, etc.

| | 2012 | | | 2011 | | |
|---|------------------------------|--|----------------------------------|---------------------|--|----------------------------------|
| | Balance outstanding | Maximum total amount of loans and advances including temporary advances outstanding ** | Limit sanctioned during the year | Balance outstanding | Maximum total amount of loans and advances including temporary advances outstanding ** | Limit sanctioned during the year |
| | ----- (Rupees in '000) ----- | | | | | |
| Debts due by directors or executives of the Group or any of them either severally or jointly with any other persons: | | | | | | |
| - in respect of directors | - | - | - | - | - | - |
| - in respect of executives * (Other than KMPs) | 1,516,400 | 1,549,100 | 443,704 | 1,231,700 | 1,265,700 | 476,312 |
| - in respect of key management personnel / Companies in which key management personnel or their spouse are interested | 371,200 | 382,000 | 64,257 | 383,208 | 392,308 | 46,450 |
| Debts due by companies or firms in which the Key Management Personnel of the Group are interested as directors, partners or in the case of private companies as members | 792,234 | 1,284,393 | 100,000 | 1,270,273 | 1,298,593 | 391,500 |

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

* (These represent staff loans given by the Group to its executives as per their terms of employment)

** (Maximum amount has been arrived at by reference to month end balance)

| | Note | 2012 (Rupees in '000) | 2011 |
|--------------------------------------|------|--------------------------|-------------------|
| 10. OPERATING FIXED ASSETS | | | |
| Capital work-in-progress | 10.1 | 1,713,276 | 803,132 |
| Intangible assets | | | |
| - Goodwill | | 1,967,015 | 1,546,303 |
| - Computer software | 10.2 | 241,848 | 127,579 |
| Tangible fixed assets | 10.3 | 19,710,185 | 16,690,640 |
| | | <u>23,632,324</u> | <u>19,167,654</u> |
| 10.1 Capital work-in-progress | | | |
| Civil works | | 948,078 | 586,317 |
| Others | | 765,198 | 216,815 |
| | | <u>1,713,276</u> | <u>803,132</u> |



10.2 Intangible assets

| Description | 2012 | | | | | | Rate of amortization % |
|-------------------|------------------------------|-------------------------|---|-----------------------|-------------------------|-------------------|------------------------|
| | COST | | AMORTISATION | | Book value as at | | |
| | As at January 1, 2012 | As at December 31, 2012 | Charge for the year / (Amortisation on deletions) | As at January 1, 2012 | As at December 31, 2012 | December 31, 2012 | |
| Computer software | 1,559,048 | 194,006 (523) | 1,752,531 | 1,431,469 | 79,704 (490) | 1,510,683 | 241,848 33.33 |
| | ----- (Rupees in '000) ----- | | | | | | |
| Description | 2011 | | | | | | Rate of amortization % |
| | COST | | AMORTISATION | | Book value as at | | |
| | As at January 1, 2011 | As at December 31, 2011 | Charge for the year / (Amortisation on deletions) | As at January 1, 2011 | As at December 31, 2011 | December 31, 2011 | |
| Computer software | 1,427,860 | 133,475 (2,287) | 1,559,048 | 1,389,732 | 44,024 (2,287) | 1,431,469 | 127,579 33.33 |
| | ----- (Rupees in '000) ----- | | | | | | |

10.3 Tangible fixed assets

| Description | 2012 | | | 2012 | | | Rate of depreciation % | | |
|--|-----------------------|--|--|-------------------------|-----------------------|---|---|-------------------------|------------------------------------|
| | COST / REVALUATION | | DEPRECIATION | COST / REVALUATION | | DEPRECIATION | | | |
| | As at January 1, 2012 | Additions / (deletions) / adjustment during the year | Surplus / (deficit) on revaluation during the year | As at December 31, 2012 | As at January 1, 2012 | Charge for the year / (depreciation on deletions) / adjustments | Surplus / (deficit) on revaluation reversed during the year | As at December 31, 2012 | Book value as at December 31, 2012 |
| Land | 9,388,643 | 559,767 (156,864) (1,526) | 1,168,572 | 10,958,592 | - | - | - | - | 10,958,592 |
| Building | 5,638,063 | 612,904 (72,589) 176,984 | (402,712) | 5,952,650 | 879,104 | 169,191 (42,740) 69,415 | (452,204) | 622,766 | 5,329,884 |
| Machinery | 610,107 | 46,637 (15,275) | (93,781) | 547,688 | 463,533 | 124,900 (15,275) | (546,948) | 26,210 | 521,478 |
| Leasehold improvements | 2,238,639 | 344,867 (4,107) | - | 2,579,399 | 1,434,869 | 346,848 (2,358) | - | 1,779,359 | 800,040 |
| Furniture and fixtures and office equipments | 7,522,727 | 1,245,103 (343,876) 206,717 | - | 8,630,671 | 6,069,550 | 736,970 (323,460) 171,493 | - | 6,654,553 | 1,976,118 |
| Vehicles | 398,812 | 28,550 (33,839) 8,159 | - | 401,682 | 259,295 | 43,303 (31,146) 6,157 | - | 277,609 | 124,073 |
| | 25,796,991 | 2,837,828 (626,550) 390,334 | 672,079 | 29,070,682 | 9,106,351 | 1,421,212 (414,979) 247,065 | (999,152) | 9,360,497 | 19,710,185 |

----- Rupees in '000 -----



| Description | 2011 | | | | | | | | | | |
|--|----------------------------|--|--|-------------------------|-----------------------|---|---|-------------------------|------------------------------------|------------------------|--|
| | COST / REVALUATION | | | | | DEPRECIATION | | | | | |
| | As at January 1, 2011 | Additions / (deletions) / adjustment during the year | Surplus / (deficit) on revaluation during the year | As at December 31, 2011 | As at January 1, 2011 | Charge for the year / (depreciation on deletions) / adjustments | Surplus / (deficit) on revaluation Reversed during the year | As at December 31, 2011 | Book value as at December 31, 2011 | Rate of depreciation % | |
| | ----- Rupees in `000 ----- | | | | | | | | | | |
| Land | 8,468,476 | 1,059,068 (139,860) 959 | - | 9,388,643 | - | - | - | - | 9,388,643 | - | |
| Building | 5,075,310 | 412,018 (9,026) 159,761 | - | 5,638,063 | 631,663 | 181,852 (515) 66,104 | - | 879,104 | 4,758,959 | 2.5 | |
| Machinery | 571,482 | 38,625 | - | 610,107 | 274,997 | 188,536 | - | 463,533 | 146,574 | 10 | |
| Leasehold improvements | 2,006,688 | 231,951 | - | 2,238,639 | 1,102,465 | 332,405 | - | 1,434,870 | 803,769 | 20 | |
| Furniture and fixtures and office equipments | 6,761,329 | 682,723 (389,206) 467,881 | - | 7,522,727 | 5,386,417 | 663,385 (380,507) 400,255 | - | 6,069,550 | 1,453,177 | 20-33 | |
| Vehicles | 401,655 | 35,747 (38,323) (267) | - | 398,812 | 238,412 | 58,113 (36,879) (351) | - | 259,295 | 139,517 | 20 | |
| | 23,284,940 | 2,460,132 (576,415) 628,334 | - | 25,796,991 | 7,633,954 | 1,424,291 (417,901) 466,008 | - | 9,106,352 | 16,690,639 | | |

10.4 With effect from July 01, 2012, estimated useful life of building and vehicles has been revised from 40 to 60 years and 5 years to 10 years respectively to make it more reflective of consumption pattern of these assets. The effect of these changes on depreciation expense in current and next year is as follows:

| | December 31, 2012 | December 31, 2013 |
|----------------------------------|----------------------------|-------------------|
| | Building | Vehicle |
| | ----- Rupees in `000 ----- | |
| Decrease in Depreciation expense | 24,647 | 29,039 |
| | 17,500 | 36,352 |

10.5 Habib Bank Limited's (HBL) domestic properties were revalued by independent professional valuers as on June 30, 2012. These properties were revalued by Iqbal A. Nanjee & Co., professional valuers on the basis of market value. The revaluation has resulted in increasing the surplus on revaluation of fixed assets by Rs. 1,695.912 million. HBL property of Lebanon branch was revalued as on November 23, 2012 by Banking Control Commission of Lebanon resulted in a surplus of Rs. 15.721 million. HBL property of KEPZ branch was revalued on July 27, 2012 by J & M Associates, licensed valuer, on market value basis resulted in a surplus of Rs. 8.255 million. Moreover, properties of Habib Allied International Bank Plc., United Kingdom, subsidiary were revalued by Walker Fraser Steele, Chartered Surveyors and Property Link Professional Surveys Ltd. as on December 11, 2012 and December 03, 2012 respectively. These revaluations have resulted in a deficit of Rs.48.658 million. These revaluations have resulted in a cumulative surplus of Rs. 1,671.230 million. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

| | Domestic | Lebanon | KEPZ | UK |
|-----------|------------------------------|---------|-------|---------|
| | ----- (Rupees in '000) ----- | | | |
| Land | 9,446,155 | - | 232 | - |
| Building | 4,081,358 | 17,843 | 2,177 | 246,562 |
| Machinery | 70,588 | - | - | - |

The movement in surplus on revaluation of properties is given in note 19.1 to these consolidated financial statements.

10.6 Details of disposal of fixed assets

The information relating to disposal of fixed assets in aggregate having book value exceeding Rs. 250,000 or cost exceeding Rs. 1 million (whichever is lower), is required to be disclosed as part of the financial statements by the SBP is given in Annexure III and is an integral part of these consolidated financial statements.

10.7 At December 31, 2012 carrying value of properties and equipment retired from active service and held for disposal purposes amounted to Rs. 3.824 million (2011: Rs. 142.998 million). The cost / valuation of fully depreciated properties and equipment that are still in the Group's use, as at the above date, amounted to Rs. 5,116.025 million (2011: Rs. 4,450.289 million).

11. DEFERRED TAX ASSET

Deductible temporary differences on

- recognised tax losses
- provision against investments
- provision against doubtful debts & Off-balance sheet
- liabilities written back under sec. 34(5) of the ITO
- provision against others
- revaluation of investments

| Note | 2012 | 2011 |
|------|------------------|-----------|
| | (Rupees in '000) | |
| | 849,867 | 561,549 |
| | (167,641) | 96,475 |
| | 6,396,134 | 6,144,996 |
| | 1,329,865 | 972,498 |
| | 116,510 | 116,810 |
| 19.2 | (1,361,584) | 233,699 |
| | 7,163,151 | 8,126,027 |

Taxable temporary differences on

- fixed assets

| | | |
|--|-------------|-----------|
| | (1,106,668) | (850,139) |
|--|-------------|-----------|

Net deferred tax asset recognised by the Group

| | | |
|--|------------------|------------------|
| | <u>6,056,483</u> | <u>7,275,888</u> |
|--|------------------|------------------|

11.1 Movement in temporary differences during the year

| | Balance As at January 1, 2011 | Recognised in profit or loss | Recognised in equity | Other Movement | Balance as at December 31, 2011 | Recognised in profit or loss | Recognised in equity | Balance as at December 31, 2012 |
|--|-------------------------------------|------------------------------------|-------------------------|-------------------|--|------------------------------------|-------------------------|--|
| ------(Rupees in '000)----- | | | | | | | | |
| Deductible temporary differences on | | | | | | | | |
| - recognised tax losses | 720,579 | (176,009) | 24,012 | (7,033) | 561,549 | 201,023 | 87,295 | 849,867 |
| - provision against investments | 1,113,227 | (1,016,752) | - | - | 96,475 | (264,116) | - | (167,641) |
| - provision against doubtful debts & Off- balance sheet | 6,957,566 | (812,570) | - | - | 6,144,996 | 251,138 | - | 6,396,134 |
| - liabilities written back under sec. 34(5) of the ITO | 1,035,294 | (62,796) | - | - | 972,498 | 357,367 | - | 1,329,865 |
| - provision against others | 201,302 | (84,492) | - | - | 116,810 | (300) | - | 116,510 |
| - revaluation of investments | 457,129 | - | (223,430) | - | 233,699 | - | (1,595,283) | (1,361,584) |
| Taxable temporary differences on | | | | | | | | |
| - fixed assets | (912,894) | 62,755 | - | - | (850,139) | (81,472) | (175,057) | (1,106,668) |
| | <u>9,572,203</u> | <u>(2,089,864)</u> | <u>(199,418)</u> | <u>(7,033)</u> | <u>7,275,888</u> | <u>463,640</u> | <u>(1,683,045)</u> | <u>6,056,483</u> |

12. OTHER ASSETS

| | Note | 2012 (Rupees in '000) | 2011 |
|---|------|--------------------------|-------------------|
| Income / mark-up / profit accrued in local currency | | 13,921,481 | 14,721,650 |
| Income / mark-up / profit accrued in foreign currency | | 1,538,216 | 1,215,755 |
| Advances, deposits, advance rent and other prepayments | | 1,965,830 | 991,826 |
| Advances against murabaha | | 366,226 | 196,894 |
| Advance taxation (payments less provisions) | | 10,660,445 | 10,462,407 |
| Receivable from defined benefit plans | | - | 63,080 |
| Stationery and stamps on hand | | 42,494 | 41,684 |
| Accrued income | | 511,274 | 161,954 |
| Due from Government of Pakistan / SBP | | 2,547,755 | 1,622,525 |
| Unrealised gain on forward foreign exchange contract / derivative instruments | | 595,829 | 1,154,950 |
| Non-banking assets acquired in satisfaction of claims [market value Rs. 3,093.330 million (2011: Rs. 2,008.437 million)] | | 2,573,070 | 2,239,003 |
| Receivable from National Savings Centre / Clearing in transit | | 18,982,481 | 11,300,092 |
| Claims against fraud and forgeries | | 202,973 | 73,743 |
| Others | | 322,292 | 877,477 |
| | | <u>54,230,366</u> | <u>45,123,040</u> |
| Provision held against other assets | 12.1 | (560,859) | (314,337) |
| Other Assets - net | | <u>53,669,507</u> | <u>44,808,703</u> |

12.1 Provision against other assets

| | | |
|--------------------------|----------------|----------------|
| Opening balance | 314,337 | 455,888 |
| Charge for the year | 281,768 | 51,406 |
| Reversal | (3,920) | (163,279) |
| Net charge / (reversal) | 277,848 | (111,873) |
| Write off | (36,946) | (29,501) |
| Other movement | - | (4,500) |
| Exchange adjustment | 5,620 | 4,323 |
| Closing balance | <u>560,859</u> | <u>314,337</u> |

13. BILLS PAYABLE

| | Note | 2012 (Rupees in '000) | 2011 |
|------------------|------|--------------------------|-------------------|
| In Pakistan | | 18,363,545 | 13,087,411 |
| Outside Pakistan | | 579,662 | 807,091 |
| | | <u>18,943,207</u> | <u>13,894,502</u> |

14. BORROWINGS

| | | | |
|------------------|--|--------------------|-------------------|
| In Pakistan | | 182,420,105 | 27,761,453 |
| Outside Pakistan | | 14,160,443 | 11,712,217 |
| | | <u>196,580,548</u> | <u>39,473,670</u> |

14.1 Particulars of borrowings

| | | | |
|---------------------|--|--------------------|-------------------|
| In local currency | | 182,420,105 | 27,761,453 |
| In foreign currency | | 14,160,443 | 11,712,217 |
| | | <u>196,580,548</u> | <u>39,473,670</u> |

14.2 Details of borrowings**Secured**

Borrowings from State Bank of Pakistan under:

| | | | |
|--|------|------------|------------|
| - Export refinance scheme | 14.3 | 16,845,030 | 18,182,197 |
| - Long term financing facility - locally manufactured and imported plant & machinery | | 5,074,278 | 4,204,722 |
| - Long term finance - export oriented projects | | 974,062 | 1,774,534 |
| - Refinance facility for modernization of SMEs | | 12,649 | - |
| - Financing facility for Storage of Agricultural Produce | | 15,277 | - |

| | | | |
|---------------------------------|------|--------------------|-------------------|
| Repurchase agreement borrowings | 14.4 | <u>157,998,809</u> | - |
| | | <u>180,920,105</u> | <u>24,161,453</u> |

Unsecured

In Pakistan

| | | | |
|----------------------------------|------|-----------|-----------|
| - Interbank call money borrowing | 14.5 | 1,500,000 | 3,600,000 |
|----------------------------------|------|-----------|-----------|

Outside Pakistan

| | | | |
|--|------|--------------------|-------------------|
| - Overdrawn nostro accounts | 14.6 | 1,056,635 | 455,484 |
| - Borrowings of overseas branches and subsidiaries | | 13,103,808 | 11,256,733 |
| | | <u>14,160,443</u> | <u>11,712,217</u> |
| | | <u>15,660,443</u> | <u>15,312,217</u> |
| | | <u>196,580,548</u> | <u>39,473,670</u> |

14.3 Borrowings from SBP under the export and export oriented projects refinance schemes of SBP are secured by the bank's cash and security balances held by SBP. These carry annual mark-up rates ranging from 7.2% to 9.8% (2011: 9.7% to 11%).

14.4 These carry annual mark-up rates ranging from 8.8% to 9.2%.

14.5 These carry annual mark-up rates ranging from 8.0% to 9.0% (2011: 9.7% to 13.05%).

14.6 Since, the Group operates in different countries, these carry varied mark-up rates as given by the external banks of respective countries.



| 15. DEPOSITS AND OTHER ACCOUNTS | 2012 (Rupees in '000) | 2011 |
|--|--------------------------|--------------------|
| Customers | | |
| Current accounts - non-remunerative | 310,567,157 | 240,687,417 |
| Current accounts - remunerative | 1,446,233 | 1,694,058 |
| Savings chequing account | 491,760,576 | 392,253,551 |
| Fixed deposits | 391,066,656 | 281,178,059 |
| | <u>1,194,840,622</u> | <u>915,813,085</u> |
| Financial institutions | | |
| Current accounts - non-remunerative | 5,969,114 | 6,631,876 |
| Savings chequing account | 4,490,688 | 2,815,116 |
| Fixed deposits | 9,663,276 | 8,371,448 |
| | <u>20,123,078</u> | <u>17,818,440</u> |
| | <u>1,214,963,700</u> | <u>933,631,525</u> |
| 15.1 Particulars of deposits | | |
| In local currency | 938,670,082 | 718,288,989 |
| In foreign currency (including foreign currency deposits of domestic branches of Rs. 101,599.466 million (2011: Rs. 70,334.543 million)) | 276,293,618 | 215,342,536 |
| | <u>1,214,963,700</u> | <u>933,631,525</u> |

16 SUB-ORDINATED LOAN

- 16.1** The Group has obtained loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million (2011: US \$ 50 million) equivalent to Pak Rupees 4,857.485 million (2011: 4,497.285 million). The principal amount is repayable in four equal half yearly installments commencing from the year June 2013 to December 2014. Interest is payable on bi - annual basis commencing from December 2007 at LIBOR + 1.75%. The loan is unsecured and subordinated as to payment of principal and interest to all other indebtedness of the group (including deposits). The loan may not be prepaid or repaid before maturity without the prior written approval of the SBP. The Bank is not exposed to significant exchange risk as the loan forms part of the Bank's foreign currency net open position.
- 16.2** During the year 2010, Habibsons Bank Limited has issued a subordinated loan of US \$ 6,000,000 equivalent to Pak Rupees 583.168 million (2011: Rs. 538.815 million) . This is repayable in the year 2020 and carries interest at LIBOR + 2.00%. The loan is subordinated to the claims of depositors and other creditors.

| 17. OTHER LIABILITIES | Note | 2012 (Rupees in '000) | 2011 |
|--|--------|--------------------------|-------------------|
| Mark-up / return / profit payable in local currency | | 18,127,380 | 15,140,777 |
| Mark-up / return / profit payable in foreign currency | | 975,296 | 684,177 |
| Security deposits | | 534,848 | 386,452 |
| Accrued expenses | | 5,362,869 | 6,692,067 |
| Unrealised loss on forward foreign exchange contracts / derivative instruments | | 387,057 | 870,377 |
| Unclaimed dividends | | 120,912 | 55,969 |
| Dividend payable | | 23,471 | 53,550 |
| Provision for employees' compensated absences | 33.2.8 | 1,355,387 | 1,720,577 |
| Provision for post retirement medical benefits | 33.2.3 | 2,235,674 | 2,399,600 |
| Provision against off-balance sheet obligations | 17.1 | 1,083,490 | 1,209,983 |
| Branch adjustment account | | 2,951,593 | 2,885,557 |
| Provision for staff retirement benefits | | 666,909 | 615,252 |
| Payable to defined benefit plan | | 1,089,600 | 44,863 |
| Amounts due to minority investors in funds consolidated by HBL | | 1,343,065 | 924,481 |
| Provision for workers welfare fund | | 1,895,524 | 1,204,571 |
| Unearned income | | 342,457 | 470,310 |
| Qarza-e-Hasna Fund | | 344,585 | 346,913 |
| Duties and taxes payable | | 1,031,456 | 785,654 |
| Insurance payable | | 148,889 | 106,361 |
| Reward point payable | | 57,946 | 40,352 |
| Liability against trading of securities | | - | 266,772 |
| Payable to HBL Foundation | | 557,189 | 355,079 |
| Others | | 707,106 | 671,726 |
| | | <u>41,342,703</u> | <u>37,931,420</u> |

2012 **2011**
(Rupees in '000)

17.1 Provision against off-balance sheet obligations

| | | |
|-------------------------|------------------|------------------|
| Opening balance | 1,209,983 | 1,279,381 |
| Charge | 133,485 | 75,334 |
| Reversal | (126,470) | (152,727) |
| Net charge /(reversal) | 7,015 | (77,393) |
| Write off | - | (8,186) |
| Other movement | (157,585) | 18,526 |
| Exchange adjustment | 24,073 | (2,345) |
| Closing balance | <u>1,083,486</u> | <u>1,209,983</u> |

18. SHARE CAPITAL

18.1 Authorised capital

| 2012 | 2011 | | 2012 | 2011 |
|--------------------------|------------------|--------------------------------|-------------------|-------------------|
| Number of shares in '000 | | | | |
| <u>3,000,000</u> | <u>1,380,000</u> | Ordinary shares of Rs. 10 each | <u>30,000,000</u> | <u>13,800,000</u> |

18.2 Issued, subscribed and paid-up capital

| 2012 | 2011 | | 2012 | 2011 |
|--------------------------|------------------|--------------------------------|-------------------|-------------------|
| Number of shares in '000 | | | | |
| 690,000 | 690,000 | Ordinary shares of Rs. 10 each | 6,900,000 | 6,900,000 |
| 522,275 | 412,068 | Fully paid in cash | 5,222,748 | 4,120,680 |
| <u>1,212,275</u> | <u>1,102,068</u> | Issued as bonus shares | <u>12,122,748</u> | <u>11,020,680</u> |

18.3 Exchange translation reserve

This comprises all foreign currency differences arising from the translation of financial statements of foreign operations.

18.4 Statutory reserves

Every banking company incorporated in Pakistan is required to transfer 20% of their profits to a statutory reserve until the reserve equals share capital, thereafter 10% of the profits of the holding company are to be transferred to this reserve.

18.5 Dividends

2012 **2011**
(Rupees in '000)

The following cash dividends and bonus shares were declared and paid / issued by the Bank:

| | | |
|---|------------------|------------------|
| Cash dividend: Rs. 7 per share (2011: Rs. 6.5 per share) | <u>7,714,476</u> | <u>6,512,220</u> |
| Bonus share: 1 shares for every 10 shares held (2011: 1 share for every 10 shares held) | <u>1,102,068</u> | <u>1,001,880</u> |
| Half year interim cash dividend paid at Rs. 3.5 per share | <u>4,242,962</u> | |

After December 31, 2012 the following dividends were proposed by the Directors for 2012. The dividends have not been accounted for and, there are no income tax consequences.

| | |
|---|------------------|
| Cash dividend: Rs. 4 per share | <u>4,849,099</u> |
| Bonus share: 1 share for every 10 shares held | <u>1,212,275</u> |

| | Note | 2012 (Rupees in '000) | 2011 |
|---|------|--------------------------|-------------------|
| 19. SURPLUS ON REVALUATION OF ASSETS - net of deferred tax | | | |
| Surplus arising on revaluation of: | | | |
| - fixed assets | 19.1 | 9,588,927 | 8,342,382 |
| - investments | 19.2 | 3,196,309 | (138,816) |
| Surplus on revaluation of assets - net of deferred tax | | <u>12,785,236</u> | <u>8,203,566</u> |
| 19.1 Surplus on revaluation of fixed assets | | | |
| Surplus on revaluation of fixed assets as at January 1 | | 9,143,739 | 9,476,539 |
| Surplus on revaluation of bank's properties recognised during the year | | 1,671,231 | - |
| Surplus realised on disposal of revalued properties during the year | | (155,285) | (139,331) |
| Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax | | (93,471) | (124,168) |
| Related deferred tax liability of incremental depreciation charged during the year | | (50,347) | (66,860) |
| Related deferred tax liability on disposal of revalued properties | | (873) | (2,441) |
| Surplus on revaluation of fixed assets as at December 31 | | <u>10,514,994</u> | <u>9,143,739</u> |
| Less: related deferred tax liability on | | | |
| - revaluation as at January 1 | | 801,357 | 870,658 |
| - revaluation of bank's properties recognised during the year | | 175,930 | - |
| - surplus realised on disposal of revalued properties during the year | | (873) | (2,441) |
| - incremental depreciation charged during the year transferred to profit and loss account | | (50,347) | (66,860) |
| | | <u>926,067</u> | <u>801,357</u> |
| | | <u>9,588,927</u> | <u>8,342,382</u> |
| 19.2 Surplus / (deficit) on revaluation of investments | | | |
| Market Treasury Bills | | 1,863,369 | 611,824 |
| Pakistan Investment Bonds | | 1,490,249 | (197,281) |
| Government of Pakistan Sukuk and US Dollar / Euro Bonds | | (103,195) | (834,680) |
| Listed Securities | | 800,331 | 157,497 |
| NIT Units | | 11,283 | 7,089 |
| Other Investments | | 415,888 | (111,169) |
| | | <u>4,477,925</u> | <u>(366,720)</u> |
| Deficit on revaluation of investment of associates | | 79,968 | (5,795) |
| Related deferred tax (liability) / asset | | (1,361,584) | 233,699 |
| | | <u>3,196,309</u> | <u>(138,816)</u> |
| 20. CONTINGENCIES AND COMMITMENTS | | | |
| 20.1 Direct credit substitutes - financial guarantees | | | |
| Guarantees in favour of: | | | |
| - Government | | 306,856 | 354,078 |
| - Financial institutions | | 295,000 | 318,596 |
| - Others | | 35,337,468 | 22,236,973 |
| | | <u>35,939,324</u> | <u>22,909,647</u> |
| 20.2 Transaction-related contingent liabilities | | | |
| Guarantees in favour of: | | | |
| - Government | | 535,006 | 1,604,813 |
| - Financial institutions | | 3,610,133 | 636,292 |
| - Others | | 41,118,227 | 33,562,792 |
| | | <u>45,263,366</u> | <u>35,803,897</u> |

| 20.3 Trade-related commitments | 2012 | 2011 |
|---------------------------------------|-------------------------|--------------------|
| | (Rupees in '000) | |
| Credit cash | 78,028,544 | 70,799,073 |
| Credit documentary acceptances | 18,535,338 | 23,706,700 |
| Credit acceptances | 37,882,972 | 24,016,127 |
| | <u>134,446,854</u> | <u>118,521,900</u> |

20.4 Other contingencies

| | | |
|--|-------------------|-------------------|
| Claims against the Group not acknowledged as debts | <u>33,504,140</u> | <u>84,671,933</u> |
|--|-------------------|-------------------|

20.5 Commitments in respect of forward lending

The Group makes commitments to extend credit in the normal course of its business but none of these commitments are irrevocable and do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

20.6 Commitments in respect of forward foreign and local exchange contracts

| | 2012 | 2011 |
|----------|-------------------------|-------------|
| | (Rupees in '000) | |
| Purchase | 167,104,754 | 151,577,433 |
| Sale | 167,168,508 | 151,582,034 |

The above commitments have maturities falling within one year.

Commitments in respect of foreign currency options

| | | |
|----------|-----------|---------|
| Purchase | 1,317,948 | 336,655 |
| Sale | 1,317,948 | 336,655 |

Commitments in respect of Cross Currency Swaps

| | | |
|----------|-----------|-----------|
| Purchase | 3,659,009 | 2,868,771 |
| Sale | 3,659,009 | 2,868,771 |

Commitments in respect of foreign and local currency interest rate swaps

| | | |
|----------|---------|---------|
| Purchase | 444,199 | 482,551 |
| Sale | 291,449 | 329,801 |

20.7 Commitments for acquisition of operating fixed assets / intangibles

| | | |
|--|---------|---------|
| | 663,125 | 617,961 |
|--|---------|---------|

20.8 HBL has entered into contract with Citibank N.A Pakistan to acquire its consumer portfolio with expected transaction value of Rs. 2 billion. The transaction has been approved by the Competition Commission of Pakistan, however approval from SBP is awaited.

20.9 The income tax returns of the Bank have been submitted upto and including the Bank's financial year 2011. The tax authorities have concluded the audit of years 2002 through 2011.

While amending the assessment under section 122(5A) of the Income Tax Ordinance, 2001 for the tax year 2006, the tax authorities have disallowed double income tax relief relating to Azad Jammu & Kashmir (AJK) branches. The exposure of the Bank on this issue at the period end is Rs. 2,923 million.

Management's view is that the settlement reached, after deliberations by the technical committee formed by the Prime Minister and Chairman AJ&K Council, relates to the long outstanding issue of basis of computation of income in AJK. The foreign tax credit claimed by the Bank is in accordance with accounting practice and the law.

Appeal against this issue is pending at appellate stage; however, the management is confident that the eventual outcome of this issue will be in the favour of the Bank.

With reference to allowability of provision as per rule 8(A) of the seventh schedule, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognized deferred tax asset on such provision amounting to Rs. 2.494 billion.

21. DERIVATIVE INSTRUMENTS

Derivatives are a type of financial contract, the value of which is determined by reference to one or more underlying assets or indices. The major categories of such contracts include forwards, futures, swaps and options. Derivatives also include structured financial products that have one or more characteristics of forwards, futures, swaps and options.

The Bank as an Authorized Derivative Dealer (ADD) is an active participant in the Pakistan derivatives market. Although the ADD license covers only the transactions mentioned below (permitted under the Financial Derivatives Business Regulations issued by the SBP), the Bank offers a wide variety of derivatives products to satisfy customers' needs, specific approval for which is sought from the SBP on a transaction by transaction basis:

- (a) Foreign Currency Options
- (b) Forward Rate Agreements
- (c) Interest Rate Swaps
- (d) Cross Currency Swaps

These transactions cover the aspects of both market making and hedging.

The authority for approving policies lies with the Board of Directors (BoD) and the Board Risk Management Committee (BRMC). The Market Risk Committee (MRC) has been assigned the responsibility of ensuring meticulous compliance with these policies.

With regard to derivatives, the MRC is authorized to:

- Review the derivatives business with reference to market risk exposure and assign various limits in accordance with the risk appetite of the Bank.
- Review the Derivatives Business Policy and recommend approval to the BRMC / BoD.
- Review and approve derivatives product programs.
- Authorize changes in procedures and processes regarding derivatives and structured products.

Overall responsibility for derivatives trading activity lies with the Treasury and Capital Markets Group (TCM).

Measurement & monitoring of market and credit risk exposure and limits and its reporting to the senior management and the BoD is done by Market & Treasury Risk (MTR), which also coordinates with the business regarding approvals for derivatives risk limits. Treasury Operations records derivatives activity in the Bank's books, and handles its reporting to the SBP.

21.1 Product Analysis Counterparties

| | 2012 | | | | | |
|--------------------------------|---------------------|--------------------------------------|------------------|--------------------------------------|----------------------|--------------------------------------|
| | Interest Rate Swaps | | FX Options | | Cross Currency Swaps | |
| | No. of Contracts | Notional Principal* (Rupees in '000) | No. of Contracts | Notional Principal* (Rupees in '000) | No. of Contracts | Notional Principal* (Rupees in '000) |
| With Banks for | | | | | | |
| Hedging | - | - | - | - | - | - |
| Market Making | 1 | 291,449 | 49 | 1,317,948 | 4 | 3,659,009 |
| With other entities for | | | | | | |
| Hedging | - | - | - | - | - | - |
| Market Making | 2 | 444,199 | 49 | 1,317,948 | 4 | 3,659,009 |
| Total | | | | | | |
| Hedging | - | - | - | - | - | - |
| Market Making | 3 | 735,648 | 98 | 2,635,896 | 8 | 7,318,018 |

| Counterparties | 2011 | | | | | |
|--------------------------------|---------------------|--------------------------------------|------------------|--------------------------------------|----------------------|--------------------------------------|
| | Interest Rate Swaps | | FX Options | | Cross Currency Swaps | |
| | No. of Contracts | Notional Principal* (Rupees in '000) | No. of Contracts | Notional Principal* (Rupees in '000) | No. of Contracts | Notional Principal* (Rupees in '000) |
| With Banks for | | | | | | |
| Hedging | - | - | - | - | - | - |
| Market Making | 1 | 329,801 | 8 | 336,655 | 3 | 2,868,771 |
| With other entities for | | | | | | |
| Hedging | - | - | - | - | - | - |
| Market Making | 2 | 482,551 | 8 | 336,655 | 3 | 2,868,771 |
| Total | | | | | | |
| Hedging | - | - | - | - | - | - |
| Market Making | 3 | 812,352 | 16 | 673,310 | 6 | 5,737,542 |

* At the exchange rate prevailing at the end of the reporting year.

21.2 Maturity Analysis

| Remaining Maturity | 2012 | | | | |
|-----------------------------|------------------|--------------------|-----------------|---------------|--------------|
| | No. of Contracts | Notional Principal | Mark to Market | | |
| | | | Negative | Positive | Net |
| ------(Rupees in '000)----- | | | | | |
| Upto 1 Month | 2 | 40,932 | (56) | 56 | - |
| 1 to 3 Months | 34 | 1,890,874 | (14,858) | 15,076 | 218 |
| 3 Months to 6 Months | 67 | 2,536,207 | (19,786) | 18,299 | (1,487) |
| 6 Months to 1 Year | 2 | 4,481,268 | (297) | 1,794 | 1,497 |
| 1 to 2 Years | 2 | 1,157,383 | (2,862) | 5,737 | 2,875 |
| 3 to 5 Years | 2 | 582,898 | (14,935) | 15,442 | 507 |
| | <u>109</u> | <u>10,689,562</u> | <u>(52,794)</u> | <u>56,404</u> | <u>3,610</u> |

| Remaining Maturity | 2011 | | | | |
|-----------------------------|------------------|--------------------|-----------------|---------------|--------------|
| | No. of Contracts | Notional Principal | Mark to Market | | |
| | | | Negative | Positive | Net |
| ------(Rupees in '000)----- | | | | | |
| Upto 1 Month | 2 | 63,239 | (679) | 679 | - |
| 1 to 3 Months | 12 | 559,649 | (2,753) | 2,753 | - |
| 3 Months to 6 Months | 2 | 50,422 | (202) | 202 | - |
| 1 to 2 Years | 7 | 5,890,293 | (29,420) | 37,271 | 7,851 |
| 3 to 5 Years | 2 | 659,602 | (15,309) | 15,999 | 690 |
| | <u>25</u> | <u>7,223,205</u> | <u>(48,363)</u> | <u>56,904</u> | <u>8,541</u> |

| 22. MARK-UP / RETURN / PROFIT EARNED | 2012 | 2011 |
|---|--------------------|-------------------|
| | (Rupees in '000) | |
| <i>On loans and advances to</i> | | |
| - Customers | 52,638,723 | 55,322,841 |
| - Financial institutions | 314,565 | 335,189 |
| <i>On investments</i> | | |
| - Available-for-sale | 53,386,033 | 37,034,803 |
| - Held-for-trading | 1,452,756 | 522,999 |
| - Held-to-maturity | 5,661,289 | 1,555,366 |
| On deposits with financial institutions | 1,240,767 | 787,159 |
| On lendings to financial institutions | 2,078,520 | 3,022,066 |
| | <u>116,772,653</u> | <u>98,580,423</u> |
| | | |
| 23. MARK-UP / RETURN / PROFIT EXPENSED | | |
| Deposits | 51,225,796 | 37,971,786 |
| Securities sold under repurchase agreement borrowings | 4,903,995 | 789,508 |
| Other short term borrowings | 2,451,644 | 2,885,067 |
| Long term borrowings | 430,957 | 535,859 |
| | <u>59,012,392</u> | <u>42,182,220</u> |
| | | |
| 24. GAIN ON SALE OF SECURITIES - NET | | |
| <i>Federal Government Securities</i> | | |
| - Market treasury bills | 585,362 | 300,689 |
| - Pakistan investment bonds | 115,490 | (91,109) |
| - Other securities | 200,940 | 566 |
| Listed shares | 458,804 | 331,972 |
| | <u>1,360,596</u> | <u>542,118</u> |
| | | |
| 25. OTHER INCOME | | |
| Incidental charges | 2,361,529 | 2,074,577 |
| Rent on lockers | 391,073 | 373,805 |
| (Loss) / gain on sale of operating fixed assets - net | (30,821) | 7,798 |
| Gain on sale of non-banking asset | 47,707 | - |
| Rent on property | 104,354 | 98,540 |
| Bad debts recovered | 32,277 | 34,472 |
| Miscellaneous earnings | 134,059 | 330,343 |
| | <u>3,040,178</u> | <u>2,919,535</u> |

| | Note | 2012 (Rupees in '000) | 2011 |
|---|------|--------------------------|-------------------|
| 26. ADMINISTRATIVE EXPENSES | | | |
| Salaries, allowances, etc. | | 16,383,404 | 15,291,879 |
| Charge for defined benefit / contribution plan and other benefits | | 1,380,760 | 1,630,205 |
| Non-executive directors' fees | | 19,800 | 13,700 |
| Brokerage and commission | | 56,668 | 20,872 |
| Rent, taxes, insurance, electricity, etc | | 3,329,500 | 2,877,099 |
| Legal and professional charges | | 1,007,188 | 1,688,803 |
| Communications | | 694,982 | 620,784 |
| Repairs and maintenance | | 1,352,611 | 1,173,755 |
| Stationery and printing | | 637,304 | 533,152 |
| Auditors' remuneration | 26.1 | 166,660 | 114,678 |
| Advertisement and publicity | | 1,197,453 | 1,030,922 |
| Amortisation | 10.2 | 79,704 | 44,024 |
| Depreciation | 10.3 | 1,421,212 | 1,424,290 |
| Entertainment | | 159,622 | 127,168 |
| Travelling | | 425,674 | 369,407 |
| Conveyance | | 127,075 | 111,030 |
| Training | | 221,047 | 139,346 |
| Security charges | | 887,175 | 764,834 |
| Remittance charges | | 131,764 | 164,623 |
| Donations | 26.3 | 254,886 | 253,028 |
| Documentation and processing charges | | 543,829 | 409,788 |
| Others | | 583,052 | 568,272 |
| | | <u>31,061,370</u> | <u>29,371,659</u> |

26.1 Auditors' remuneration

| | | |
|--|----------------|----------------|
| Audit fee | 3,959 | 3,682 |
| Fee for interim review | 3,600 | 3,350 |
| Fee for audit of local branches of Habib Bank Limited | 9,209 | 8,159 |
| Special certifications / examinations and sundry advisory services | 1,791 | 1,652 |
| Out of pocket expenses | <u>2,938</u> | <u>3,202</u> |
| | 21,497 | 20,045 |
| Overseas subsidiaries / branches and domestic subsidiaries | <u>145,163</u> | <u>94,633</u> |
| | <u>166,660</u> | <u>114,678</u> |

26.2 The Bank operates a short term employee benefit scheme which includes cash award / special bonus for all employees. Under this scheme, the bonus for all Executives, including the Chief Executive Officer is determined on the basis of employees' evaluation and the Bank's performance during the year. The aggregate amount determined for the eligible employees in respect of the above scheme relating to all Executives and for the Key Management Personnel of the Bank amounted to Rs. 1,185.519 million (2011: Rs. 607.803 million) and Rs. 945.304 million (2011: Rs. 424.793 million) respectively.

26.3 Detail of donations in excess of Rs. 100,000 and above are given in Annexure IV.

26.4 Benazir Employees' Stock Option Scheme

On August 14, 2009, the Government of Pakistan (GoP) launched Benazir Employees' Stock Option Scheme ["the Scheme"] for employees of certain State Owned Enterprises (SOEs) and non-State Owned Enterprises.

The Scheme, needs to be accounted for by the covered entities, including the Group, under the provision of amended International Financial Reporting Standard 2 - Share Based Payments (IFRS 2). However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the SECP has granted exemption to such entities from the application of IFRS 2 to the Scheme.

Had the exemption not been granted the staff costs of the Group for the period would have been higher by Rs. 1,502 million, profit before taxation would have been lower by Rs. 1,502 million (earnings per share would have been lower by Rs. 1.24 per share) and, as the Scheme is fully funded by GoP, there would have been no impact on retained earnings / equity of the Group.



| 27. OTHER CHARGES | 2012 (Rupees in '000) | 2011 |
|---|--|---------------|
| Penalties imposed by State Bank of Pakistan | <u>18,285</u> | <u>77,588</u> |

28. WORKERS WELFARE FUND

The Worker's Welfare Ordinance, 1971 has been amended vide Finance Act, 2008 by virtue of which the Bank is now liable to pay WWF @ 2% of profit before tax as per accounts or declared income as per income tax return, whichever is higher.

| 29. TAXATION | 2012 (Rupees in '000) | 2011 |
|---------------------------------------|--|--------------------------|
| For Pakistan - for the year - current | <u>11,011,992</u> | 9,256,455 |
| - deferred | <u>(463,640)</u> | 1,500,736 |
| For Pakistan - prior year - current | <u>422,246</u> | (412,996) |
| - deferred | <u>-</u> | 589,128 |
| For Overseas - for the year - current | <u>1,565,905</u> | 1,202,921 |
| - deferred | <u>-</u> | - |
| For Overseas - prior year - current | <u>(1,036)</u> | (147,868) |
| - deferred | <u>-</u> | - |
| | <u><u>12,535,467</u></u> | <u><u>11,988,376</u></u> |

For the purpose of taxation overseas include Habib Bank Limited's branches in Azad Jammu & Kashmir region.

29.1 Relationship between tax expense and accounting profit

| | | |
|--|--------------------------|--------------------------|
| Accounting profit for the current year | <u>34,891,207</u> | <u>34,321,398</u> |
| Tax on income @ 35% (2011: 35%) | 12,211,922 | 12,012,489 |
| - Reduced rate income | (104,065) | 509,596 |
| - Penalty imposed by SBP | 6,400 | 27,155 |
| - Prior year charge | 421,210 | (560,864) |
| Tax charge for the current year | <u><u>12,535,467</u></u> | <u><u>11,988,376</u></u> |

30. BASIC AND DILUTED EARNINGS PER SHARE

| | | |
|--|----------------------|----------------------|
| Profit for the year attributable to equity holders of the Bank | <u>22,256,064</u> | <u>22,189,763</u> |
| | (Number) | |
| Weighted average number of ordinary shares | <u>1,212,274,800</u> | <u>1,212,274,800</u> |
| | (Rupees) | |
| Basic and diluted earnings per share | <u>18.36</u> | <u>18.30</u> |

31. CASH AND CASH EQUIVALENTS

| | Note | 2012 (Rupees in '000) | 2011 |
|--------------------------------------|------|--------------------------|--------------------|
| Cash and balance with treasury banks | 5 | 157,229,517 | 103,399,623 |
| Balance with other banks | 6 | 47,980,032 | 47,349,505 |
| | | <u>205,209,549</u> | <u>150,749,128</u> |

32. STAFF STRENGTH

| | | (Number) | |
|----------------------|--|---------------|---------------|
| Permanent | | 13,960 | 13,641 |
| Others | | 18 | 20 |
| Total staff strength | | <u>13,978</u> | <u>13,661</u> |

33. DEFINED BENEFIT PLANS AND OTHER BENEFITS

33.1 Principal actuarial assumptions

The latest actuarial valuation for pension and gratuity schemes was carried out as at December 31, 2012 using the Projected Unit Credit Actuarial Cost Method and assuming that no indexation of pension will take place. The following significant assumptions were used for the valuation of these schemes:

| | 2012 | 2011 |
|---|---------------------|------|
| | -----Per annum----- | |
| Valuation discount rate | 12% | 13% |
| Expected rate of increase in salary level | 11% | 11% |
| Expected rate of return on funds invested | 12% | 13% |

33.2 Pension, gratuity and benevolent fund schemes

33.2.1 Fair value of plan assets and present value of defined benefits obligations of these schemes as at December 31, 2012 are as follows:

| | Pension | | Gratuity | | Benevolent | | Post-employment medical benefits | |
|---|------------------------------|---------------|-----------------|-----------------|----------------|---------------|-------------------------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | | | |
| Fair value of plan assets | 5,030,128 | 4,014,786 | 204,657 | 329,342 | 1,587,950 | 1,478,094 | - | - |
| Present value of defined benefit obligation | (6,132,451) | (3,951,706) | (302,753) | (374,205) | (1,175,073) | (1,469,644) | (2,182,363) | (2,455,614) |
| (Deficit) / surplus | (1,102,323) | 63,080 | (98,096) | (44,863) | 412,877 | 8,450 | (2,182,363) | (2,455,614) |
| Unrecognised past service cost | 110,969 | - | (150) | - | (51,044) | 87,294 | (53,311) | 56,014 |
| Asset / (provision) recognised in the balance sheet | <u>(991,354)</u> | <u>63,080</u> | <u>(98,246)</u> | <u>(44,863)</u> | <u>361,833</u> | <u>95,744</u> | <u>(2,235,674)</u> | <u>(2,399,600)</u> |

33.2.1.1 The surplus on benevolent fund has not been accounted for as this is a contributory scheme with contribution both from the employees and the Bank.

33.2.2 The following amounts have been charged / (credited) to the profit and loss account in respect of the above-referred schemes:

| | Pension | | Gratuity | | Benevolent | | Post-employment medical benefits | |
|------------------------------------|------------------------------|------------------|---------------|----------------|------------------|-----------------|----------------------------------|----------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | | | |
| Current service cost | 35,236 | 40,660 | 11,315 | 10,984 | 19,529 | 18,915 | 27,756 | 21,460 |
| Mark-up cost | 572,317 | 472,479 | 40,197 | 44,436 | 160,808 | 176,042 | 303,459 | 281,158 |
| Expected return on plan assets | (566,390) | (456,547) | (34,365) | (38,153) | (191,317) | (166,562) | - | - |
| Actuarial (Gain) / loss recognized | 906,897 | (242,228) | 41,687 | (20,730) | 59,010 | (112,051) | 173,538 | 71,705 |
| Past service cost | (93,626) | - | (5,451) | - | (237,790) | 26,459 | (426,049) | 25,953 |
| Contributions - employees | - | - | - | - | (38,164) | - | - | - |
| Charge / (reversal) for the year | <u>854,434</u> | <u>(185,636)</u> | <u>53,383</u> | <u>(3,463)</u> | <u>(227,924)</u> | <u>(57,197)</u> | <u>78,704</u> | <u>400,276</u> |

Charge for the year is included in administrative expenses (note 26 to the financial statements) under 'Charge for defined benefit plans and other benefits' account head. A sensitivity analysis to estimate the impact of increase in medical costs has not been carried out and is not likely to have a material impact on Group's financial statements.

33.2.3 Movement in amounts (receivable from) / payable to defined benefit plans

| | Pension | | Gratuity | | Benevolent | | Post-employment medical benefits | |
|--------------------------------|------------------------------|-----------------|---------------|---------------|------------------|-----------------|----------------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | | | |
| Opening balance | (63,080) | 122,556 | 44,863 | 48,326 | (95,744) | (14,273) | 2,399,600 | 2,162,309 |
| Charge / (credit) for the year | 854,434 | (185,636) | 53,383 | (3,463) | (227,924) | (57,197) | 78,704 | 400,276 |
| Contributions during the year | (1,100,000) | - | - | - | (38,164) | (24,274) | - | - |
| Benefits payable | <u>1,300,000</u> | - | - | - | - | - | <u>(242,630)</u> | <u>(162,985)</u> |
| Closing balance | <u>991,354</u> | <u>(63,080)</u> | <u>98,246</u> | <u>44,863</u> | <u>(361,832)</u> | <u>(95,744)</u> | <u>2,235,674</u> | <u>2,399,600</u> |

33.2.4 The significant portion of the assets comprises of debt securities.

33.2.5 Movement of present value of defined benefit obligation

| | Pension | | Gratuity | | Benevolent | | Post-employment medical benefits | |
|-------------------------|------------------------------|--------------------|------------------|------------------|--------------------|--------------------|----------------------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | | | |
| Opening balance | (3,951,706) | (3,752,486) | (374,205) | (363,236) | (1,469,644) | (1,405,002) | (2,455,614) | (2,244,246) |
| Current service cost | (35,236) | (40,660) | (11,315) | (10,984) | (19,529) | (18,915) | (27,756) | (21,460) |
| Mark-up cost | (572,317) | (472,479) | (40,197) | (44,436) | (160,808) | (176,042) | (303,459) | (281,158) |
| Benefits paid | 415,881 | 236,064 | 129,999 | 42,843 | 89,182 | 101,666 | 242,630 | 162,985 |
| Past Service Cost | (1,317,343) | - | 5,601 | - | 376,129 | - | 535,374 | - |
| Actuarial Gain / (Loss) | (671,730) | 77,855 | (12,636) | 1,608 | 9,597 | 28,649 | (173,538) | (71,735) |
| Closing balance | <u>(6,132,451)</u> | <u>(3,951,706)</u> | <u>(302,753)</u> | <u>(374,205)</u> | <u>(1,175,073)</u> | <u>(1,469,644)</u> | <u>(2,182,363)</u> | <u>(2,455,614)</u> |

33.2.6 Movement of fair value of plan assets

| | Pension | | Gratuity | | Benevolent | |
|--|------------------------------|------------------|----------------|----------------|------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | |
| Opening balance | 4,014,786 | 3,629,930 | 329,342 | 314,910 | 1,478,094 | 1,281,248 |
| Return on plan assets | 566,390 | 456,547 | 34,365 | 38,153 | 191,317 | 166,562 |
| Employer contribution | 1,100,000 | - | - | - | 38,164 | 24,274 |
| Employee contributions | - | - | - | - | 38,164 | 24,274 |
| Benefits paid | (415,881) | (236,064) | (129,999) | (42,843) | (89,182) | (101,666) |
| Actuarial (loss) / gain on plan assets | (235,167) | 164,373 | (29,051) | 19,122 | (68,607) | 83,402 |
| Closing balance | <u>5,030,128</u> | <u>4,014,786</u> | <u>204,657</u> | <u>329,342</u> | <u>1,587,950</u> | <u>1,478,094</u> |

33.2.7 Actual return on plan assets

| | Pension | | Gratuity | | Benevolent | |
|--|------------------------------|----------------|--------------|---------------|----------------|----------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | |
| Expected return on plan assets | 566,390 | 456,547 | 34,365 | 38,153 | 191,317 | 166,562 |
| Actuarial (loss) / gain on plan assets | (235,167) | 164,373 | (29,051) | 19,122 | (68,607) | 83,402 |
| Actual return on plan assets | <u>331,223</u> | <u>620,920</u> | <u>5,314</u> | <u>57,275</u> | <u>122,710</u> | <u>249,964</u> |

33.2.8 Other benefits - Employee compensated absences

The liability of the Bank in respect of employee compensated absences as at December 31, 2012, amounted to Rs. 1,355.387million (2011: Rs. 1,720.577 million). Provision for this balance is held by Bank.

The reversal for the year amounting to Rs. 295.982 million (2011 charge: Rs. 191.602 million) is included in administrative expenses (note 26 to these financial statements) under 'Charge for defined benefit plans and other benefits' account head.

33.2.9 Components of plan assets as a percentage of total plan assets

| | 2012 | | | 2011 | | |
|-------------------------------------|--------------|---------------|-----------------|--------------|---------------|-----------------|
| | Pension fund | Gratuity fund | Benevolent fund | Pension fund | Gratuity fund | Benevolent fund |
| Government securities | 91.11% | 99.08% | 99.44% | 97.93% | 89.27% | 99.44% |
| Ordinary shares of listed companies | 8.26% | - | - | 1.61% | - | - |
| Others (including bank balances) | 0.63% | 0.92% | 0.56% | 0.46% | 10.73% | 0.56% |

As per actuarial recommendations, the expected return on plan assets was assumed at 12% per annum on Pension Fund assets, Gratuity Fund assets and Benevolent Fund assets. The expected return on plan assets was determined by considering the expected returns available on the underlying assets.

33.2.10 Expected contributions to be paid to the funds in the next financial year

The Bank contributes to the pension and gratuity funds according to the actuary's advice. Contribution to the benevolent fund is made by the Bank as per the rates set out in the benevolent fund scheme. Based on actuarial advice, the management estimates that the charge / (reversal) in respect of defined benefit plans for the year ended December 31, 2013, subject to the provisions of the Trust Deeds, would be as follows:

| | 2013 | | | | |
|---|------------------------------|---------------|-----------------|---------------------------------|-------------------------------|
| | Pension fund | Gratuity fund | Benevolent fund | Post retirement medical benefit | Employee compensated absences |
| | ----- (Rupees in '000) ----- | | | | |
| Expected charge / (reversal) for the year | <u>291,217</u> | <u>19,934</u> | <u>(57,996)</u> | <u>260,339</u> | <u>157,332</u> |



33.2.11 Five year data on surplus/ (deficit) of the plans and experience adjustments

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|------------------------------|-------------|-------------|-------------|-------------|
| | ----- (Rupees in '000) ----- | | | | |
| Pension Fund | | | | | |
| Present value of defined benefit obligations | (6,132,451) | (3,951,706) | (3,752,490) | (3,823,669) | (3,958,503) |
| Fair value of plan assets | 5,030,128 | 4,014,787 | 3,629,930 | 11,308,988 | 10,235,607 |
| (Deficit) / surplus | (1,102,323) | 63,081 | (122,560) | 7,485,319 | 6,277,104 |
| Experience adjustments on plan liabilities [loss / (gain)] | 671,730 | (77,855) | (351,250) | 130,299 | (1,133,269) |
| Experience adjustments on plan assets [loss / (gain)] | 235,167 | (164,373) | 433,160 | (492,159) | 294,093 |
| Gratuity Fund | | | | | |
| Present value of defined benefit obligations | (302,753) | (374,205) | (363,236) | (335,598) | (357,163) |
| Fair value of plan assets | 204,657 | 329,342 | 314,910 | 770,148 | 651,072 |
| (Deficit) / surplus | (98,096) | (44,863) | (48,326) | 434,550 | 293,909 |
| Experience adjustments on plan liabilities [loss / (gain)] | 12,636 | (1,608) | 10,321 | (14,581) | 54,269 |
| Experience adjustments on plan assets [loss / (gain)] | 29,051 | (19,122) | 21,601 | (51,792) | 11,542 |
| Benevolent Fund | | | | | |
| Present value of defined benefit obligations | (1,175,073) | (1,469,644) | (1,405,002) | (1,432,930) | (1,249,439) |
| Fair value of plan assets | 1,587,950 | 1,478,094 | 1,281,248 | 1,170,236 | 1,276,397 |
| Surplus / (deficit) | 412,877 | 8,450 | (123,754) | (262,694) | 26,958 |
| Experience adjustments on plan liabilities [loss / (gain)] | (9,597) | (28,649) | (136,963) | (273,358) | (242,864) |
| Experience adjustments on plan assets [loss / (gain)] | 68,607 | (83,402) | (6,668) | (43,186) | (36,686) |
| Post retirement medical benefit | | | | | |
| Present value of defined benefit obligations | (2,182,363) | (2,455,614) | (2,244,246) | (2,180,320) | (2,422,945) |
| Experience adjustments on plan liabilities [loss / (gain)] | 173,538 | 71,735 | (80,259) | (242,351) | (213,334) |

34. DEFINED CONTRIBUTION PLAN

HABIB BANK LIMITED (BANK)

34.1 Provident Fund

For employees hired on or after 1st January, 2002 and for those who did not opt for the Bank's Pension scheme introduced in 1977, the bank operates an approved Provident Fund under which both the Bank and employees contribute at following rates:

| | |
|---|---------------------------|
| 6% of the Basic Salary | For Executives & Officers |
| 12% of the Basic Salary | For Clerical Staff |
| For Contractual Employees as per their Service Contracts. | |

The staff who are covered by the Bank's Pension plan now also eligible for Provident fund benefits effective from April 04, 2005 by contributing 6% of the basic pay. Bank also makes equal contributions for these employees.

Payments are made to the employees on retirement, death, resignation and discharge as specified in the rules of the Fund.

The total assets of the Fund were Rs. 10,538.559 million as at December 31, 2011 (2010: Rs. 9,343.967 million) as per latest available audited financial statements.

34.2 Subsidiary companies

34.3 Habib Finance International Limited, Hongkong

Habib Finance International Limited, Hong Kong is maintaining the following two schemes for its employees.

Provident Fund

The company is required to contribute at 5% of salary of all of its employees, subject to a maximum contribution of HK \$ 1,250. Employees who earn HK \$ 6,500 or more per month are also required to contribute the same amount. Those who earn less than HK \$ 6,500 per month have an option to contribute to the fund.

Long Service Payment

The company is required to pay long service payment at 2/3rd of employee's last month's full wages or 2/3rd of HK \$ 22,500 whichever is lower, for every year of service. The maximum payment is the total amount of wages earned during the last 12 months or HK \$ 390,000 whichever is lower.

34.4 Habib Allied International Bank Plc., United Kingdom

Habib Allied International Bank Plc (HAIB) is maintaining a defined contribution pension scheme for its employees. Employer's contribution is 6% of basic salary, whereas contribution from the employee is voluntary. HAIB also makes defined contribution towards personal pension plans of some of the staff members as per their terms of employment.

34.5 Habibsons Bank Limited

Habibsons Bank Limited is maintaining a defined contribution pension scheme for its employees. Employer's contribution for employees of Habibsons Bank Limited is 5% of basic salary with a matching contribution from the scheme members.

35. REMUNERATION OF DIRECTORS AND EXECUTIVES

| | Group President / Chief Executive | | Directors | | Executives | |
|--|--------------------------------------|---------------|---------------|---------------|------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | |
| Remuneration / fee of non executives directors | - | - | 26,147 | 20,973 | - | - |
| Managerial remuneration (including allowances) | 31,711 | 21,720 | - | - | 4,900,155 | 3,915,353 |
| Contribution to provident and benevolent fund | 1,271 | 1,224 | - | - | 122,683 | 99,197 |
| Medical | 221 | 204 | - | - | 237,760 | 182,376 |
| House-rent, maintenance, furnishing, others | 3,358 | 1,940 | - | - | - | - |
| Utilities | 516 | 353 | - | - | - | - |
| Conveyance | 791 | 325 | - | - | - | - |
| | <u>37,868</u> | <u>25,766</u> | <u>26,147</u> | <u>20,973</u> | <u>5,260,598</u> | <u>4,196,926</u> |
| Number of persons | <u>2</u> | <u>1</u> | <u>6</u> | <u>6</u> | <u>2,688</u> | <u>2,187</u> |

The Chief Executive Officer and certain Executives are provided with free club memberships and the Chairman / Chief Executive Officer are also provided with free use of the Group's maintained cars in accordance with their entitlement.

In addition to the above, all executives, including Chief Executive Officer of the Bank are also entitled to certain short term employee benefits which are disclosed in note 26.2 to these financial statements.

36. RELATED PARTY TRANSACTIONS

Aga Khan Fund for Economic Development (AKFED), S.A, Switzerland holds 51% shares of the Bank. The Group has related party relationship with its associated undertakings, joint venture company (refer note 8.4), associates of AKFED Group entities, employee benefit schemes (refer note 4.8) of the Group / related party, and members of the Key Management Personnel of the Group / related party, including both Executive and Non-Executive Directors.

Banking transactions with the related parties are executed on arm's length basis i.e. substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk (i.e. under the comparable uncontrolled price method) other than those under terms of employment. Details of loans and advances to related parties are given in note 9.9 to these consolidated financial statements.

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

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

| | 2012 | | | | | |
|------------------------------|--|-----------------------|----------------------|------------|---------------|---------------------|
| | Individual and companies related through | | | | | |
| | Key Management Personnel | Parent Group Entities | Subsidiary companies | Associates | Joint venture | Other related party |
| -----Rupees in 000----- | | | | | | |
| Balance Sheet | | | | | | |
| Deposits | 115 | 3,989,868 | - | 7,075,302 | 75,136 | 2,963,637 |
| Borrowings | - | 1,451,441 | - | - | - | - |
| Investments | - | - | - | 7,120,785 | 1,312,091 | - |
| Markup / Other Receivable | - | 32,904 | - | 220,000 | - | - |
| Mark-up / Other Payable | - | 113,770 | - | 29,173 | - | 1,223,959 |
| Placements / Lendings | - | 1,330,363 | - | - | - | - |
| Overdrawn Nostro | - | 656,893 | - | 292,891 | 738 | - |
| Impairment provision | - | - | - | 573,261 | - | - |
| Profit and Loss | | | | | | |
| Interest / Other Income | 12,400 | 222,984 | - | 2,577,340 | 362,436 | - |
| Interest / Other Expense | - | 328,573 | - | 691,050 | - | 171,878 |
| Others | | | | | | |
| Other contingencies | - | 361,835 | - | - | - | 127,318 |
| Securities Held as custodian | - | 4,852,220 | 898,100 | 18,035,000 | - | 12,378,000 |
| Other transactions | 80,250 | 199 | - | 2,427 | - | - |
| -----Rupees in 000----- | | | | | | |
| | 2011 | | | | | |
| | Individual and companies related through | | | | | |
| | Key Management Personnel | Parent Group Entities | Subsidiary companies | Associates | Joint venture | Other related party |
| -----Rupees in 000----- | | | | | | |
| Balance Sheet | | | | | | |
| Deposits | - | 2,977,033 | - | 4,205,849 | 38,735 | 635,603 |
| Borrowings | - | 636,404 | - | - | - | - |
| Investments | - | - | - | 4,951,702 | 1,074,062 | - |
| Markup / Other Receivable | - | 57,541 | - | 115,149 | - | 63,079 |
| Mark-up / Other Payable | - | 167,417 | - | 24,430 | - | 85,514 |
| Placements / Lendings | - | 362,928 | - | - | 6,489 | - |
| Overdrawn Nostro | - | 622,334 | - | 486,045 | - | - |
| Impairment provision | - | - | - | 573,261 | - | - |
| Profit and Loss | | | | | | |
| Interest / Other Income | 19,000 | 241,445 | - | 1,423,278 | 244,555 | - |
| Interest / Other Expense | - | 158,189 | - | 444,500 | - | 127,729 |
| Others | | | | | | |
| Other contingencies | - | 103,044 | - | - | - | - |
| Securities Held as custodian | 92,730 | 3,715,550 | 945,000 | 15,003,000 | - | 14,129,800 |

36.1 The donations given in note 26 and annexure IV of these financial statements include donations to HBL Foundation. The Foundation was established by the Board of Directors of HBL to promote development and advance the welfare and well being of the people with the object of improving their quality of life. Liability to the fund is shown in note 17.

36.2 Key Management Personnel

Key Management Personnel comprises Members of Management Forum, Regional Management, Country Managers and Senior Executives:

| | 2012 (Rupees in '000) | 2011 |
|--|--------------------------|------------------|
| Managerial remuneration (including allowances) | 1,481,639 | 1,225,839 |
| Contribution to provident and benevolent fund | 23,269 | 20,261 |
| Medical | 41,328 | 30,309 |
| | <u>1,546,236</u> | <u>1,276,409</u> |
| Number of persons | <u>181</u> | <u>166</u> |

In addition Key Management Personnel are paid short-term employee benefits which are disclosed in note 26.2.

37. RISK MANAGEMENT FRAMEWORK

Risk taking is central to banking activity. Success in any venture in general and the banking business in particular is dependent on how well an institution manages its risk. The main goal is to minimize risk and be proactive in efficiently identifying, assessing, measuring (as far as possible), monitoring and controlling risks to an organisation's strategic advantage.

As Group plans to continue diversifying its business and ensuring sustained growth and profitability amidst increasing competitiveness and challenges in the banking industry and works to implement the comprehensive risk management, capital adequacy and internal control standards enforced by the SBP. To this end, the Bank has a well defined Risk Management Framework comprising of an effective risk management strategy, risk management structure and a policy framework.

Risk Management Structure

The Bank's risk management approach is underpinned by an appropriate risk management structure. This structure is represented by various lines of defence in order to ensure that the risks are managed effectively on an entity level:

| | | |
|--|--------------------|---|
| Supervisory Level | Board of Directors | Board Risk Management Committee and Board Audit Committee. |
| | Management | ALCO, Management Risk Committee, Credit Policy Committee, Operational Risk Management Committee. |
| Risk Initiation - Operating Units/ Risk Owners | | All Business and Support Groups i.e., Corporate, Investment Banking, Commercial, Retail, Treasury, IT, HR, etc. |
| Risk Control | | Risk Management Group, Compliance |
| Risk Assurance | | Internal Audit and Business Risk Review |

Board of Directors (BoD)

The Board provides strategic direction for effective risk management and has the ultimate responsibility for managing all material risks that the Bank is/ may be exposed to, and for ensuring that the required human resources, culture, practices and systems are in place to address such risks. In discharging these responsibilities for overall risk management, the Board has established the Board Risk Management Committee.

Board Risk Management Committee (BRMC)

BRMC is a Board level oversight committee and is the highest risk related policy making and oversight body for all types of risks faced by the Bank, notably credit, market, liquidity and operational risks. It comprises of four directors of the Board (majority being non-executive). The Committee is supported by the Chief Risk Officer (CRO) and other executives as required. BRMC assists the Board in determining the strategic direction of the Bank by providing them the risk perspective.

Asset & Liability Committee (ALCO)

ALCO is the focal point for defining and leading the entire asset liability management process within the Bank. In this regard, ALCO also has responsibility for oversight of all market and liquidity risks. It is chaired by the President/CEO and has representation from all business groups, CRO, Chief Financial Officer (CFO), and Head of Market Risk.

Management Risk Committee (MRC)

Management Risk Committee is a senior management body headed by the CRO that mainly covers risks on integrated basis from an overall perspective of strategy, policy/ framework development, assessment/ measurement tools, MIS framework and Basel II implementation, whereas routine aspects in relation to such risks are managed by designated risk departments. In addition, the Bank has other senior management committees i.e., CPC, ALCO and ORMC to manage more specifically the credit, market and liquidity and operational risks respectively.

Credit Policy Committee (CPC)

Credit Policy Committee, at the functional level, has the responsibility to translate the decisions about strategy into framework, policies and standards for the origination, approval, disbursement, monitoring and reporting of credits and also to participate with the business line management in setting up the Bank's target portfolio profile and limits and in monitoring alignment with the risk strategies, appetite and limits etc. approved by the competent authorities. The CPC is chaired by the CRO with the members comprising of at least one Senior Credit Officer from Corporate Banking, Investment Banking, Commercial and Retail Lending and at least one representative each from the Credit Policy and Credit Administration Divisions within RMG. - The risk management function is independent of business group / divisions.

Operational Risk Management Committee (ORMC)

Operational Risk Management Committee is a senior management body responsible for operational risk management within the Bank both from the strategic as well as tactical perspectives. The Committee has representation from Risk Management Group, Operations, Global Compliance Group and Finance, being headed by the CRO as its Chairman.

Risk Management Group (RMG)

For effective implementation of the risk management framework, a dedicated function i.e. Risk Management Group operates within the Bank, independent from the other business units, support functions as well as the Internal Audit function. RMG is responsible to perform the functions pertaining to development and oversight of risk strategy, policy, framework, methodology and MIS. The Group is headed by a designated Group Executive i.e. CRO reporting to the President but with an independent reporting line to BRMC so as to enable reporting of all material risk issues and matters, particularly in relation to exceptional circumstances where there may be a conflict/ disagreement with the President.

RMG has designated separate personnel/departments to cater to the following significant areas with each of them reporting to the CRO:

- Credit Policy
- Credit Approvals
- Credit Administration
- Portfolio Management
- Consumer Risk Management
- Market & Liquidity Risk Management

The Operational Risk Management Division (ORMD) operates within Global Compliance Group (GCG) independent from the other business units, support functions as well as the Internal Audit function. The Head ORMD is one of the members of the Operational Risk Committee which is chaired by the CRO. In this manner, issues and matters concerning operational risk are independently communicated to CRO so as to enable knowledge of the Bank-wide risks. The key issues are reported to BRMC through the forum of the Operational Risk Committee and/ or MRC, where applicable. In addition, the Head ORMD has a dotted reporting relationship with the CRO.

Business Risk Review (BRR)

BRR working under Internal Audit provide independent assessment to the Board and the senior management of the Bank's risk management framework that includes policies, procedures, methodologies, reporting, and systems.

Credit Risk Management

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with the agreed contract terms. Credit risk makes up the largest part of the Bank's risk exposures. The Bank's credit process is guided by centrally established credit policies, rules and guidelines continuing a close-to-the market approach with an aim to maintain a well-diversified portfolio of credit risk, which produces a reliable and consistent return.

Credit risk policies are established by the Credit Policy Committee/ CRO and approved by the Board through the Board Risk Management Committee. The Bank has a system of checks and balances in place around the extension of credit that are:

- An independent risk management function.
- Approval rules based on three-initial system and co-guarantor approach.
- An independent audit and risk review function.

The Credit Risk Strategy reflects Bank's tolerance for risk i.e. credit risk appetite and the level of expected profitability. This, as a minimum, reflects Bank's strategy to grant credit based on various products, economic sectors, client segments etc., target markets giving due consideration to risks specific to each target market.

Salient features of our credit approval process are delineated below:

- Every extension of credit to any counterparty requires approval by the personnel having credit approval authorities.
- All Business groups must apply consistent standards in arriving at their credit decisions.
- Every material change to a credit facility requires approval at the appropriate/ pre-defined level.
- Credit approval authority is assigned to individuals according to their qualifications and experience.

Certain groups of exposures/ facilities are managed under product programs, which are approved by various levels of approving authorities as defined in the Credit Policy Manual. Each product program contains detailed credit criteria, regulatory, compliance and documentation requirements.

The Bank uses internal risk rating system to supplement the credit risk measurement procedure for all Corporate and Commercial, and most of the Retail exposures. All in all, over 90% of all exposures are rated. All obligor risk ratings are validated and approved by authorized personnel belonging to both the business units and risk management function. The Bank is currently involved with external consultants to introduce more effective internal risk rating framework that will be aligned with the Foundation Internal Ratings Based (FIRB) approach of the Basel II accord.

Stress testing on the credit portfolio is performed according to the guidelines issued by SBP at defined frequency. The scope of stress testing is being expanded to include scenarios in addition to those defined in the SBP guidelines.

The disbursement, administration and monitoring of credit facilities are managed by Credit Administration Departments (CAD) linked to various business units and operates under the CRO as part of the Risk Management Group. CAD is also responsible for collateral/ documents management.

The Bank monitors its credit portfolio on continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of the Bank's credit culture and is intended to ensure that greater attention is paid to such exposure. The Bank has an established Remedial Assets function to focus on expediting recoveries from problem credits. The function negotiates with problem borrowers and recommends restructuring and/ or rescheduling of stuck up loans to the senior management. Cases where the possibilities of economically viable means of recovery are exhausted, legal proceedings are initiated. The Bank follows the guidelines of SBP or the Regulators under which it is operating in other countries for classification/ provisioning/ write-off of problem advances.

Country Risk

The Bank has in place a comprehensive Country Risk Policy. Limits are established for Cross Border Transfer Risk (CBTR) based on the ratings assigned by the internationally recognized rating agencies. The limit utilization is controlled at Head office level and country risk exposures are reported to BRMC at defined frequency. CBTR arises from exposure to counterparties in Countries other than the country where exposure is located. The Bank defines transfer risk as arising where an otherwise solvent and willing debtor is unable to meet its obligation due to the imposition of governmental or regulatory controls restricting its ability to perform under its obligation towards its foreign liabilities.

Market Risk Management

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and equity prices. It emanates from the trading activities mainly carried out by Treasury and investments/ structural positions housed in banking book.

Market risk at the Bank level is managed by the RMG under the supervision of ALCO supported by the Treasury Middle Office (TMO). The Bank carries a limited amount of market risk the bulk of which is located in the banking book stemming from the mismatches in structural assets and liabilities positions.

Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship. Substantial part of the Bank's assets and liabilities are subject to floating rates hence are re-priced simultaneously. However, the Bank is exposed to interest rate risk as a result of mismatches on a relatively small part of its assets and liabilities. The major portion related to this risk is reflected in the banking book owing to the retail activities and investments qualifying for statutory reserve requirements. The overall potential impact of the mismatches on the earnings in short term and economic value of the portfolio in the long term is not material and is being managed within the tolerance limits approved by the Board. The Bank uses simulation and duration gap models to measure and monitor the interest rate sensitivity on the potential earnings and the Bank's economic value of equity.

Foreign Exchange Risk

The Bank's assets are typically funded in the same currency as that of the business transacted to eliminate foreign exchange exposure. However, the Bank is obliged to maintain a reasonable open position in various currencies resulting from the sizeable trade related transactions handled across the Bank. Foreign exchange risks are controlled and monitored through the limits approved by ALCO within the overall limit advised by SBP. The regulatory limit for foreign exchange is relatively small compared to the size of the Bank; hence, the risk generated through foreign exchange activities is insignificant.

End-of-the-day positions are marked to market daily according to the guidelines of SBP and sensitivity is conducted in line with the internal market risk policy of the Bank. The intra-day positions are managed by treasury through stop loss/ dealers limits.

Liquidity Risk Management

Liquidity risk is the risk that the Bank will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets, or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management. The Bank follows a comprehensive liquidity risk management policy duly approved by ALCO and the Board. The policy stipulates maintenance of various ratios, funding preferences, and evaluation of Bank's liquidity under normal and crisis situation (stress testing). To comply with the policy, the Bank has also conducted a behavioral study on its demand deposits to evaluate their stickiness, which may not reflect in their maturity profile. Such evaluation forms part of the liquidity management process to realistically project the reliance on such funding sources. As a result of close monitoring and strict policy towards reliance on core deposit, the Bank has been able to avoid concentration/ reliance on volatile deposit in its books. A comprehensive contingency plan to deal with crisis situation is also in place.

Operational Risk Management (ORM)

In line with the approved Operational Risk Management Policy, Bank has instituted an Operational Risk Management Division (ORMD). Operational Risk Management Policy and a detailed ORM Framework has been prepared and implemented. Operational Risk Coordinators (ORCs) have been assigned from more than 20 departments of the Bank being responsible for implementation of the ORM Framework in coordination with ORMD. The Bank has been granted permission/certification by SBP to move to the more advanced approach i.e, Alternative Standardised Approach (ASA) under Basel II with a capital floor i.e., operational risk charge under ASA should not fall below a certain percentage of operational risk capital charge calculated under BIA for initial 3 years. Capital floors are 90% for 2012, 80%, for 2013 and 70% for 2014. HBL is the first Pakistani bank to achieve this milestone.

The Bank's ORM framework and practices address all the significant areas of ORM within the Bank including Risk Control Self Assessment (RCSA), Key Risk Indicators, Operational Loss Data Management, Operational Risk Reporting, Capital Calculation etc. Detailed RCSA exercises are conducted at regular intervals across the Bank, the results of which are continually evaluated against the losses. Operational loss data collection and evaluation has been underway since 2009. The Bank has also established Key Risk Indicators (KRI) and is monitoring them at regular intervals. Operational risk reports are regularly submitted to the senior management.

Derivatives risk management

There are a number of risks undertaken by the Bank, which need to be monitored and assessed.

Credit Risk

Credit risk refers to the risk of non-performance or default by a party (a customer, guarantor, trade counterparty, third party, etc.), resulting in an adverse impact on the Bank's profitability. Credit risk associated with derivatives transactions is categorized into settlement risk and pre-settlement risk. The credit limit proposals for derivatives transactions are reviewed by the MTR Head who recommends appropriate limits to the Credit Committee for approval. The credit exposure of each counter party is estimated and monitored by Treasury Middle Office on a daily basis.

Market Risk

The Bank, as a policy, hedges back-to-back all Options transactions. In addition, the Bank does not carry any exchange risk on its Cross Currency Swaps portfolio as it hedges the exposure in the interbank market. To manage the interest rate risk of Interest Rate Derivatives, the Bank has implemented various limits which are monitored and reported by Treasury Middle Office on a daily basis.

Liquidity Risk

Derivatives transactions, usually being non-funded in nature, do not carry a specific funding liquidity risk. The liquidity risk arises from the fact that in Pakistan interest rate derivatives generally have a uni-directional demand, and no perfect hedge is available. The Bank mitigates its risk by limiting the portfolio in terms of tenor, notional and sensitivity limits, and can also hedge its risk by taking on and off balance sheet positions in the interbank market, where available.

Operational Risk

The staff involved in the process of trading, settlement and risk management of derivatives are carefully trained to deal with the complexities involved in the process. Adequate systems and controls are in place to carry out derivatives transactions smoothly. Each transaction is processed in accordance with the product program or transaction memo, which contains detailed accounting and operational aspects of the transaction to further mitigate operational risk. In addition, the Treasury Middle Office and the Compliance and Control Department are assigned the responsibility of monitoring any deviation from policies and procedures. The Bank's Audit and Inspection Group also reviews this function, which covers regular review of systems, transactional processes, accounting practices and end-user roles and responsibilities.

The Bank uses a derivatives system which provides an end-to-end valuation solution, supports the routine transactional process and provides analytical tools to measure various risk exposures, carry out stress tests and sensitivity analysis. Treasury Middle Office produces various reports for higher management (BoD, BRMC, MRC, etc) on a periodic basis. These reports provide details of the derivatives business profile containing outstanding positions, profitability, risk exposures and the status of compliance with limits.

Risk Management alignment with Basel II Project

The Bank is one of the few financial institutions in Pakistan planning to adopt the Foundation Internal Ratings Based (FIRB) Approach for credit risk and Internal Models Approach (IMA) for Market Risk (Alternate Standardized Approach for operational risk has already been adopted) under the Basel II Framework and consequently enhancing the quality of risk management processes, methodologies, systems and reporting. In order to undertake the Basel II initiatives in a systematic manner and in full compliance with the related requirements, the Bank has sought the services of an international firm. Bank's Basel II Program includes a number of aspects involving organizational alignments, enhancements in the existing policies, procedures, processes and controls, development of new risk frameworks, existing system upgrades, selection and deployment of various risk applications, development of advanced risk management tools and methodologies and introduction of improved risk reporting MIS. A lot of effort has already gone into aligning Bank's risk management structure, policies, procedures and systems with the requirements of Basel II while the remaining initiatives are currently being undertaken in an integrated manner with plans for completion in due course. The Bank also realizes the criticality of quality human resource and is already in the process of augmenting the skill set by necessary induction and training measures to enable undertaking of planned initiatives and consistently implementing the new risk management framework in line with Basel II. Once completed, the Bank expects to achieve a number of significant business benefits from its Basel II program with more robust risk management and internal control environment in line with international best practices.

Bank is currently engaged in the deployment of a comprehensive suite of advanced systems for Loan Origination, Credit Administration / Collateral Management, and Internal Risk Ratings as part of FIRB related initiatives for credit risk.

38. CAPITAL ADEQUACY

The risk weighted assets to capital ratio is calculated in accordance with the SBP's guidelines on capital adequacy.

38.1 Regulatory Capital Base

| | 2012 (Rupees in '000) | 2011 (Rupees in '000) |
|---|--------------------------|--------------------------|
| Tier 1 Capital | | |
| 1.1 Fully Paid-up capital | 12,122,748 | 11,020,680 |
| 1.2 General Reserves as disclosed on the Balance Sheet | 24,467,534 | 22,258,534 |
| 1.3 Un-appropriated / un-remitted profits (net of accumulated losses, if any) | 67,523,215 | 56,980,697 |
| 1.4 Non-controlling interest | 1,227,207 | 1,236,290 |
| | 105,340,704 | 91,496,201 |
| Deductions: | | |
| 1.5 Book value of intangibles | 2,647,860 | 1,824,905 |
| 1.6 Shortfall in provisions required against classified assets irrespective of any relaxation allowed. | 2,758,267 | - |
| 1.7 50% Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet | 656,045 | 537,031 |
| | 6,062,172 | 2,361,936 |
| Total eligible Tier 1 capital | 99,278,532 | 89,134,265 |
| Supplementary Capital | | |
| Tier 2 Capital | | |
| 2.1 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets | 1,460,695 | 1,003,924 |
| 2.2 Revaluation Reserves up to 45% | 6,782,799 | 3,947,050 |
| 2.3 Foreign Exchange Translation Reserves | 14,911,820 | 9,887,221 |
| 2.4 Subordinated debt -upto maximum of 50% of Total eligible Tier 1 capital | 1,068,917 | 2,337,729 |
| Total tier 2 Capital | 24,224,231 | 17,175,924 |
| Deductions: | | |
| 2.5 50% Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet | 656,045 | 537,031 |
| Total eligible Tier 2 Capital | 23,568,186 | 16,638,893 |
| Total Eligible Capital (1+2) | 122,846,718 | 105,773,158 |

38.2 Risk-Weighted Exposures

Credit Risk

On-balance sheet

Other sovereigns, GOP, PG, SBP other than PKR

PSE's

Multilateral Development Banks

Banks

Corporates

Retail Portfolio

Secured by residential property

Past due loans

Listed Equity investments

Unlisted equity investments

Investments in fixed assets

Other assets

Off-balance sheet

Non-market related

Market related

Market Risk

Interest Rate Risk

Equity Position Risk

Foreign Exchange Risk

Operational Risk - Restricted to 90% of Basis Indicator Approach

Capital Adequacy Ratio

Total eligible regulatory capital held

Total risk weighted assets

Capital adequacy ratio

| Note | Capital Requirements | | Risk Weighted Assets | |
|-----------------------------|----------------------|-------------|----------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| ------(Rupees in '000)----- | | | | |
| | 4,664,013 | 3,275,114 | 46,640,129 | 32,751,140 |
| | 611,759 | 454,392 | 6,117,592 | 4,543,919 |
| | 338,696 | - | 3,386,960 | - |
| | 2,885,950 | 2,088,027 | 28,859,495 | 20,880,272 |
| | 25,906,297 | 26,691,602 | 259,062,969 | 266,916,017 |
| | 4,424,599 | 4,521,976 | 44,245,989 | 45,219,761 |
| | 271,415 | 231,560 | 2,714,153 | 2,315,598 |
| | 1,178,256 | 1,221,217 | 11,782,556 | 12,212,171 |
| | 858,154 | 730,297 | 8,581,538 | 7,302,971 |
| | 484,427 | 348,779 | 4,844,265 | 3,487,793 |
| | 2,098,446 | 1,734,275 | 20,984,464 | 17,342,749 |
| | 1,207,561 | 1,301,246 | 12,075,607 | 13,012,460 |
| | 44,929,573 | 42,598,485 | 449,295,717 | 425,984,851 |
| | 10,047,812 | 7,063,653 | 100,478,115 | 70,636,534 |
| | 115,182 | 226,990 | 1,151,822 | 2,269,900 |
| | 10,162,994 | 7,290,643 | 101,629,937 | 72,906,434 |
| | 3,794,979 | 2,090,860 | 47,437,238 | 26,135,744 |
| | 766,009 | 318,920 | 9,575,113 | 3,986,504 |
| | 4,465,558 | 3,565,395 | 55,819,472 | 44,567,439 |
| | 9,026,546 | 5,975,175 | 112,831,823 | 74,689,687 |
| | 9,061,910 | 8,288,439 | 113,273,880 | 103,605,490 |
| | 73,181,023 | 64,152,742 | 777,031,357 | 677,186,462 |
| | 38.1 | 122,846,718 | 105,773,158 | |
| | 38.2 | 777,031,357 | 677,186,462 | |
| | | 15.81% | 15.62% | |

38.3 Types of Exposures and ECAI's used

| Exposures | JCR-VIS | PACRA | MOODYs | STANDARD & POOR (Specify) | ECA SCORES (Specify) |
|-----------------------------------|---------|-------|--------|---------------------------|----------------------|
| PSE's | ✓ | ✓ | | | |
| Banks | ✓ | ✓ | ✓ | | |
| Corporates | ✓ | ✓ | | | |
| Sovereigns and GOP other than PKR | | | ✓ | ✓ | ✓ |

38.4 Credit Exposures subject to Standardised approach

| Exposures | Rating Category | 2012 | | | 2011 | | |
|--|-----------------|--------------------|---------------|---------------|--------------------|---------------|--------------|
| | | Amount outstanding | Deduction CRM | Net exposure | Amount outstanding | Deduction CRM | Net exposure |
| ------(Rupees in '000)----- | | | | | | | |
| Cash and cash equivalent | | 24,350,565 | - | 24,350,565 | 17,165,812 | - | 17,165,812 |
| Claims on GOP in PKR | | 279,595,532 | 159,982,937 | 119,612,595 | 132,309,047 | 26,204,154 | 106,104,893 |
| Claims on SBP arising out of statutory obligations | | 19,923,432 | - | 19,923,432 | 13,466,775 | - | 13,466,775 |
| Claims on other sovereigns and GOP other than PKR | 1 | 39,559,544 | - | 39,559,544 | 10,439,242 | - | 10,439,242 |
| Claims on other sovereigns and GOP other than PKR | 2 | 3,163,492 | - | 3,163,492 | 1,610,563 | - | 1,610,563 |
| Claims on other sovereigns and GOP other than PKR | 3 | 22,341,299 | - | 22,341,299 | 13,664,896 | - | 13,664,896 |
| Claims on other sovereigns and GOP other than PKR | 4,5 | 20,183,657 | - | 20,183,657 | 16,322,210 | - | 16,322,210 |
| Claims on other sovereigns and GOP other than PKR | 6 | 9,305,121 | - | 9,305,121 | 5,791,303 | - | 5,791,303 |
| Claims on other sovereigns and GOP other than PKR | Unrated | 695,834 | - | 695,834 | 594,553 | - | 594,553 |
| Claims on Multilateral Development Banks | Unrated | 6,773,919 | - | 6,773,919 | - | - | - |
| PSE | 1 | 4,731,671 | - | 4,731,671 | 11,089,525 | - | 11,089,525 |
| PSE | Unrated | 143,480,819 | 73,975,276 | 69,505,543 | 102,420,433 | 41,799,397 | 60,621,036 |
| Banks | 1 | 53,556,529 | - | 53,556,529 | 43,397,907 | - | 42,290,369 |
| Banks | 2,3 | 5,374,845 | 253,175 | 5,121,670 | 8,493,447 | 745,778 | 7,747,669 |
| Banks | Unrated | 28,225,147 | 2,694,680 | 25,530,467 | 11,552,219 | - | 11,552,219 |
| Bank - three months or less | 1,2,3 | 67,600,621 | 31,203,173 | 36,397,448 | 75,133,725 | 45,024,313 | 30,109,412 |
| Bank - three months or less | Unrated | 8,168,680 | - | 8,168,680 | 13,405,588 | - | 13,405,588 |
| Corporate | 1 | 46,005,587 | 12,092,178 | 33,913,409 | 56,138,205 | 307 | 56,137,898 |
| Corporate | 2 | 10,225,945 | 30,791 | 10,195,154 | 25,004,441 | - | 25,004,441 |
| Corporate | 3,4 | 1,690,144 | 75 | 1,690,069 | 638,924 | - | 638,924 |
| Corporate | 5,6 | 46,165 | - | 46,165 | 21,907 | - | 21,907 |
| Corporate | Unrated | 393,171,161 | 11,641,002 | 381,530,159 | 346,592,640 | 7,388,999 | 339,203,641 |
| Retail | | 65,504,256 | 5,548,568 | 59,955,688 | 65,744,862 | 3,936,498 | 61,808,364 |
| Residential mortgage | | 7,754,723 | - | 7,754,723 | 6,615,995 | - | 6,615,995 |
| Past due loans | | 12,501,983 | - | 12,501,983 | 12,241,938 | - | 12,241,938 |
| Listed equity and regulatory capital instruments | | 8,581,538 | - | 8,581,538 | 7,302,971 | - | 7,302,971 |
| Unlisted equity | | 3,229,510 | - | 3,229,510 | 2,325,195 | - | 2,325,195 |
| Fixed assets | | 20,984,464 | - | 20,984,464 | 17,342,749 | - | 17,342,749 |
| Other assets | | 12,075,607 | - | 12,075,607 | 13,012,520 | - | 13,012,520 |
| | | 1,318,801,790 | 297,421,855 | 1,021,379,935 | 1,029,839,592 | 126,206,984 | 903,632,608 |

38.5 Capital management

The Group's lead regulator SBP sets and monitors capital requirements for the Bank and the Group as a whole. In addition the Group's branches and subsidiaries outside Pakistan are also required to follow capital requirements applicable in respective countries.

In implementing current capital requirements, SBP requires the Group to maintain a prescribed ratio of 10% total capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the methodology provided by SBP which takes account of specific and general market risk, capital charge for interest rate risk and equity price risk using the maturity method.

The Group's regulatory capital is analysed into three tiers:

- Tier I capital, which includes ordinary share capital, capital and other reserves except exchange translation reserve, non-controlling interest, and retained profit.
- Tier II capital includes revaluation surplus, exchange translation reserve, subordinated debt and impairment allowances not kept against identified debts. The revaluation surplus is allowable as Tier II capital upto 45% of the reserve. Subordinated debt is limited to 50% of Tier I capital.
- Tier III supplementary capital consists of short term subordinated debt solely for the purpose of meeting a proportion of the Capital requirements for market risks. The bank currently does not have any Tier III capital.

Total of Tier II and III capital is limited to Tier I capital.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

On and off-balance sheet assets in the banking book are broken down to various asset classes for calculation of credit risk. Ratings for assets are applied using various ECAI's and aligned with appropriate risk buckets. Collaterals if any, are used as an outflow adjustment. Risk weights notified, are applied at net adjusted exposure. Collaterals used include: Government of Pakistan guarantees for advances and investments in PSE / GOP, deposits / margins, lien on deposits, saving certificates and lending of securities (repo & reverse repo).

39. CURRENCY RISK

| | 2012 | | | | 2011 | | | |
|----------------------|-----------------------------|----------------------|-------------------------|-----------------------|-----------------------------|----------------------|-------------------------|-----------------------|
| | Assets | Liabilities | Off-balance sheet items | Net currency exposure | Assets | Liabilities | Off-balance sheet items | Net currency exposure |
| | ------(Rupees in '000)----- | | | | ------(Rupees in '000)----- | | | |
| Pakistan Rupee | 1,192,794,937 | 1,098,956,216 | (16,620,430) | 77,218,291 | 803,360,024 | 725,883,779 | (12,456,695) | 65,019,550 |
| United States Dollar | 184,107,763 | 178,846,874 | 2,881,140 | 8,142,029 | 133,141,900 | 132,810,199 | 5,338,924 | 5,670,625 |
| Great Britain Pound | 87,197,491 | 78,429,060 | 5,585,491 | 14,353,922 | 66,458,560 | 63,614,875 | 3,991,646 | 6,835,331 |
| UAE Dirham | 38,601,511 | 32,614,238 | 2,132,838 | 8,120,111 | 31,124,285 | 26,630,807 | 3,901,969 | 8,395,447 |
| Japanese Yen | 326,750 | 7,066 | (98,030) | 221,654 | 339,398 | 3,652 | (323,920) | 11,826 |
| Euro | 15,170,172 | 21,251,437 | 6,456,019 | 374,754 | 24,437,616 | 21,218,238 | (283,865) | 2,935,513 |
| Other Currencies | 92,109,948 | 67,165,921 | (337,028) | 24,606,999 | 80,692,422 | 59,805,667 | (168,059) | 20,718,696 |
| | <u>1,610,308,572</u> | <u>1,477,270,812</u> | <u>-</u> | <u>133,037,760</u> | <u>1,139,554,205</u> | <u>1,029,967,217</u> | <u>-</u> | <u>109,586,988</u> |

2011

| Total | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | Over five to ten years | Over ten years | |
|---|----------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|------------------------|----------------------|----------------------|
| | | | | | | | | | | (Rupees in '000) |
| Assets | | | | | | | | | | |
| Cash and balances with treasury banks | 103,399,623 | 27,704,428 | 16,476,949 | 14,971,897 | 4,459,142 | 1,397,091 | 1,268,968 | 2,526,426 | 9,124,574 | 25,470,148 |
| Balances with other banks | 47,349,505 | 35,379,688 | 7,078,443 | 3,418,693 | 1,472,681 | - | - | - | - | - |
| Lendings to financial institutions | 41,581,029 | 3,586,218 | 1,310,351 | 2,630,016 | 34,054,444 | - | - | - | - | - |
| Investments | 418,604,147 | 167,514,917 | 27,138,976 | 14,963,119 | 24,368,894 | 25,014,775 | 18,322,210 | 53,586,730 | 37,733,429 | 49,961,097 |
| Advances | 457,367,656 | 41,769,052 | 44,632,692 | 50,046,659 | 23,550,851 | 28,986,462 | 24,774,963 | 186,100,136 | 53,588,831 | 3,918,010 |
| Operating fixed assets | 19,167,654 | - | - | - | - | 1,455,648 | 1,455,648 | 2,911,295 | 1,453,297 | 19,167,654 |
| Deferred tax asset | 7,275,888 | - | - | - | - | - | - | - | - | - |
| Other assets | 44,808,703 | 19,314,318 | 7,972,469 | 6,548,407 | 9,049,422 | - | - | 245,124,587 | 101,900,131 | 1,924,087 |
| | <u>1,139,554,205</u> | <u>295,268,619</u> | <u>104,609,880</u> | <u>92,578,791</u> | <u>96,955,434</u> | <u>56,853,976</u> | <u>45,821,789</u> | <u>245,124,587</u> | <u>101,900,131</u> | <u>100,440,996</u> |
| Liabilities | | | | | | | | | | |
| Bills payable | 13,894,502 | 2,988,326 | 4,362,470 | 6,543,706 | - | - | - | - | - | - |
| Borrowings from financial institutions | 39,473,670 | 12,850,798 | 10,007,230 | 10,071,903 | 566,973 | 607,992 | 940,697 | 1,252,037 | 3,176,040 | - |
| Deposits and other accounts - note 40.2 | 933,631,525 | 108,001,834 | 126,112,818 | 73,331,227 | 106,184,537 | 19,982,729 | 21,537,109 | 30,523,819 | 226,428,907 | 221,528,545 |
| Sub-ordinated loans | 5,036,100 | - | - | - | - | - | 4,497,285 | - | 538,815 | - |
| Other liabilities | 37,931,420 | 20,068,872 | 9,915,433 | 3,451,116 | 721,854 | 535,488 | 535,488 | 2,703,169 | - | - |
| | <u>1,029,967,217</u> | <u>143,909,831</u> | <u>150,397,951</u> | <u>93,397,951</u> | <u>107,473,365</u> | <u>21,126,209</u> | <u>27,510,579</u> | <u>34,479,025</u> | <u>230,143,762</u> | <u>221,528,545</u> |
| Net gap | <u>109,586,988</u> | <u>151,358,791</u> | <u>(45,788,071)</u> | <u>(819,161)</u> | <u>(10,517,930)</u> | <u>35,727,767</u> | <u>18,311,210</u> | <u>210,645,562</u> | <u>(128,243,631)</u> | <u>(121,087,549)</u> |
| Share capital | 11,020,680 | | | | | | | | | |
| Reserves | 32,145,755 | | | | | | | | | |
| Unappropriated profit | 56,980,697 | | | | | | | | | |
| Surplus on revaluation of assets - net of tax | 8,203,566 | | | | | | | | | |
| Non-controlling interest | 1,236,290 | | | | | | | | | |
| | <u>109,586,988</u> | | | | | | | | | |

| Total | 2011 | | | | | | | | | |
|---|------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|------------------------|----------------|---|
| | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | Over five to ten years | Over ten years | |
| | (Rupees in '000) | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and balances with treasury banks | 103,399,623 | 1,714,244 | 1,398,767 | - | 216,718 | - | - | - | - | - |
| Balances with other banks | 47,349,505 | 3,190,251 | 1,09,265 | 1,472,681 | - | - | - | - | - | - |
| Lendings to financial institutions | 41,581,029 | 1,341,424 | - | - | - | - | - | - | - | - |
| Investments | 418,604,147 | 29,287,634 | 104,337,473 | 143,871,328 | 22,901,020 | 15,447,646 | 46,544,926 | 8,562,188 | 17,101,670 | |
| Advances | 457,367,656 | 40,910,615 | 47,651,011 | 21,985,756 | 31,035,511 | 26,827,383 | 90,538,256 | 32,903,217 | 40,622,983 | |
| Operating fixed assets | 19,167,654 | 79,730 | 239,191 | 478,382 | 956,763 | 956,892 | 1,055,155 | 737,915 | 14,504,165 | |
| Deferred tax asset | 7,275,888 | - | - | - | - | - | - | - | - | |
| Other assets | 44,808,703 | 1,984,909 | 2,977,363 | 7,765,855 | - | - | - | - | - | |
| | 1,139,554,205 | 377,766,187 | 156,713,070 | 175,574,002 | 55,110,012 | 43,231,921 | 138,138,337 | 42,203,320 | 72,228,818 | |
| Liabilities | | | | | | | | | | |
| Bills payable | 13,894,502 | - | - | - | - | - | - | - | - | |
| Borrowings from financial institutions | 39,473,670 | 10,010,242 | 9,700,467 | 565,952 | 584,249 | 903,963 | 1,203,145 | 3,052,016 | - | |
| Deposits and other accounts | 933,631,525 | 92,767,291 | 51,631,050 | 62,483,743 | 8,792,829 | 10,438,337 | 7,839,583 | 5,284,777 | 195,466 | |
| Sub-ordinated loans | 5,036,100 | - | - | - | - | 4,497,285 | - | 538,815 | - | |
| Other liabilities | 37,931,420 | - | - | 412,044 | - | - | - | - | - | |
| | 1,029,967,217 | 102,777,533 | 61,331,517 | 63,461,739 | 9,377,078 | 15,839,585 | 9,042,728 | 8,875,608 | 195,466 | |
| Net gap | 109,586,988 | (24,188,995) | 95,381,553 | 112,112,263 | 45,732,934 | 27,392,336 | 129,095,609 | 33,327,712 | 72,033,352 | |
| Share capital | 11,020,680 | | | | | | | | | |
| Reserves | 32,145,755 | | | | | | | | | |
| Unappropriated profit | 56,980,697 | | | | | | | | | |
| Surplus on revaluation of assets - net of tax | 8,203,566 | | | | | | | | | |
| Non-controlling interest | 1,236,290 | | | | | | | | | |
| | 109,586,988 | | | | | | | | | |

40.4 The Group has assets and liabilities that have contractual or non-contractual maturities. The Group conducts empirical and statistical studies to assess the expected maturity of assets and liabilities with non-contractual maturities. The behavioral maturities of Demand deposits are determined on the basis of an empirical study conducted by the Bank, based on the past five years of data. The attrition rate of deposits is determined based on historically observed monthly data of all Current and Saving deposit accounts. The parameters used to determine the stickiness of deposits in the study are accounts with balances above a minimum level and monthly change in account balances.

Overdraft facilities are a part of the loan portfolio and roll-over periodically and are constantly a part of the balance sheet. The core or stable part of this asset category can be considered to have a behavioral maturity of a longer tenor. Although, contractually such facilities are short-term, they are generally rolled-over periodically; such as working capital financing for commercial borrowers. Hence these assets need to be analyzed as having a core portion which is stable and constantly appears on the balance sheet and a non-core portion that is relatively volatile. Statistical analysis is used to ascertain the change in maturity profiling over time based on the cyclical changes in the outstanding amount against overdraft facilities.

41. YIELD / INTEREST RATE RISK

41.1 Interest rate risk management

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. In accordance with BSD circular letter no. 03 of 2011, issued by SBP, the Group is required to report interest rate sensitivity gap of assets and liabilities on the basis of an objective and systematic behavioral study approved by ALCO committee.

| Effective yield / interest Rate | Total | Exposed to yield / interest risk | | | | | | | Not exposed to yield / interest risk | |
|---|---------------|----------------------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|--------------------------------------|------------------------|
| | | 2012 | | | | | | | | |
| | | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | | Over five to ten years |
| ----- (Rupees in '000) ----- | | | | | | | | | | |
| On-balance sheet assets | | | | | | | | | | |
| Financial assets | | | | | | | | | | |
| Cash and balances with treasury banks | 157,229,517 | 31,691,240 | 1,740,557 | 241,577 | - | - | - | - | - | 123,556,143 |
| Balances with other banks | 47,980,032 | 31,978,407 | 4,363,535 | 2,007,023 | 509,368 | - | - | - | - | 9,121,699 |
| Lendings to financial institutions | 24,828,255 | 23,928,255 | 900,000 | - | - | - | - | - | - | - |
| Investments | 797,094,548 | 117,109,490 | 138,833,835 | 127,847,162 | 268,855,671 | 21,678,967 | 31,686,130 | 63,680,980 | 2,592,987 | 11,204,710 |
| Advances | 499,817,906 | 69,630,063 | 208,604,370 | 155,634,392 | 21,781,792 | 8,629,971 | 7,678,177 | 10,652,751 | 6,327,215 | 9,616,997 |
| Other assets | 41,043,232 | - | - | - | - | - | - | - | - | 41,043,232 |
| | 1,567,993,490 | 274,337,455 | 354,442,297 | 285,730,154 | 291,146,831 | 30,308,938 | 39,364,307 | 74,333,731 | 8,920,202 | 14,866,794 |
| Financial liabilities | | | | | | | | | | |
| Bills payable | 18,943,207 | - | - | - | - | - | - | - | - | 18,943,207 |
| Borrowings from financial institutions | 196,580,548 | 170,615,571 | 10,001,104 | 11,601,418 | 69,444 | 168,158 | 179,672 | 420,057 | 1,021,393 | 2,503,731 |
| Deposits and other accounts | 1,214,963,700 | 115,375,747 | 112,505,297 | 542,344,847 | 90,068,645 | 10,240,069 | 10,043,352 | 9,389,747 | 6,043,738 | 318,897,430 |
| Sub-ordinated loans | 5,440,654 | - | - | 5,440,654 | - | - | - | - | - | - |
| Other liabilities | 39,447,179 | - | - | - | - | - | - | - | - | 39,447,179 |
| | 1,475,375,288 | 285,991,318 | 122,506,401 | 559,386,919 | 90,138,089 | 10,408,227 | 10,223,024 | 9,809,804 | 7,065,131 | 54,828 |
| On-balance sheet gap | 92,618,204 | (11,653,863) | 231,935,896 | (273,656,765) | 201,008,742 | 19,900,711 | 29,141,283 | 64,523,927 | 1,855,071 | (185,248,770) |
| Non - financial net assets | 40,419,556 | - | - | - | - | - | - | - | - | - |
| Total net assets | 133,037,760 | - | - | - | - | - | - | - | - | - |
| Off-balance sheet financial instruments | | | | | | | | | | |
| Foreign and local currency forward purchases | 167,104,754 | 81,824,461 | 54,362,697 | 8,926,051 | 21,991,545 | - | - | - | - | - |
| Foreign and local currency forward sales | (167,168,508) | (92,419,684) | (55,530,874) | (4,525,573) | (14,692,377) | - | - | - | - | - |
| Foreign Currency Options Purchases | 1,317,948 | 20,466 | 446,463 | 851,019 | - | - | - | - | - | - |
| Foreign Currency Options Sales | (1,317,948) | (20,466) | (446,463) | (851,019) | - | - | - | - | - | - |
| Cross Currency Swaps- Long Position | 3,659,009 | - | 498,872 | 340,811 | 2,240,634 | 578,692 | - | - | - | - |
| Cross Currency Swaps- Short Position | (3,659,009) | - | (498,872) | (340,811) | (2,240,634) | (578,692) | - | - | - | - |
| Interest rate swaps - long position | 44,419 | - | - | 152,750 | - | - | - | 291,449 | - | - |
| Interest rate swaps - short position | (291,449) | - | - | - | - | - | - | (291,449) | - | - |
| Off-balance sheet gap | 88,996 | (10,595,223) | (1,168,177) | 4,553,228 | 7,299,168 | - | - | - | - | - |
| Total yield / interest risk sensitivity gap | (22,249,086) | 230,767,719 | (269,103,537) | 208,307,910 | 19,900,711 | 29,141,283 | 64,523,927 | 1,855,071 | 14,811,966 | (185,248,770) |
| Cumulative yield / interest risk sensitivity gap | (22,249,086) | 208,518,633 | (60,584,904) | 147,723,006 | 167,623,717 | 196,765,000 | 261,288,927 | 263,143,998 | 277,955,964 | 92,707,194 |

| Effective yield / interest rate | Total | Exposed to yield / interest risk | | | | | | | | | | Not exposed to yield / interest risk |
|--|---------------|----------------------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|------------------------|----------------|---|--------------------------------------|
| | | (Rupees in '000) | | | | | | | | | | |
| | | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | Over five to ten years | Over ten years | | |
| On-balance sheet assets | | | | | | | | | | | | |
| Financial assets | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| 1.79% | 103,399,623 | 20,526,204 | 1,714,244 | 1,398,767 | - | 216,718 | - | - | - | - | - | 79,543,690 |
| | 47,349,505 | 27,851,043 | 5,719,592 | 3,903,276 | 1,472,681 | - | - | - | - | - | - | 8,402,913 |
| | | | | | | | | | | | | |
| 11.78% | 41,581,029 | 3,586,218 | 1,310,351 | 2,630,016 | 34,054,444 | - | - | - | - | - | - | - |
| 11.13% | 418,604,147 | 28,764,677 | 37,473,593 | 114,407,418 | 137,924,700 | 16,504,763 | 6,364,716 | 49,116,082 | 7,400,487 | 14,962,577 | - | 5,685,134 |
| 12.16% | 457,367,656 | 56,679,413 | 193,840,828 | 129,610,326 | 30,923,792 | 13,073,278 | 8,395,399 | 8,992,229 | 5,733,365 | 1,934,581 | - | 8,184,445 |
| | 32,893,915 | - | - | - | - | - | - | - | - | - | - | 32,893,915 |
| | 1,101,195,875 | 137,407,555 | 240,058,608 | 251,949,803 | 204,375,617 | 29,794,759 | 14,760,115 | 58,108,311 | 13,133,852 | 16,897,158 | - | 134,710,097 |
| Financial liabilities | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | 13,894,502 | - | - | - | - | - | - | - | - | - | - | 13,894,502 |
| 8.06% | 39,473,670 | 12,850,798 | 10,007,230 | 10,071,903 | 566,973 | 607,992 | 940,697 | 1,252,037 | 3,176,040 | - | - | - |
| 4.80% | 933,631,525 | 64,347,183 | 120,344,765 | 425,118,743 | 71,751,944 | 12,280,876 | 14,389,506 | 16,228,613 | 49,794,045 | 44,893,683 | - | 114,482,167 |
| 2.40% | 5,036,100 | - | - | 5,036,100 | - | - | - | - | - | - | - | - |
| | 36,726,849 | - | - | - | - | - | - | - | - | - | - | 36,726,849 |
| | 1,028,762,646 | 77,197,981 | 130,351,995 | 440,226,746 | 72,318,917 | 12,888,868 | 15,330,203 | 17,480,650 | 52,970,085 | 44,893,683 | - | 165,103,518 |
| | 72,433,229 | 60,209,574 | 109,706,613 | (188,276,943) | 132,056,700 | 16,905,891 | (570,088) | 40,627,661 | (39,836,233) | (27,996,525) | - | (30,393,421) |
| | 37,153,759 | - | - | - | - | - | - | - | - | - | - | - |
| | 109,586,988 | - | - | - | - | - | - | - | - | - | - | - |
| Off-balance sheet financial instruments | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | 151,577,433 | 48,061,498 | 46,908,970 | 48,863,185 | 7,743,781 | - | - | - | - | - | - | - |
| | (151,582,034) | (48,004,893) | (46,916,439) | (48,984,506) | (7,676,197) | - | - | - | - | - | - | - |
| | 336,655 | 31,619 | 279,825 | 25,211 | - | - | - | - | - | - | - | - |
| | (336,655) | (31,619) | (279,825) | (25,211) | - | - | - | - | - | - | - | - |
| | 2,868,771 | - | - | - | - | 2,868,771 | - | - | - | - | - | - |
| | (2,868,771) | - | - | - | - | (2,868,771) | - | - | - | - | - | - |
| | 482,551 | - | - | - | - | 152,750 | - | 329,801 | - | - | - | - |
| | (329,801) | - | - | - | - | - | - | (329,801) | - | - | - | - |
| | 148,149 | 56,605 | (7,469) | (121,321) | 67,584 | 152,750 | - | - | - | - | - | - |
| | 60,266,179 | 109,699,144 | (188,398,264) | 132,124,284 | 17,058,641 | 40,627,661 | (570,088) | (39,836,233) | (27,996,525) | (30,393,421) | - | (30,393,421) |
| | 60,266,179 | 169,965,323 | (18,432,941) | 113,691,343 | 130,749,984 | 170,807,557 | 130,971,324 | 102,974,799 | 72,581,378 | - | - | - |

41.2 In accordance with BSD Circular Letter No.02 dated January 14, 2013, issued by SBP, the Group is required to report interest rate sensitivity gap of assets and liabilities which are as follows:

| | Effective yield / interest rate | 2012 | | | | | | | | | | Not exposed to yield / interest risk | |
|---|---------------------------------|----------------------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|------------------------|----------------|---------------|--------------------------------------|---------------|
| | | Exposed to yield / interest risk | | | | | | | | | | | |
| | | Upto one Month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | Over five to ten years | Over ten years | | | |
| ----- (Rupees in '000) ----- | | | | | | | | | | | | | |
| On-balance sheet assets | | | | | | | | | | | | | |
| Financial assets | | | | | | | | | | | | | |
| Cash and balances with treasury banks | 1.29% | 157,229,517 | 1,740,557 | 241,577 | - | - | - | - | - | - | - | - | 123,556,144 |
| Balances with other banks | | 47,980,032 | 4,363,535 | 2,007,023 | 509,368 | - | - | - | - | - | - | - | 9,121,699 |
| Lendings to financial institutions | 9.19% | 24,828,255 | 23,928,255 | - | - | - | - | - | - | - | - | - | - |
| Investments | 9.86% | 797,094,548 | 117,109,490 | 127,847,162 | 268,855,671 | 21,678,967 | 31,686,130 | 63,680,980 | 2,592,987 | 13,604,616 | 11,204,710 | 9,616,997 | 11,204,710 |
| Advances | 11.44% | 499,817,906 | 69,630,063 | 208,604,370 | 155,634,392 | 21,781,792 | 8,629,971 | 10,652,751 | 6,327,215 | 1,262,178 | 41,043,228 | 194,542,778 | 41,043,228 |
| Other assets | | 41,043,232 | - | - | - | - | - | - | - | - | - | - | - |
| | | 1,567,993,490 | 274,337,454 | 354,442,297 | 291,146,831 | 30,308,938 | 39,364,307 | 74,333,731 | 8,920,202 | 14,866,794 | 18,943,207 | 379,791,547 | 18,943,207 |
| Financial liabilities | | | | | | | | | | | | | |
| Bills payable | | 18,943,207 | - | - | - | - | - | - | - | - | - | - | - |
| Borrowings from financial institutions | 8.48% | 196,580,548 | 170,615,571 | 11,601,418 | 69,444 | 168,158 | 179,672 | 420,057 | 1,021,393 | 54,828 | 2,503,731 | 2,503,731 | 2,503,731 |
| Deposits and other accounts | 5.05% | 1,214,963,700 | 109,319,925 | 89,929,920 | 90,068,645 | 480,822,479 | 10,043,352 | 9,389,747 | 6,043,738 | 54,828 | 318,897,430 | 318,897,430 | 318,897,430 |
| Sub-ordinated loans | 2.42% | 5,440,654 | - | 5,440,654 | - | - | - | - | - | - | - | - | - |
| Other liabilities | | 39,447,179 | - | - | - | - | - | - | - | - | - | - | - |
| | | 1,475,375,288 | 279,935,496 | 106,971,992 | 90,138,089 | 480,990,637 | 10,223,024 | 9,809,804 | 7,065,131 | 54,828 | 379,791,547 | 379,791,547 | 379,791,547 |
| On-balance sheet gap | | 92,618,202 | (5,598,042) | 244,047,557 | 178,758,162 | (450,681,699) | 29,141,283 | 64,523,927 | 1,855,071 | 14,811,966 | (185,248,769) | (185,248,769) | (185,248,769) |
| Non - financial net assets | | 40,419,558 | - | - | - | - | - | - | - | - | - | - | - |
| Total net assets | | 133,037,760 | - | - | - | - | - | - | - | - | - | - | - |
| Off-balance sheet financial instruments | | | | | | | | | | | | | |
| Foreign and local currency forward purchases | | 167,104,754 | 81,824,461 | 54,362,697 | 8,926,051 | 21,991,545 | - | - | - | - | - | - | - |
| Foreign and local currency forward sales | | (167,168,508) | (92,419,684) | (55,530,874) | (4,525,573) | (14,692,377) | - | - | - | - | - | - | - |
| Foreign Currency Options Purchases | | 1,317,948 | 20,466 | 446,463 | 851,019 | - | - | - | - | - | - | - | - |
| Foreign Currency Options Sales | | (1,317,948) | (20,466) | (446,463) | (851,019) | - | - | - | - | - | - | - | - |
| Cross Currency Swaps- Long Position | | 3,659,009 | - | 498,872 | 340,811 | 2,240,634 | 578,692 | - | - | - | - | - | - |
| Cross Currency Swaps- Short Position | | (3,659,009) | - | (498,872) | (340,811) | (2,240,634) | (578,692) | - | - | - | - | - | - |
| Interest rate swaps - long position | | 444,199 | - | - | 152,750 | - | - | 291,449 | - | - | - | - | - |
| Interest rate swaps - short position | | (291,449) | - | - | - | - | - | (291,449) | - | - | - | - | - |
| Off-balance sheet gap | | 88,996 | (10,595,223) | (1,168,177) | 4,553,228 | 7,299,168 | - | - | - | - | - | - | - |
| Total yield / interest risk sensitivity gap | | (16,193,265) | 242,879,380 | 183,311,390 | 208,307,910 | (450,681,699) | 29,141,283 | 64,523,927 | 1,855,071 | 14,811,966 | (185,248,769) | (185,248,769) | (185,248,769) |
| Cumulative yield / interest risk sensitivity gap | | (16,193,265) | 226,686,115 | 409,997,505 | 618,305,415 | 167,623,716 | 196,764,999 | 261,288,926 | 263,143,997 | 277,955,963 | 92,707,194 | 92,707,194 | 92,707,194 |

| Effective yield / interest rate | Total | Exposed to yield / interest risk | | | | | | Not exposed to yield / interest risk | | | |
|---|---------------|----------------------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------------------|------------------------|----------------|--------------|
| | | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | Over five to ten years | Over ten years | |
| | | -(Rupees in '000) | | | | | | | | | |
| On-balance sheet assets | | | | | | | | | | | |
| Financial assets | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| 1.79% | 103,399,623 | 20,526,204 | 1,714,244 | 1,398,767 | 1,398,767 | - | 216,718 | - | - | - | 79,543,690 |
| | 47,349,505 | 27,851,042 | 5,719,592 | 3,903,276 | 3,903,276 | 1,472,681 | - | - | - | - | 8,402,914 |
| 11.78% | 41,581,029 | 3,586,218 | 1,310,351 | 2,630,016 | 34,054,444 | - | - | - | - | - | - |
| 11.13% | 418,604,147 | 28,764,677 | 37,473,593 | 114,407,418 | 137,924,700 | 16,504,763 | 6,364,716 | 49,116,082 | 7,400,487 | 14,962,577 | 5,685,134 |
| 12.16% | 457,367,656 | 56,679,413 | 193,840,828 | 129,610,326 | 30,923,792 | 13,073,278 | 8,395,399 | 8,992,229 | 1,934,581 | 1,934,581 | 8,184,445 |
| | 32,893,915 | - | - | - | - | - | - | - | - | - | 32,893,915 |
| | 1,101,195,875 | 137,407,554 | 240,058,608 | 251,949,803 | 204,375,617 | 29,794,759 | 14,760,115 | 58,108,311 | 13,133,852 | 16,897,158 | 134,710,098 |
| Financial liabilities | | | | | | | | | | | |
| | 13,894,502 | - | - | - | - | - | - | - | - | - | 13,894,502 |
| | 39,473,670 | 12,850,798 | 10,007,230 | 10,071,903 | 566,973 | 607,992 | 940,697 | 1,252,037 | 3,176,040 | - | - |
| 8.06% | 933,631,525 | 59,515,297 | 110,680,986 | 52,995,203 | 71,751,944 | 398,900,082 | 14,389,506 | 16,228,613 | 49,794,045 | 44,893,683 | 114,482,166 |
| 4.80% | 5,036,100 | - | - | 5,036,100 | - | - | - | - | - | - | - |
| 2.40% | 36,726,849 | - | - | - | - | - | - | - | - | - | 36,726,849 |
| | 1,028,762,646 | 72,366,095 | 120,688,216 | 68,103,206 | 72,318,917 | 399,508,074 | 15,330,203 | 17,480,650 | 52,970,085 | 44,893,683 | 165,103,517 |
| | 72,433,229 | 65,041,459 | 119,370,392 | 183,846,597 | 132,056,700 | (369,713,315) | (570,088) | 40,627,661 | (39,836,233) | (27,996,525) | (30,393,419) |
| | 37,153,759 | - | - | - | - | - | - | - | - | - | - |
| | 109,586,988 | - | - | - | - | - | - | - | - | - | - |
| On-balance sheet gap | | | | | | | | | | | |
| Non - financial net assets | | | | | | | | | | | |
| Off-balance sheet financial instruments | | | | | | | | | | | |
| | 151,577,433 | 48,061,498 | 46,908,970 | 48,863,185 | 7,743,781 | - | - | - | - | - | - |
| | (151,582,034) | (48,004,893) | (46,916,439) | (48,984,506) | (7,676,197) | - | - | - | - | - | - |
| | 336,655 | 31,619 | 279,825 | 25,211 | - | - | - | - | - | - | - |
| | (336,655) | (31,619) | (279,825) | (25,211) | - | - | - | - | - | - | - |
| | 2,868,771 | - | - | - | - | 2,868,771 | - | - | - | - | - |
| | (2,868,771) | - | - | - | - | (2,868,771) | - | - | - | - | - |
| | 482,551 | - | - | - | - | 152,750 | - | 329,801 | - | - | - |
| | (329,801) | - | - | - | - | - | - | (329,801) | - | - | - |
| | 148,149 | 56,605 | (7,469) | (121,321) | 67,584 | 152,750 | - | - | - | - | - |
| Off-balance sheet gap | | | | | | | | | | | |
| Total yield / interest risk sensitivity gap | | | | | | | | | | | |
| | 65,098,064 | 119,362,923 | 183,725,276 | 132,124,284 | (369,560,565) | (570,088) | 40,627,661 | (39,836,233) | (27,996,525) | (30,393,419) | |
| Cumulative yield / interest risk sensitivity gap | | | | | | | | | | | |
| | 65,098,064 | 184,460,987 | 368,186,263 | 500,310,547 | 130,749,982 | 130,179,894 | 170,807,555 | 130,971,322 | 102,974,797 | 72,581,378 | |

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments are based on quoted market prices and unquoted investments are estimated using the break-up value / cost. Fair value of these investments has been disclosed in note 8.

Fair value of fixed term loans, other assets and other liabilities cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Group's accounting policy as stated in note 4.4.

The maturity and repricing profile and effective rates are stated in notes 40 and 41 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently repriced.

43. CONCENTRATION OF CREDIT AND DEPOSITS

43.1 Concentration of credit risk

Out of the total financial assets of Rs. 1,567,933.486 million, financial assets which were subject to credit risk amounted to Rs. 1,543,642.921 million. The Group's major credit risk is concentrated in the textile sector.

The following financial assets are guaranteed by the Federal / overseas Governments or SBP / other Central Banks and enterprises owned / controlled by the Government:

| | 2012 (Rupees in '000) |
|--|---------------------------|
| Guaranteed by the Government of Pakistan (GoP) | |
| Investments | 721,219,396 |
| Advances | 17,495,635 |
| Financial assets receivable from GoP | 250,144 |
| Mark-up receivable | <u>5,035,382</u> |
| | <u>744,000,557</u> |
| Financial assets receivable from enterprises owned / controlled by government | |
| Advances | 91,237,711 |
| Financial assets receivable from State Bank of Pakistan | 55,512,539 |
| Financial assets receivable from National Bank of Pakistan | 15,691,749 |
| Mark-up receivable | <u>1,328,427</u> |
| | 163,770,426 |
| Guaranteed by Overseas Governments | 17,156,968 |
| Financial assets receivable from other central banks | <u>63,672,276</u> |
| | <u><u>988,600,227</u></u> |

43.2 Segment by class of business

| | 2012 | | | | | |
|---|--------------------|---------------|----------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Chemical and pharmaceuticals | 19,468,110 | 3.57 | 3,118,068 | 0.26 | 9,384,070 | 4.35 |
| Agribusiness | 30,587,210 | 5.60 | 8,447,539 | 0.70 | 1,177,448 | 0.55 |
| Textile | 63,009,631 | 11.54 | 6,145,156 | 0.51 | 10,001,514 | 4.64 |
| Cement | 7,246,217 | 1.33 | 528,574 | 0.04 | 1,867,508 | 0.87 |
| Sugar | 4,541,841 | 0.83 | 985,057 | 0.08 | 228,854 | 0.11 |
| Shoes and leather garments | 2,006,137 | 0.37 | 1,412,628 | 0.12 | 438,351 | 0.20 |
| Automobile and transportation equipment | 13,529,358 | 2.48 | 3,934,404 | 0.32 | 2,917,870 | 1.35 |
| Financial | 36,606,597 | 6.71 | 12,355,608 | 1.02 | 25,737,058 | 11.93 |
| Hotel and Tourism | 694,152 | 0.13 | 1,509,521 | 0.12 | - | - |
| Research and Development | - | - | 2,590,386 | 0.21 | - | - |
| Insurance | 7,920 | - | 6,920,406 | 0.57 | 2,798 | - |
| Electronics and electrical appliances | 15,045,280 | 2.76 | 535,400 | 0.04 | 9,027,838 | 4.19 |
| Oil and Gas | 15,408,200 | 2.82 | 20,406,572 | 1.68 | 9,351,427 | 4.34 |
| Power and energy | 36,135,490 | 6.62 | 2,081,579 | 0.17 | 7,203,956 | 3.34 |
| Education & medical | 1,707,995 | 0.31 | 5,209,530 | 0.43 | 688,827 | 0.32 |
| Telecommunication | 11,062,237 | 2.03 | 5,497,887 | 0.45 | 5,636,432 | 2.61 |
| Printing & publishing | 2,242,204 | 0.41 | 561,451 | 0.05 | 584,433 | 0.27 |
| Construction | 1,580,885 | 0.29 | 2,769,333 | 0.23 | 905,536 | 0.42 |
| Mining & quarrying | 336,696 | 0.06 | 71,838 | 0.01 | 6,353 | - |
| Food, tobacco and beverages | 10,186,498 | 1.87 | 1,743,612 | 0.14 | 6,307,186 | 2.92 |
| Public / Government - note 43.2.1 | 108,733,346 | 19.92 | 224,259,941 | 18.46 | 75,137,622 | 34.84 |
| Whole sale & retail trade | 53,406,904 | 9.79 | 67,159,702 | 5.53 | 7,646,532 | 3.55 |
| Metal and allied | 6,674,683 | 1.22 | 893,627 | 0.07 | 1,817,383 | 0.84 |
| Individual | 39,794,231 | 7.29 | 617,942,138 | 50.86 | 434,950 | 0.20 |
| Farming, cattle and dairy | 1,390,679 | 0.25 | 833,252 | 0.07 | 892,901 | 0.41 |
| Trust funds and non profit organization | 2,633,761 | 0.48 | 36,945,855 | 3.04 | 216,748 | 0.10 |
| Others | 61,751,850 | 11.32 | 180,104,636 | 14.82 | 38,035,949 | 17.65 |
| | 545,788,112 | 100.00 | 1,214,963,700 | 100.00 | 215,649,544 | 100.00 |

| | 2011 | | | | | |
|---|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Chemical and pharmaceuticals | 21,064,671 | 4.18 | 3,319,870 | 0.36 | 9,593,622 | 5.41 |
| Agribusiness | 30,348,721 | 6.03 | 7,350,958 | 0.79 | 1,292,469 | 0.73 |
| Textile | 71,676,065 | 14.24 | 5,022,534 | 0.54 | 13,205,044 | 7.45 |
| Cement | 10,130,466 | 2.01 | 451,916 | 0.05 | 2,283,061 | 1.29 |
| Sugar | 4,530,544 | 0.90 | 701,248 | 0.08 | 313,444 | 0.18 |
| Shoes and leather garments | 1,934,341 | 0.38 | 911,012 | 0.10 | 389,755 | 0.22 |
| Automobile and transportation equipment | 11,983,574 | 2.38 | 5,149,247 | 0.55 | 3,002,694 | 1.69 |
| Financial | 27,329,151 | 5.43 | 10,337,754 | 1.11 | 25,572,894 | 14.43 |
| Hotel and Tourism | 1,189,467 | 0.24 | 1,243,362 | 0.13 | - | - |
| Research and Development | - | - | 185,383 | 0.02 | - | - |
| Insurance | 340,194 | 0.07 | 3,862,571 | 0.41 | 3,397 | - |
| Electronics and electrical appliances | 15,885,664 | 3.16 | 491,998 | 0.05 | 2,696,180 | 1.52 |
| Oil and Gas | 13,469,825 | 2.68 | 5,848,189 | 0.63 | 7,266,085 | 4.10 |
| Power and energy | 39,398,621 | 7.83 | 15,627,064 | 1.67 | 10,148,442 | 5.73 |
| Education & medical | 1,854,452 | 0.37 | 3,776,187 | 0.40 | 434,529 | 0.25 |
| Telecommunication | 12,983,403 | 2.58 | 2,963,121 | 0.32 | 1,221,297 | 0.69 |
| Printing & publishing | 2,866,891 | 0.57 | 279,403 | 0.03 | 674,086 | 0.38 |
| Construction | 2,634,577 | 0.52 | 2,430,194 | 0.26 | 1,109,401 | 0.63 |
| Mining & quarrying | 322,946 | 0.06 | 37,565 | - | 6,353 | - |
| Food, tobacco and beverages | 10,176,347 | 2.02 | 1,396,850 | 0.15 | 2,841,426 | 1.60 |
| Public / Government - note 43.2.1 | 74,396,242 | 14.78 | 143,409,240 | 15.36 | 56,247,566 | 31.74 |
| Whole sale & retail trade | 50,034,577 | 9.94 | 48,840,891 | 5.23 | 7,559,099 | 4.27 |
| Metal and allied | 7,116,190 | 1.41 | 863,523 | 0.09 | 2,242,329 | 1.27 |
| Individual | 33,269,371 | 6.61 | 544,424,315 | 58.31 | 989,938 | 0.56 |
| Farming, cattle and dairy | 1,569,502 | 0.31 | 475,372 | 0.05 | 1,010,665 | 0.57 |
| Trust funds and non profit organization | 1,663,051 | 0.33 | 20,896,184 | 2.24 | 15,200 | 0.01 |
| Others | 55,284,851 | 10.97 | 103,335,574 | 11.07 | 27,116,468 | 15.28 |
| | 503,453,704 | 100.00 | 933,631,525 | 100.00 | 177,235,444 | 100.00 |

43.2.1 Public / Government sector

| | 2012 | | | | | |
|---|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Chemical and pharmaceuticals | - | - | 796,775 | 0.36 | - | - |
| Agribusiness | 53,203,715 | 48.93 | 2,015,387 | 0.90 | - | - |
| Automobile and transportation equipment | 9,376,200 | 8.62 | 1,802,571 | 0.80 | 778,000 | 1.04 |
| Financial | 1,272,738 | 1.17 | 10,482,294 | 4.67 | 5,214,493 | 6.94 |
| Insurance | 28,671 | 0.03 | 11,083,639 | 4.94 | 39,204 | 0.05 |
| Oil and Gas | 6,488,699 | 5.97 | 58,806,784 | 26.22 | 15,448,245 | 20.56 |
| Power and energy | 32,254,161 | 29.66 | 11,786,817 | 5.26 | 13,640,879 | 18.15 |
| Education & medical | 77,032 | 0.07 | 34,019,358 | 15.17 | 54,896 | 0.07 |
| Telecommunication | 219,000 | 0.20 | 3,911,077 | 1.74 | 603,743 | 0.80 |
| Printing & publishing | - | - | 59,062 | 0.03 | - | - |
| Construction | - | - | 43,304 | 0.02 | - | - |
| Foods, tobacco & beverages | 178,520 | 0.16 | - | - | - | - |
| Metal and allied | 1,065,738 | 0.98 | 2,588,793 | 1.15 | - | - |
| Defence | 2,751,521 | 2.53 | 6,540,664 | 2.92 | 38,150,530 | 50.77 |
| Ports and shipping | - | - | 18,414,971 | 8.21 | 56,928 | 0.08 |
| Others | 1,817,351 | 1.67 | 61,908,445 | 27.60 | 1,150,704 | 1.54 |
| | 108,733,346 | 100.00 | 224,259,941 | 100.00 | 75,137,622 | 100.00 |

| | 2011 | | | | | |
|---|-------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Chemical and pharmaceuticals | - | - | 243,888 | 0.17 | - | - |
| Agribusiness | 51,392,146 | 69.08 | 1,675,356 | 1.17 | - | - |
| Automobile and transportation equipment | 7,968,675 | 10.71 | 2,896,057 | 2.02 | 940,244 | 1.67 |
| Financial | 1,818,238 | 2.44 | 2,536,633 | 1.77 | - | - |
| Insurance | - | - | 7,436,816 | 5.19 | 39,204 | 0.07 |
| Oil and Gas | 4,354,553 | 5.85 | 33,217,950 | 23.16 | 12,556,355 | 22.32 |
| Power and energy | 2,926,718 | 3.93 | 6,394,069 | 4.46 | 1,859,535 | 3.31 |
| Education & medical | 143,559 | 0.19 | 29,114,716 | 20.30 | 232,962 | 0.41 |
| Telecommunication | 251,578 | 0.34 | 1,075,933 | 0.75 | 546,110 | 0.97 |
| Printing & publishing | - | - | 18,454 | 0.01 | - | - |
| Construction | - | - | 36,112 | 0.03 | - | - |
| Foods, tobacco & beverages | 149,651 | 0.20 | 182 | - | - | - |
| Metal and allied | 1,136,591 | 1.53 | 1,521,734 | 1.06 | - | - |
| Defence | 3,148,732 | 4.23 | 5,833,653 | 4.07 | 37,156,412 | 66.06 |
| Ports and shipping | - | - | 6,223,668 | 4.34 | 149,880 | 0.27 |
| Others | 1,105,801 | 1.50 | 45,184,019 | 31.50 | 2,766,864 | 4.91 |
| | 74,396,242 | 100.00 | 143,409,240 | 100.00 | 56,247,566 | 100.00 |

43.2.2 Segment by sector

| | 2012 | | | | | |
|---------------------|--------------------|---------------|----------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Public / Government | 108,733,346 | 19.92 | 224,259,941 | 18.46 | 75,137,622 | 34.84 |
| Private | 437,054,766 | 80.08 | 990,703,759 | 81.54 | 140,511,922 | 65.16 |
| | 545,788,112 | 100.00 | 1,214,963,700 | 100.00 | 215,649,544 | 100.00 |

| | 2011 | | | | | |
|---------------------|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Public / Government | 74,396,242 | 14.78 | 143,409,240 | 15.36 | 56,247,566 | 31.74 |
| Private | 429,057,462 | 85.22 | 790,222,285 | 84.64 | 120,987,878 | 68.26 |
| | 503,453,704 | 100.00 | 933,631,525 | 100.00 | 177,235,444 | 100.00 |

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

| | 2012 | | 2011 | |
|---|------------------------------|--------------------------|---------------------|--------------------------|
| | Classified advances | Specific provisions held | Classified advances | Specific provisions held |
| | ----- (Rupees in '000) ----- | | | |
| Chemical and pharmaceuticals | 698,212 | 657,978 | 588,937 | 565,147 |
| Agribusiness | 3,528,254 | 2,022,877 | 3,504,294 | 1,742,441 |
| Textile | 17,046,457 | 13,236,615 | 20,338,473 | 17,458,763 |
| Cement | 1,987,083 | 1,021,996 | 2,264,266 | 1,091,291 |
| Sugar | 415,058 | 335,353 | 359,686 | 323,847 |
| Shoes and leather garments | 171,650 | 156,665 | 173,363 | 149,052 |
| Automobile and transportation equipment | 1,863,621 | 1,811,157 | 1,904,943 | 1,547,418 |
| Financial | 40,000 | 40,000 | 1,824,098 | 1,510,518 |
| Hotel and tourism | 226,913 | 226,913 | 226,913 | 211,913 |
| Electronics and electrical appliances | 2,881,516 | 2,708,716 | 2,800,712 | 2,646,244 |
| Oil and Gas | 2,185,183 | 798,374 | 332,454 | 331,141 |
| Power and energy | 1,710,239 | 1,709,227 | 1,718,991 | 1,717,832 |
| Education & medical | 529,511 | 524,968 | - | - |
| Telecommunication | 35,845 | 35,845 | 261,359 | 261,359 |
| Printing & publishing | 217,892 | 205,392 | 204,199 | 199,266 |
| Construction | 3,323,051 | 1,559,469 | 1,386,804 | 997,980 |
| Mining & quarrying | 65,462 | 999 | 527,214 | 435,858 |
| Food, tobacco and beverages | 366,030 | 310,429 | 528,331 | 481,121 |
| Whole sale & retail trade | 6,439,657 | 5,237,659 | 5,789,742 | 5,327,429 |
| Metal and allied | 1,058,915 | 907,076 | 912,416 | 894,518 |
| Individual | 1,517,840 | 1,095,430 | 1,443,106 | 1,001,621 |
| Farming, cattle and dairy | 295,167 | 124,512 | 308,288 | 101,700 |
| Trust funds and non profit organization | 2,500 | 2,500 | 2,500 | 2,500 |
| Others | 9,630,438 | 9,004,361 | 9,147,973 | 5,308,165 |
| | <u>56,236,494</u> | <u>43,734,511</u> | <u>56,549,062</u> | <u>44,307,124</u> |

43.3.1 Segment by sector

| | | | | |
|---------------------|-------------------|-------------------|-------------------|-------------------|
| Private | 55,462,121 | 42,960,138 | 54,274,011 | 42,406,083 |
| Public / Government | 774,373 | 774,373 | 2,275,051 | 1,901,041 |
| | <u>56,236,494</u> | <u>43,734,511</u> | <u>56,549,062</u> | <u>44,307,124</u> |

44. SEGMENT DETAIL WITH RESPECT TO BUSINESS ACTIVITIES

| | 2012 | | | | | Total |
|---|---------------------------------|--------------------------------|----------|-----------------------------|--------------------------------|-----------|
| | Retail banking | Corporate / commercial banking | Treasury | International banking group | Head Office / support services | |
| | ----- (Rupees in million) ----- | | | | | |
| Net interest income - External | (32,293) | 31,245 | 52,174 | 6,491 | 143 | 57,760 |
| Inter segment revenue - net | 66,479 | (24,462) | (49,679) | - | 7,662 | - |
| Non-funded income | 5,327 | 2,528 | 2,897 | 4,696 | 512 | 15,960 |
| Net interest and non-mark-up income | 39,513 | 9,311 | 5,392 | 11,187 | 8,317 | 73,720 |
| Total expenses including provision (excluding impairment) | 14,896 | 4,953 | 201 | 9,613 | 9,493 | 39,156 |
| Impairment against investments | - | 130 | (224) | - | (233) | (327) |
| Inter segment administrative cost | 6,153 | 1,231 | 177 | 678 | (8,239) | - |
| Total expenses including provision | 21,049 | 6,314 | 154 | 10,291 | 1,021 | 38,829 |
| Profit before tax | 18,464 | 2,997 | 5,238 | 896 | 7,296 | 34,891 |
| Segment assets (gross) | 140,414 | 359,738 | 767,922 | 294,658 | 95,864 | 1,658,596 |
| Segment non-performing loans | 8,884 | 31,660 | - | 15,467 | 225 | 56,236 |
| Segment provision required including general provision | 7,971 | 25,444 | 348 | 12,787 | 1,737 | 48,287 |
| Segment liabilities including equity | 892,734 | 140,299 | 170,051 | 194,683 | 212,542 | 1,610,309 |
| Segment return on net liability / asset % | 10.79% | 11.57% | 10.36% | 5.15% | 5.18% | - |
| Segment cost of funds (%) | 5.71% | 8.99% | 9.44% | 1.43% | 0.97% | - |

| | 2011 | | | | | Total |
|---|---------------------------------|--------------------------------|----------|-----------------------------|--------------------------------|-----------|
| | Retail banking | Corporate / commercial banking | Treasury | International banking group | Head Office / support services | |
| | ----- (Rupees in million) ----- | | | | | |
| Net interest income - External | (21,560) | 43,749 | 28,791 | 5,181 | 237 | 56,398 |
| Inter segment revenue - net | 60,122 | (35,697) | (28,096) | - | 3,671 | - |
| Non-funded income | 4,689 | 2,533 | 1,735 | 4,288 | 1,538 | 14,783 |
| Net interest and non-mark-up income | 43,251 | 10,585 | 2,430 | 9,469 | 5,446 | 71,181 |
| Total expenses including provision (excluding impairment) | 12,874 | 6,496 | 132 | 7,235 | 10,038 | 36,775 |
| Impairment against investments | - | - | 69 | - | 16 | 85 |
| Inter segment administrative cost | 7,409 | 1,482 | 213 | 816 | (9,920) | - |
| Total expenses including provision | 20,283 | 7,978 | 414 | 8,051 | 134 | 36,860 |
| Profit before tax | 22,968 | 2,607 | 2,016 | 1,418 | 5,312 | 34,321 |
| Segment assets (gross) | 122,896 | 343,647 | 420,349 | 237,327 | 64,100 | 1,188,319 |
| Segment non-performing loans | 8,875 | 32,000 | - | 15,410 | 264 | 56,549 |
| Segment provision required including general provision | 6,802 | 27,080 | 410 | 11,696 | 2,777 | 48,765 |
| Segment liabilities including equity | 698,638 | 105,430 | 6,549 | 162,048 | 166,889 | 1,139,554 |
| Segment return on net liability / asset % | 12.45% | 13.01% | 10.76% | 4.90% | 6.29% | - |
| Segment cost of funds (%) | 5.40% | 10.40% | 9.94% | 1.09% | 0.87% | - |

45. TRUST ACTIVITIES

The Group is not engaged in any significant trust activities. However, Habib Bank Limited acts as security agent for arrangement and distribution of the term finance certificates and also engages in investment portfolio services as custodian on behalf of its customers.

46. GEOGRAPHICAL SEGMENT ANALYSIS

| | 2012 | | | |
|-------------------------------------|------------------------------|-----------------------|---------------------|-------------------------------|
| | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| | ----- (Rupees in '000) ----- | | | |
| Pakistan | 32,220,951 | 1,330,336,399 | 77,536,646 | 153,177,654 |
| Asia Pacific (including South Asia) | 843,658 | 55,468,258 | 17,490,040 | 9,141,894 |
| Europe | (1,164,553) | 101,382,475 | 12,046,482 | 27,092,519 |
| North America | 183,715 | 32,425,638 | 2,107,370 | 1,030,673 |
| Middle East | 1,486,890 | 76,720,030 | 18,007,412 | 24,516,405 |
| Others | 1,320,546 | 13,975,772 | 5,849,810 | 690,399 |
| | <u>34,891,207</u> | <u>1,610,308,572</u> | <u>133,037,760</u> | <u>215,649,544</u> |

| | 2011 | | | |
|-------------------------------------|------------------------------|-----------------------|---------------------|-------------------------------|
| | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| | ----- (Rupees in '000) ----- | | | |
| Pakistan | 31,902,447 | 913,812,330 | 64,866,384 | 146,227,059 |
| Asia Pacific (including South Asia) | 922,376 | 52,899,052 | 14,303,278 | 6,627,562 |
| Europe | 239,128 | 95,132,480 | 11,592,600 | 7,501,315 |
| North America | 34,449 | 4,387,510 | 1,782,304 | 869,506 |
| Middle East | 498,454 | 59,319,383 | 12,812,120 | 13,194,779 |
| Others | 724,544 | 14,003,450 | 4,230,302 | 2,815,223 |
| | <u>34,321,398</u> | <u>1,139,554,205</u> | <u>109,586,988</u> | <u>177,235,444</u> |

47. ISLAMIC BANKING BUSINESS (IBB)

In order to meet the guidelines for Shariah compliance in Islamic Banking Institutions (IBI), statement of financial position and profit and loss account of IBB as at December 31, 2012 is given in Annexure V. Further, detailed disclosures are also disclosed in the said annexure to comply instructions issued by SBP to improve transparency and standardization in IBIs profit and loss distribution policies and practices dated November 19, 2012 and BSD Circular Letter No.03 dated January 22, 2013. The Annexure V includes consolidated financial information for Islamic Banking branches and First Habib Bank Modaraba, subsidiary of the Bank.

48. DATE OF AUTHORISATION FOR ISSUE

These consolidated financial statements were authorised for issue in the Board of Directors meeting held on February 12, 2013.

49. GENERAL

49.1 These consolidated financial statements have been prepared in accordance with the revised format for financial statements of Banks issued by the SBP through BSD Circular No. 4 and 7 dated February 17, 2006 and April 20, 2010 respectively and related clarifications / modifications.

49.2 The comparative figures have been re-arranged and reclassified for comparison purposes, however, there are no material reclassifications to report.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Detail of Domestic Investments Consolidated

For the year ended December 31, 2012

ANNEXURE-I

1. Particulars of investments held in listed companies

1.1 Ordinary shares

| | Number of shares held | Paid-up value per share (Rupees) | Total paid-up value | Cost | Market value | Credit Ratings Short Term |
|---------------------------------------|-----------------------|----------------------------------|------------------------------|------------------|------------------|---------------------------|
| | | | ----- (Rupees in '000) ----- | | | |
| Attock Petroleum Limited | 300,000 | 10 | 3,000 | 147,510 | 153,597 | A1+ |
| D G Khan Cement Limited | 1,300,000 | 10 | 13,000 | 70,036 | 70,954 | N/A |
| ENGRO Corporation | 575,100 | 10 | 5,751 | 55,947 | 52,932 | A1 |
| Fauji Fertilizer Limited | 3,900,000 | 10 | 39,000 | 455,102 | 456,846 | N/A |
| Hub Power Company Limited | 13,254,500 | 10 | 132,545 | 597,664 | 599,634 | A1+ |
| Bank Al Falah Limited | 6,950,000 | 10 | 69,500 | 120,096 | 116,899 | A1+ |
| National Refinery Limited | 1,083,400 | 10 | 10,834 | 299,254 | 229,356 | A1+ |
| Pakistan State Oil Company Limited | 1,600,084 | 10 | 16,001 | 386,219 | 348,315 | A1+ |
| TRG Pakistan Limited | 16,017,000 | 10 | 160,170 | 160,170 | 89,535 | N/A |
| Pak Petroleum Limited | 1,200,000 | 10 | 12,000 | 213,096 | 212,148 | N/A |
| Kot Addu Power Company Limited | 4,900,000 | 10 | 49,000 | 222,057 | 242,011 | A1+ |
| Lucky Cement Limited | 2,600,000 | 10 | 26,000 | 366,741 | 394,004 | N/A |
| Nishat Chunian Limited | 300,000 | 10 | 3,000 | 7,657 | 10,512 | A2 |
| Nishat Mills Limited | 1,700,000 | 10 | 17,000 | 104,145 | 108,545 | A1+ |
| Pak Oilfields Limited | 950,000 | 10 | 9,500 | 408,858 | 415,663 | N/A |
| Fauji Fertilizer Bin Qasim Limited | 7,555,500 | 10 | 75,555 | 297,019 | 291,567 | N/A |
| Agri Tech Limited | 5,562,428 | 10 | 55,624 | 194,691 | 64,914 | N/A |
| Oil & Gas Development Company Limited | 270,000 | 10 | 2,700 | 51,064 | 52,005 | A1+ |
| Fatima Fertilizer Company Limited | 3,935,000 | 10 | 39,350 | 102,239 | 103,884 | A1 |
| Askari Commercial Bank Limited | 200,000 | 10 | 2,000 | 3,509 | 3,444 | A1+ |
| Mari Gas Company Limited | 10,000 | 10 | 100 | 1,007 | 984 | N/A |
| | | | | 4,264,081 | 4,017,747 | |

1.2 Ordinary shares held by HBL mutual funds

| | | | | | | |
|---|------------|----|---------|---------|---------|-----|
| Attock Cement Pakistan Limited | 94,000 | 10 | 940 | 9,335 | 9,382 | N/A |
| Attock Petroleum Limited | 194,622 | 10 | 1,946 | 64,002 | 99,645 | A1+ |
| Attock Refinery Limited | 250,000 | 10 | 2,500 | 42,474 | 41,895 | A1+ |
| Bank Alfalah Limited | 4,050,000 | 10 | 40,500 | 70,903 | 68,121 | A1+ |
| Bank Islami Pakistan Limited | 1,014,500 | 10 | 10,145 | 9,521 | 9,344 | A1 |
| BYCO Petroleum | 900,000 | 10 | 9,000 | 10,845 | 13,005 | N/A |
| Cherat Cement Company Limited | 295,000 | 10 | 2,950 | 13,966 | 14,381 | N/A |
| D.G Khan Cement Company Limited | 2,995,948 | 10 | 29,959 | 127,594 | 163,519 | N/A |
| ENGRO Corporation | 1,009,400 | 10 | 10,094 | 105,516 | 92,905 | A1 |
| Engro Foods Limited | 690,077 | 10 | 6,901 | 43,800 | 67,724 | N/A |
| Fatima Fertilizer Company Limited | 2,812,181 | 10 | 28,122 | 67,977 | 74,242 | A1 |
| Fauji Cement Company Limited | 11,750,000 | 10 | 117,500 | 79,282 | 76,845 | N/A |
| Fauji Fertilizer Bin Qasim Limited | 2,232,396 | 10 | 22,324 | 81,092 | 86,148 | N/A |
| Fauji Fertilizer Company Limited | 1,102,232 | 10 | 11,022 | 77,204 | 129,115 | N/A |
| Habib Bank Limited | 1,185,101 | 10 | 11,851 | 156,440 | 139,617 | A1+ |
| Hub Power Company Limited | 5,244,045 | 10 | 52,440 | 203,810 | 237,241 | A1+ |
| Jubilee Life Insurance Company Limited | 122,500 | 10 | 1,225 | 5,497 | 11,386 | N/A |
| Karachi Electric Supply Company Limited | 3,200,000 | 10 | 32,000 | 20,285 | 18,432 | N/A |
| Kohat Cement Company Limited | 460,000 | 10 | 4,600 | 30,401 | 32,490 | N/A |
| Kot Addu Power Company Limited | 885,720 | 10 | 8,857 | 37,832 | 43,746 | A1+ |
| Lotte Pakistan Limited | 562,500 | 10 | 5,625 | 4,166 | 4,134 | N/A |
| Lucky Cement Limited | 1,055,724 | 10 | 10,557 | 132,804 | 159,984 | N/A |
| Maple Leaf Cement Limited | 1,834,500 | 10 | 18,345 | 27,066 | 26,729 | B |
| Muslim Commercial Bank Limited | 230,014 | 10 | 2,300 | 36,444 | 48,248 | A1+ |
| National Refinery Limited | 45,000 | 10 | 450 | 9,673 | 9,527 | A1+ |
| National Bank of Pakistan Limited | 1,667,927 | 10 | 16,679 | 77,078 | 82,379 | A1+ |

| | Number of shares held | Paid-up value per share (Rupees) | Total paid-up value ------(Rupees in '000)----- | Cost | Market value | Credit Ratings Short Term |
|---------------------------------------|-----------------------|----------------------------------|--|------------------|--------------|---------------------------|
| NIB Bank Limited | 250,000 | 10 | 2,500 | 672 | 658 | A1+ |
| Nishat Chunnian Limited | 505,000 | 10 | 5,050 | 17,723 | 17,695 | A2 |
| Nishat Chunnian Power Limited | 2,850,971 | 10 | 28,510 | 37,961 | 59,899 | A2 |
| Nishat Mills Limited | 1,853,829 | 10 | 18,538 | 95,132 | 118,367 | A1+ |
| Nishat Power Limited | 245,328 | 10 | 2,453 | 3,761 | 4,784 | A2 |
| Oil & Gas Development Company Limited | 576,034 | 10 | 5,760 | 84,122 | 110,950 | A1+ |
| Pakistan Oilfields Limited | 440,573 | 10 | 4,406 | 118,393 | 192,768 | A1+ |
| Pakistan Petroleum Limited | 1,227,170 | 10 | 12,272 | 144,434 | 216,951 | N/A |
| Pakistan State Oil Company Limited | 413,140 | 10 | 4,131 | 90,544 | 95,935 | A1+ |
| Pakistan Telecommunication Limited | 2,696,500 | 10 | 26,965 | 47,310 | 47,324 | N/A |
| Pioneer Cement Limited | 276,500 | 10 | 2,765 | 4,916 | 4,988 | N/A |
| Trakker Pakistan Limited | 931,847 | 10 | 9,318 | 9,318 | 8,424 | A2 |
| United Bank Limited | 1,354,648 | 10 | 13,546 | 89,164 | 113,343 | A1+ |
| | | | 2,288,457 | 2,752,269 | | |

1.3 Units

| | Number of units held | Paid-up value per unit (Rupees) | Total paid-up value ------(Rupees in '000)----- | Cost | Market value | Credit Ratings Short Term |
|---------------------------|----------------------|---------------------------------|--|----------------|--------------|---------------------------|
| Mutual Funds | | | | | | |
| PICIC Investment Fund | 11,104,508 | 10 | 111,045 | 133,994 | 78,509 | N/A |
| JS - Growth Fund. | 11,000,000 | 10 | 110,000 | 87,200 | 96,030 | N/A |
| PICIC Growth Fund | 214,453 | 10 | 2,145 | 6,412 | 3,517 | N/A |
| National Investment Trust | 673,546 | 10 | 6,735 | 11,113 | 22,395 | N/A |
| | | | 238,719 | 200,451 | | |

1.4 Term finance certificates (TFC's)

| | Number of certificates held | Paid-up value per certificate (Rupees) | Total paid-up value ------(Rupees in '000)----- | Cost | Market value | Credit Ratings Medium to Long Term |
|-----------------------|-----------------------------|--|--|----------------|--------------|------------------------------------|
| United Bank Limited. | 41,525 | 5,000 | 207,625 | 207,251 | 211,817 | AA+ |
| Bank Al Habib Limited | 60,000 | 5,000 | 300,000 | 299,160 | 335,299 | AA+ |
| NIB Bank Limited | 34,950 | 5,000 | 174,750 | 174,373 | 174,810 | AA- |
| Faysal Bank Limited | 50,000 | 5,000 | 250,000 | 249,800 | 255,811 | AA |
| | | | 930,584 | 977,737 | | |

1.5 TFC's held by HBL mutual funds

| | | | | | | |
|---------------------------------|--------|-------|----------------|----------------|---------|-----|
| United Bank Limited | 22,200 | 5,000 | 111,000 | 110,800 | 113,241 | AA+ |
| Faysal Bank Limited | 12,758 | 5,000 | 63,790 | 63,624 | 64,649 | AA |
| NIB Bank Limited | 30,600 | 5,000 | 153,000 | 152,819 | 153,108 | AA- |
| Worldcall Telecom Limited | 23,750 | 5,000 | 118,750 | 26,938 | - | N/A |
| NIB Bank Limited | 2,400 | 5,000 | 12,000 | 11,656 | 12,008 | AA- |
| Standard Chartered Bank Limited | 8,000 | 5,000 | 40,000 | 40,000 | 40,440 | N/A |
| | | | 405,837 | 409,845 | | |

2. Particulars of investment held in unlisted companies

2.1 Ordinary shares

| | Percentage of holding | Number of Shares held | Paid-up value per share (Rupees) | Break-up value | Based on accounts as at | Name of Chief Executive | Credit Ratings Short Term |
|--|-----------------------|-----------------------|----------------------------------|------------------------------|-------------------------|-----------------------------|---------------------------|
| | | | | ----- (Rupees in '000) ----- | | | |
| Khushhali Bank Limited | 17.60% | 30,000,000 | 10 | 416,266 | 31 December, 2011 | Mr. Muhammad Ghalib Nishtar | N/A |
| First Woman Bank Limited | 15.46% | 23,095,324 | 10 | 367,708 | 31 December, 2011 | Mrs. Shafqat Sultana | N/A |
| Central Depository Company Limited | 6.35% | 4,124,901 | 10 | 106,635 | 30 June, 2012 | Mr. Muhammad Hanif Jakhura | N/A |
| National Institutional Facilitation Technologies (Pvt) Limited | 9.07% | 1,478,228 | 10 | 75,890 | 30 June, 2011 | Mr. M.M. Khan | N/A |
| SME Bank Limited | 0.83% | 1,987,501 | 10 | 15,504 | 31 December, 2011 | Mr. Ihsan ul Haq Khan | N/A |
| National Investment Trust Limited | 8.33% | 79,200 | 100 | 276,274 | 31 December, 2011 | Mr. Wazir Ali Khoja | N/A |
| Saif Power Limited | 8.35% | 32,268,354 | 10 | 443,049 | 31 December, 2011 | Mr. Omar Saifullah Khan | A1 |
| | | | | 1,727,349 | | | |

2.2 Preference shares

| | Number of shares held | Paid-up value per share (Rupees) | Total paid-up value | Cost | Credit Ratings Short Term |
|------------------------------|-----------------------|----------------------------------|------------------------------|----------------|---------------------------|
| | | | ----- (Rupees in '000) ----- | | |
| Masood Textile Mills Limited | 10,000,000 | 10 | 100,000 | <u>100,000</u> | N/A |

2.3 Term Finance Certificates (TFC's)

| | Number of certificates held | Paid-up value per certificate (Rupees) | Total paid-up value | Cost | Market value | Credit Ratings Short Term |
|--------------------------------|-----------------------------|--|------------------------------|------------------|--------------|---------------------------|
| | | | ----- (Rupees in '000) ----- | | | |
| Bank Al Habib Limited | 28,000 | 5,000 | 140,000 | 139,782 | 149,333 | N/A |
| Bank Al Falah Limited | 40,000 | 5,000 | 200,000 | 199,760 | 209,085 | N/A |
| Allied Bank Limited | 14,277 | 5,000 | 71,385 | 71,214 | 72,496 | N/A |
| Faysal Bank Limited | 15,000 | 5,000 | 75,000 | 74,850 | 76,010 | N/A |
| Pakistan International Airline | 594,976 | 5,000 | 2,974,880 | 2,972,500 | - | N/A |
| Askari Commercial Bank Limited | 16,990 | 5,000 | 84,950 | 84,712 | 85,488 | N/A |
| Worldcall Telecom Limited | 96,000 | 5,000 | 480,000 | 205,591 | - | N/A |
| Azgard Nine Limited | 9,233 | 5,000 | 46,165 | 46,165 | - | N/A |
| Pakarab Fertilizers Limited | 565,080 | 5,000 | 2,825,400 | 1,247,620 | 1,270,934 | N/A |
| | | | 5,042,194 | 1,863,346 | | |

2.4 TFC's held by HBL mutual funds

| | | | | | | |
|------------------------------|--------|-------|----------------|----------------|---------|-----|
| ENGRO Corporation | 28,000 | 5,000 | 140,000 | 140,000 | 127,045 | N/A |
| Eden Housing Limited | 4,000 | 5,000 | 20,000 | 7,496 | 5,333 | N/A |
| Orix Leasing Limited | 220 | 5,000 | 1,100 | 3,667 | 3,669 | N/A |
| Bank Al Habib Limited | 9,000 | 5,000 | 45,000 | 44,976 | 51,079 | N/A |
| AL Abbas Sugar Mills Limited | 7,000 | 5,000 | 35,000 | 6,986 | 7,024 | N/A |
| | | | 203,125 | 194,150 | | |

2.5 Units

| | Number of units held | Paid-up value per unit (Rupees) | Total paid-up value | Cost | Credit Ratings Short Term |
|------------------|----------------------|---------------------------------|------------------------------|---------------|---------------------------|
| | | | ----- (Rupees in '000) ----- | | |
| Meezan Cash Fund | 301,102 | 10 | 3,011 | <u>15,100</u> | N/A |

3. Particulars of investments held in bonds

| | Terms of Redemption | | Rate of Interest / Profit | Book value (Rupees in '000) |
|---|-------------------------------|-------------------|---------------------------|-----------------------------------|
| | Principal | Interest / Profit | | |
| 3.1 Bonds (Guaranteed by Government) | | | | |
| Pakistan International Airline | Repayable in full on maturity | Semi - Annual | 6-Month Kibor + 79 BPS | 425,000 |
| 3.2 Bonds | | | | |
| Quetta Textile | Repayable in full on maturity | Semi - Annual | 6-Month Kibor + 150 BPS | 80,000 |
| Engro Fertilizers Limited | Repayable in full on maturity | Semi - Annual | 6-Month Kibor + 150 BPS | 49,211 |
| GOP Ijarah Sukuk | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 6,049,902 |
| | | | | 6,179,113 |
| 3.3 Foreign Currency notes and bonds | | | | |
| Gazprom | Repayable in full on maturity | Annual | 8.125% | 287,181 |
| Hana Bank | Repayable in full on maturity | Semi - Annual | 4.000% | 200,808 |
| Woori Bank | Repayable in full on maturity | Semi - Annual | 4.750% | 307,625 |
| Kookmin Bank | Repayable in full on maturity | Semi - Annual | 7.250% | 208,794 |
| Export Import Bank | Repayable in full on maturity | Annual | 5.250% | 150,373 |
| Korea Development Bank | Repayable in full on maturity | Semi - Annual | 8.000% | 514,116 |
| Standard Chartered PLC | Repayable in full on maturity | Semi - Annual | 3.850% | 437,466 |
| Sberbank | Repayable in full on maturity | Semi - Annual | 5.499% | 305,584 |
| Eurasian Development Bank | Repayable in full on maturity | Semi - Annual | 7.375% | 287,090 |
| CNPC HK Overseas Capital Limited | Repayable in full on maturity | Semi - Annual | 3.125% | 499,787 |
| GE Capital Sukuk Limited | Repayable in full on maturity | Semi - Annual | 3.875% | 502,604 |
| 1Malaysia Sukuk | Repayable in full on maturity | Semi - Annual | 3.928% | 508,773 |
| Deutsche Telekom International Finance | Repayable in full on maturity | Annual | 3.125% | 512,222 |
| HSBC Middle East | Repayable in full on maturity | Semi - Annual | 3.000% | 478,607 |
| VTB Bank | Repayable in full on maturity | Semi - Annual | 6.465% | 207,550 |
| Gazprom | Repayable in full on maturity | Semi - Annual | 5.092% | 518,853 |
| Perusahaan | Repayable in full on maturity | Semi - Annual | 8.800% | 319,842 |
| Vodafone Group PLC | Repayable in full on maturity | Annual | 4.625% | 413,871 |
| E.ON International Finance BV | Repayable in full on maturity | Annual | 5.125% | 327,924 |
| France Telecom | Repayable in full on maturity | Annual | 5.000% | 692,767 |
| SABIC Capital BV | Repayable in full on maturity | Semi - Annual | 3.00% | 302,816 |
| HSBC Bank Brasil SA | Repayable in full on maturity | Semi - Annual | 4.00% | 510,036 |
| Corp Andina de Fomento | Repayable in full on maturity | Semi - Annual | 3.75% | 205,336 |
| Orix Corp | Repayable in full on maturity | Semi - Annual | 4.71% | 433,718 |
| Korea National Oil Corp | Repayable in full on maturity | Semi - Annual | 4.00% | 559,592 |
| Banco Do Brasil | Repayable in full on maturity | Semi - Annual | 4.50% | 512,163 |
| | | | | 10,205,498 |
| 3.4 Investment by Islamic Banking Business | | | | |
| GOP IJARA SUKUK V | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 1,200,000 |
| GOP IJARA SUKUK VI | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 3,850,717 |
| GOP IJARA SUKUK VII | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 2,220,152 |
| GOP IJARA SUKUK VIII | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 4,860,000 |
| GOP IJARA SUKUK IX | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 1,701,305 |
| GOP IJARA SUKUK XI | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 1,000,783 |
| GOP IJARA SUKUK XIII | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 6,681,689 |
| Sitara Energy Limited | Repayable in full on maturity | Semi - Annual | 6 Month Kibor + 115 BPS | 17,623 |
| Engro Fertilizer Limited | Repayable in full on maturity | Semi - Annual | 6 Month Kibor + 150 BPS | 143,398 |
| Century Paper & Board Mills Limited | Repayable in full on maturity | Semi - Annual | 6 Month Kibor + 135BPS | 160,000 |
| Ghani Glass Limited | Repayable in full on maturity | Semi - Annual | 3 Month Kibor + 180 BPS | 300,000 |
| HSBC Sukuk | Repayable in full on maturity | Semi - Annual | 3.57% | 202,873 |
| | | | | 22,338,540 |
| 3.5 Certificates of Investment | | | | |
| UBL Ameen | Repayable in full on maturity | On Maturity | 10.40% | 32,000 |

Detail of Advances Written-Off

ANNEXURE-II

Detail of Advances written-off for the year ended December 31, 2012 (referred on page 184) which also form part of the Audited Consolidated Financial Statements.

Detail of Disposal of Operating Fixed Assets Consolidated

For the year ended December 31, 2012

ANNEXURE-III

| Description | Original cost | Accumulated depreciation | Book value | Sale proceeds | Mode of disposal | Particulars of buyer |
|--|----------------|--------------------------|----------------|----------------|------------------|--------------------------------|
| ----- Amount in 000----- | | | | | | |
| FURNITURE & FIXTURES | | | | | | |
| | 1,713 | 1,713 | - | 125 | Sale | } CNS Engg. |
| | 2,268 | 2,268 | - | 125 | Sale | |
| | 2,268 | 2,268 | - | 125 | Sale | |
| | 1,713 | 1,713 | - | 125 | Sale | |
| | 7,962 | 7,962 | - | 500 | | |
| LAND & BUILDING | | | | | | |
| | 119,858 | - | 119,858 | 62,500 | Sale | M/S Royal Retailer |
| | 41,948 | 184 | 41,764 | 38,500 | Sale | Mount Fuji Textile Pvt Limited |
| | 161,806 | 184 | 161,622 | 101,000 | | |
| MOTOR VEHICLES | | | | | | |
| | 1,080 | 899 | 181 | 815 | Auction | Muhammad Haroon Masood |
| | 1,080 | 899 | 181 | 840 | Auction | Alwat Khan |
| | 1,080 | 899 | 181 | 830 | Auction | Ziauddin |
| | 1,080 | 899 | 181 | 845 | Auction | Muhammad Rizwan |
| | 1,080 | 916 | 164 | 780 | Auction | Muhammad Imran |
| | 1,080 | 899 | 181 | 895 | Auction | Syed Pervez Ali Shah |
| | 1,079 | 1,079 | - | 770 | Auction | Muhammad Ibraheem |
| | 1,080 | 899 | 181 | 845 | Auction | Nazir Ahmed Khan |
| | 1,080 | 899 | 181 | 850 | Auction | Muhammad Rizwan |
| | 1,017 | 1,017 | - | 535 | Auction | S.Muhammad Saeed |
| | 1,799 | 1,439 | 360 | 360 | On retirement | R.Zakir Mahmood (Ex-Employee) |
| | 4,950 | 4,950 | - | - | On retirement | R.Zakir Mahmood (Ex-Employee) |
| | 1,384 | 277 | 1,107 | 1,246 | Insurance Claim | } Jubilee General Insurance |
| | 1,239 | 578 | 661 | 1,004 | Insurance Claim | |
| | 1,117 | 1,117 | - | 484 | Auction | Ahmed Faraz |
| | 1,376 | 1,376 | - | 529 | Auction | Mumtaz Hussain |
| | 1,227 | 1,227 | - | 301 | Auction | Abdul Mateen |
| | 23,828 | 20,269 | 3,559 | 11,929 | | |
| Assets having cost of less than Rs. 1 million and book value of less than Rs.250,000 | 433,477 | 387,054 | 46,423 | 67,354 | | |
| | 627,073 | 415,469 | 211,604 | 180,783 | | |

Detail of Donations in excess of Rs. 100,000

ANNEXURE-IV

Details of donations for the year ended December 31, 2012 (referred on page 189) which also form part of the Audited Consolidated Financial Statements.

Islamic Banking Business and Habib Bank Modaraba

ANNEXURE-V

1. FINANCIAL POSITION OF ISLAMIC BANKING BUSINESS AND FIRST HABIB BANK MODARABA - CONSOLIDATED

The Statement of the financial position of the Bank's Islamic Banking Business and First Habib Bank Modaraba as at December 31, 2012 are as follows:

| | Note | 2012 (Rupees in '000) | 2011 |
|--|------|--------------------------|-------------------|
| 1.1 ASSETS | | | |
| Cash and balances with treasury banks | | 1,710,846 | 607,326 |
| Balances with other banks | | 412,446 | 16,606 |
| Due from Financial Institution | | 5,480,000 | 1,000,000 |
| Investments - net | | 22,369,313 | 12,648,185 |
| Islamic financing and related assets | 1.2 | 3,108,988 | 1,169,382 |
| Operating fixed assets | | 516 | 577 |
| Deferred tax assets | | 34,036 | 32,107 |
| Other assets | | 782,906 | 264,743 |
| | | <u>33,899,051</u> | <u>15,738,927</u> |
| LIABILITIES | | | |
| Bills payable | | 457 | 43 |
| Due to financial institutions | | 576,000 | 2,000,000 |
| Deposit and other accounts | | | |
| - Current Accounts | | 2,697,055 | 1,115,939 |
| - Saving Accounts | | 11,417,392 | 2,802,915 |
| - Term Deposits | | 7,087,919 | 2,161,298 |
| - Deposits from financial institutions - remunerative | | 9,825,657 | 5,861,255 |
| - Deposits from financial institutions - non -remunerative | | 8,360 | 3,187 |
| Due to Head Office | | 240,544 | 243,557 |
| Other liabilities | | 712,582 | 381,743 |
| | | <u>32,565,966</u> | <u>14,569,936</u> |
| NET ASSETS | | | |
| | | <u>1,333,085</u> | <u>1,168,989</u> |
| REPRESENTED BY | | | |
| Islamic Banking Fund / Certificate Capital | | 647,072 | 647,072 |
| Reserves | | 548,519 | 222,963 |
| Profit Equalization reserve | 1.5 | - | 137 |
| Unappropriated profit | | 192,915 | 352,687 |
| | | <u>1,388,506</u> | <u>1,222,859</u> |
| Deficit on revaluation of investments | | (55,421) | (53,870) |
| | | <u>1,333,085</u> | <u>1,168,989</u> |

The commitment in respect of letters of credit of Islamic Banking business of Habib Bank Limited amounted to Rs. 143.332 million (2011: Rs. 69.376 million).

| | Note | 2012 (Rupees in '000) | 2011 |
|---|------|--------------------------|----------------|
| 1.2 Islamic financing and related assets | | | |
| Murabaha | 1.3 | 383,099 | 100,826 |
| Ijarah | 1.4 | 329,832 | 276,179 |
| Musharaka | | 1,038,307 | 19,167 |
| Advance for Murabaha | | 38,577 | 196,894 |
| Advance for Ijarah | | 3,859 | 39,107 |
| Istisna | | 326,000 | - |
| Assets/Inventories | | 327,649 | - |
| | | <u>2,447,323</u> | <u>632,173</u> |

- 1.3 This represents assets sold under Murabaha agreement.
- 1.4 This represents fixed assets given to customers under Ijarah agreement.
- 1.5 This represents 50% of Profit Equalization Reserve.

| | 2012 | 2011 |
|---|-----------------------|-----------------------|
| | (Rupees in '000) | |
| 2. PROFIT AND LOSS ACCOUNT OF ISLAMIC BANKING BUSINESS AND FIRST HABIB BANK MODARABA | | |
| Profit earned | 2,555,806 | 2,086,280 |
| Profit expensed | 1,669,007 | 1,214,450 |
| Net profit earned | <u>886,799</u> | <u>871,830</u> |
| Provision against doubtful lease rentals | (2,058) | 76 |
| Depreciation on assets given on Ijarah | 147,880 | 111,658 |
| Impairment of assets given on Ijarah | 188,094 | 223,118 |
| (Reversal) / Charge against diminution in value of investments -net | (3,513) | 30,511 |
| | <u>330,403</u> | <u>365,363</u> |
| Net profit after depreciation and provisions | 556,396 | 506,467 |
| Other income | | |
| Fee, commission and brokerage income | 22,143 | 12,468 |
| Dividend income | 1,500 | 1,003 |
| Rent on lockers | 4,301 | 4,056 |
| Income from dealing in foreign currencies | 12,320 | 5,848 |
| Net gain on sale of securities | 13,000 | 425 |
| Others | 29,078 | 18,799 |
| Total other income | <u>82,342</u> | <u>42,599</u> |
| | 638,738 | 549,066 |
| Other expenses | | |
| Administrative expenses | 333,766 | 240,084 |
| Net profit for the year | <u><u>304,972</u></u> | <u><u>308,982</u></u> |

3. CHARITY FUND

| | | |
|---------------------------|--------------|-----------|
| Opening balance | 69 | 23 |
| Additions during the year | 1,775 | 69 |
| Payments / Utilization | - | (23) |
| | <u>1,844</u> | <u>69</u> |

4. Remuneration to Shariah Advisor / Board

| | | |
|--|--------------|--------------|
| | <u>1,440</u> | <u>1,440</u> |
|--|--------------|--------------|

5. Mudarib's share in profit is 30% (2011: 30%) and amounts to Rs. 426.936 million (2011: Rs. 449.646) after netting of Hiba to depositors from Mudarib's share amounting to Rs. 155.507 million (2011: Nil)
6. Following are the types and nature of pools maintained by Islamic Banking Business along with their key features :

General Pool(s) PKR (Mudaraba)

Generally the deposits parked in general pool are not based on special weightages. The risk of loss is minimal due to the less risky assets parked in General Pool.

Special Pool(s) PKR (Mudaraba)

Separate pool(s) are created where the customers desire to invest in a special class of assets. These pool(s) rates are higher / lower than the general pool depending on the special class of assets. In case of loss in special pool the loss will be born by the Special pool members.

FCY Pool(s) (Mudaraba)

All FCY deposits and Investments are parked in special FCY pool(s) to share the return among the FCY deposit holders. The weightages are also declared separately.

IERS Pool PKR (Musharaka)

IERS pool is required by SBP to facilitate the Islamic Export Refinance under Musharaka Scheme.

7. The following parameters are used for profit distribution in pool :
- Administrative and operating expenses are paid by the mudarib and not charged to pool.
 - From January 2012 to November 2012: It was the practice of the bank that the Bank first charge the Mudarib fee and then distribute the profit among equity and depositors.
 - From December 2012, as per instructions issued by SBP circular no. IBD-03/2012 to improve transparency and standardization in IBIs profit and loss distribution policies and practices dated November 19, 2012, it is the practice of the bank that the Bank first charge the profit on equity allocated to pool and then charge the Mudarib fee before distribution of profit among depositors.
 - 10% of Profit Equalization Reserve charged in first 11 months and 2% for last month
8. Average profit rates earned on the earning assets of Islamic Banking Business during the year is 11.61% (2011: 13.58%) as compared to profit of 8.22% (2011: 9.82%) distributed to the depositors.

9. Segmentation of economic sectors where Mudaraba based deposits are deployed

| | Note | 2012 (Rupees in '000) | 2011 |
|------------------------------|------|--------------------------|-------------------|
| Chemical and pharmaceuticals | | 56,659 | 23,891 |
| Textile | | 10,152 | 21,605 |
| Financial - Islamic modes | | 4,941,923 | 160,935 |
| Food & beverages | | 5,409 | 12,953 |
| Cement | | 150,387 | - |
| Information Technology | | 162,760 | 143,734 |
| Printing & publishing | | 2,545 | 3,291 |
| Glass Manufacturing | | 57,878 | - |
| Public / Government | 9.1 | 20,592,158 | 8,022,505 |
| Others | | 537,253 | 2,004,402 |
| | | <u>26,517,124</u> | <u>10,393,316</u> |

- 9.1 This represents investments in Government of Pakistan (GoP) Sukuk, balance maintained with National Bank of Pakistan and financing against Ijarah assets.

Domestic Network

| Name of Region | Number of Branches |
|-------------------------------|--------------------|
| Karachi South | 66 |
| Karachi North | 76 |
| Hyderabad | 55 |
| Sukkur | 48 |
| Quetta | 37 |
| Multan | 95 |
| Bawalpure | 54 |
| Sahiwal | 76 |
| Faisalabad | 93 |
| Lahore | 95 |
| Sialkot | 71 |
| Gujranwala | 65 |
| Gujrat | 66 |
| Sargodha | 74 |
| Jhelum | 74 |
| Islamabad | 116 |
| Mardan | 88 |
| Peshawar | 100 |
| Muzaffarbad | 34 |
| Mirpur A.K | 51 |
| Islamic Banking | 33 |
| Commercial | 19 |
| Corporate (Including K.E.P.Z) | 12 |
| | 1,498 |

Subsidiaries

Habib Bank Financial Services(Private) Limited
HBL Currency Exchange (Private) Limited
HBL Asset Management Limited
First Habib Bank Modarba
HBL Stock Fund
HBL Multi Asset Fund
HBL Income Fund

Affiliates

Jubilee General Insurance Company Limited
Jubilee Life Insurance Company Limited
HBL Money Market Fund
HBL Islamic Stock Fund
HBL Islamic Money Market Fund
HBL Pension Equity Sub Fund
HBL Pension Debt Sub Fund
HBL Pension Money Market Sub Fund
HBL Islamic Pension Equity Sub Fund
HBL Islamic Pension Debt Sub Fund
HBL Islamic Pension Money Market Sub Fund

International Franchise

Branches

| Country | City | |
|--------------------|---|---|
| Afghanistan | Kabul | Main Branch Serena Hotel |
| Bahrain | Manama Muharraq | Main FCB Branch / OBU |
| Bangladesh | Dhaka | Gulshan Branch Motijheel Branch Uttara Branch |
| | Chittagong Sylhet | |
| Belgium | Brussels | |
| France | Paris | |
| Kenya | Nairobi Mombasa Malindi | |
| Lebanon | Beirut | |
| Maldives | Male | |
| Mauritius | Port Louis Curepipe Rose Hill | |
| Netherlands | Rotterdam | |
| Oman | Ruwi Muttrah Al-Khuwair Nizwa Seeb Sohar Salalah Walja | |
| Seychelles | Mahe | |
| Singapore | Singapore | |
| Srilanka | Colombo | Main Branch / F.C.B.U. Lake View |
| | Kalmunai | |
| Turkey | Istanbul | |
| U.A.E. | Abu Dhabi | Main Branch Shaikh Zayed Road Branch |
| | Al Ain Dubai | Deira Bur Dubai Naif Road |
| | Sharjah | |
| U.S.A. | New York City | |

Subsidiaries

| Country | City | |
|-----------------------|--|---|
| United Kingdom | London | Habib Allied International Bank Plc. Whitechapel Road Green Street Edgware Road Southall |
| | Manchester Birmingham Glasgow Leicester | |
| | London | Habibsons Bank Limited Portman Street |
| Switzerland | Zurich | |
| Hong Kong | | Habib Finance International Limited |

Affiliates

| | |
|------------------------|--|
| Nepal | Himalayan Bank Limited |
| Kenya | Diamond Trust Bank Kenya Limited |
| Kyrgyz Republic | Kyrgyz Investment & Credit Bank |

Representative Offices

| | |
|--------------|---------|
| Iran | Tehran |
| China | Beijing |



Unconsolidated
Financial
Statements

2012

Directors' Report

On behalf of the Board of Directors, I am pleased to present the Unconsolidated Financial Statements and the Auditors' Report for the year ended December 31, 2012.

Economic and Market Review

The economy witnessed modest recovery despite challenging economic environment, both locally and around the globe. The real GDP grew by 3.7 percent during the FY2012 as compared to 3 percent in the previous year. The economy however, underperformed compared with growth target of 4.2 percent for the FY 2012 primarily due to the severe energy crises, deteriorating law and order and weakening global economy. The agriculture sector recorded a growth of 3.1 percent in FY2012 compared to 2.4 percent in FY 2011. The livestock sub-sector (with a 55.1 percent share in agriculture) remained the main contributor to growth, followed by major crops i.e. cotton, rice and sugarcane. The industrial sector showed growth of 3.4 percent as against 0.7 percent in the previous year. Small Scale Manufacturing contributed about 45% in the industrial growth, while contribution by Large Scale Manufacturing was limited to 26%. The service sector, the largest contributor (over 55 percent) in the GDP, grew by 4 percent in FY2012 as against 4.4 percent in the corresponding period last year.

The inflationary pressure eased significantly as CPI reduced from 13.7 percent from FY 2011 to 11 percent in FY 2012 and further to 6.9 percent as on December 31, 2012. Worker remittances showed robust increase of 17.8% to US\$ 13.2 billion for the FY 2012.

Trade deficit increased to US \$ 15.5 billion for FY 2012 as against US \$ 10.5 billion in the previous year. Rising trade deficit, declining foreign direct investment and lower disbursement of fresh loan put pressure on country's total liquid foreign exchange reserves, which declined from US \$ 18.24 billion to US \$ 15.23 billion as on June 30, 2012. The decline in foreign exchange reserves coupled with appreciation of US Dollar against major world currencies resulted in depreciation to Pak Rupee by 9.1% against US Dollar during FY 2012 as against 0.6 percent in FY 2011.

The State Bank of Pakistan continued its policy of reducing policy rate. During the year under review, the policy rate was first reduced to 10.50% from 12% on August 13, 2012. It was again reduced to 10% on October 8, 2012 and further to 9.5% on December 17, 2012. In all the policy rate was reduced by 250 bps during the year under review.

Financial Performance:

The financials of the Bank are summarized below :-

| | 2012 | 2011 |
|---|--------------------------|-----------------|
| | <u>Rupees in million</u> | |
| Profit after tax | <u>21,564</u> | <u>20,742</u> |
| Un-appropriated profit bought forward | 52,229 | 44,121 |
| Profit attributable to equity holders of the Bank | 21,564 | 20,742 |
| Transferred from surplus on revaluation of fixed assets- net of tax | 245 | 260 |
| | <u>21,809</u> | <u>21,002</u> |
| Profit available for appropriation | 74,038 | 65,123 |
| Appropriations: | | |
| Transfer to statutory reserves | (2,156) | (2,074) |
| Cash dividend | (4,408) | (6,512) |
| Issued as bonus shares | (1,102) | (1,002) |
| Half year interim dividend | (4,243) | (3,306) |
| Total appropriations | <u>(11,909)</u> | <u>(12,894)</u> |
| Un-appropriated Profit carried forward | <u>62,129</u> | <u>52,229</u> |
| Basic and Diluted Earnings after tax-Rupees per Share | <u>17.79</u> | <u>17.11</u> |

In spite of challenging economic environment, HBL continued to show strong growth in deposit. Total deposits of HBL stood at 1,141 billion as on December 31, 2012 showing an impressive growth of 30% compared to corresponding period last year. The domestic deposit at Rs.1,041 billion witnessed robust growth of 32% which is much above the industry growth of 11%. Retail deposits contributed significantly in increasing the deposits base of HBL. The strong performance by Retail banking helped HBL to cross Rupee One Trillion in domestic deposits, making HBL the first banking company to have achieved this milestone in the history of Pakistan. The CASA stood at 68% as on December 31, 2012 as against 71% in the corresponding period last year. The Capital Adequacy Ratio (CAR) has been maintained at 15.15%.The investment stood at Rs. 777 billion while advances at Rs. 460 billion as on December 31, 2012 as against Rs.400 billion and Rs. 416 billion respectively in the previous year.

Net Interest Income of HBL increased by 2% to Rs. 56 billion as compared to previous year. The non-interest income was up by 2.5% from Rs. 12 billion for the year ended 31 December 2011 to Rs. 12.4 billion for the year ended December 31, 2012.

The profit before tax stood at Rs. 33.6 billion for the year ended December 31, 2012 indicating an increase of 5% over previous year while after tax profit at Rs.21.6 billion indicating an increase of 4% from last year. The earnings per share before and after tax was Rs. 27.74 and Rs. 17.79 respectively for the year ended December 31, 2012 as against Rs. 26.42 and Rs. 17.11 respectively in the corresponding period last year.

The overall improvement in HBL performance is attributable to diversified range of products and services for our valued customers, quality of investment portfolio, diversified advances and stringent cost and internal controls. The management of the Bank is fully committed to provide best possible services and product range to its customers in a challenging local and international economic environment.

During the year HBL Islamic Banking (HBL-IB) showed robust growth. The HBL Islamic Banking deposits increased sharply by 160% to Rs.31 billion as on December 31, 2012 against Rs.12 billion as on December 31, 2011. The exponential growth in HBL-IB deposits was possible due to addition of 11 new branches along with two sub branches, relocation of 11 branches to high potential areas and addition of 33 new windows for Islamic Banking. By December 2012 the HBL-IB comprised of 33 branches, 2 sub-branches and 266 windows making it one of the biggest Islamic Banking network amongst conventional commercial banks. The HBL-IB has developed a strong asset team to target new businesses based on HBL synergies. During the year HBL-IB participated in several syndications and is now well positioned to acquire syndication and structuring mandates at its own.

International Banking (IB) is an integral part of HBL and one of the oldest franchises in the markets we operate in. It has contributed 13% towards Bank total assets, 9% of total deposit and 10% in operating profits. The International Banking witnessed strong growth of 19% in Deposits to Rs. 100 billion in 2012 from Rs.84 billion in 2011. The IB advances grew by 20% to Rs. 75 billion in 2012 from Rs. 62 billion in 2011. The operating profit of IB showed impressive growth of 70% to Rs. 3.9 billion in 2012.

Payment Services activities which covers cash management, cards, branchless banking and alternate delivery channels to customers are one of the fastest growing activities of HBL. In 2012 the cash management processed Rs.751 billion in transaction depicting handsome growth of 42%. The card business is rapidly growing and HBL today has the largest network of ATMs deployed in the Country: during the year 242 ATMS were added taking the total number of ATMs to 750 all over Pakistan. Branchless Banking Pilot Project was launched pan Pakistan in the last quarter of 2012. HBL is committed to provide convenient and efficient banking solutions for its customers. The Bank has entered into an agreement with Union Pay (UP) of China to issue UP cards in Pakistan and global markets where HBL has presence. This alliance will give HBL the ability to advance its financial inclusion plan by providing innovative and affordable product solutions for its customers. HBL also plans to launch a new state of art internet banking platform to include web portal access via smart application.

In order to increase the customer base, enhanced services and improve efficiency 33 new branches were added to the HBL network, increasing the total number of branches to 1540 by 2012. The number of online branches as of December 31, 2012 is 1404. A new web based Home Remittances system was launched during the year to provide enhanced transaction processing and enquiry capability to our customers, correspondent banks and HBL branches.

Other Initiatives

It is the endeavor of HBL to continue to be a key developer of consumer finance products for its customers. To achieve this objective HBL has entered into an agreement with Citibank Pakistan to acquire its Credit Card and Consumer Lending Portfolio in Pakistan. The acquisition of this business will strengthen HBL position in consumer banking particularly Credit Card market.

With a view to further strengthen risk management, the Bank set itself the goal of implementing the Foundation Internal Rating Based (FIRB) approach of Basel II for the management of credit risk. During 2012 the Bank achieved significant milestones in this regard. The implementation of FIRB approach will provide impetus to the Bank in its efforts in organizational realignment, better portfolio and capital management, streamlining and automation of credit processes and, most importantly, risk based strategic planning. The Bank is in the process of development of Internal Credit Risk Rating Models. The rating models are expected to be developed during 2013 as is the

substantial completion of the second and final phase of data collection for the purpose of refinement and validation of these models. Roll out of these models is targeted for 2014.

The Internal Audit function of the Bank is being further strengthened. The Internal Audit is in the process of shifting Internal Audit's Strategy from protecting value to adding-value to the business processes of the organization, adoption of Risk Based Audit Approach to target high-risk areas of the audit universe and continue the shift away from traditional 100% transactional audit. The Internal Audit Function also intends to enhance expertise to assist implementation of Basel II in the areas of credit risks, market risk and operational risk within the time limit as prescribed by State Bank of Pakistan.

The current financial global crises has posed serious challenges to the financial services industry, worldwide. Pakistan is also facing serious economic challenges due to high commodity prices, energy crises, huge losses to public sector enterprises (PSEs), and decline in foreign direct investment and increasing current account deficit. As a result certain businesses in the country have been severely affected leading to cash flow and debt repayment issues. In today's volatile economic environment, managing stressed accounts require specialized and complex relationship skill in legal and business issues to support private sector as engine for growth. A new "Structural Credits Function" has been set up to manage the classified portfolio along with all those complex relationships that require specialized management.

The Bank has also set up a new "Investor Relations and Corporate Representation Function" with a view to maintaining HBL's profile as a Public Listed Company and to monitor performance of HBL's subsidiaries and associates.

Dividend / Bonus

The Board has recommended a final dividend of Rs.4.00 per share for the year ended December 31, 2012. The Board had earlier declared and paid interim dividend @ Rs.3.5 per share, making total dividend for the year to Rs.7.50 per share. In addition to above the Board has also decided to issue Bonus Share at the rate of 10% in proportion of 10 shares for every 100 shares held.

Credit Rating Upgraded

JCR VIS Credit Rating Agency of Pakistan has upgraded the entity ratings of the Bank to "AAA / A-1+" (Triple A/ A-One Plus) from "AA+/A-1+" (Double A Plus / A-One Plus) with 'Stable' outlook. HBL has therefore become the first private sector bank of Pakistan to achieve this landmark.

Awards

HBL was conferred with following awards:

1. "Leading Bank in Home Remittances" Award for the year 2011 by the Pakistan Remittance Initiative
2. "Strongest Bank in Pakistan" by Asian Banker Magazine.

Future Outlook

The reduction in policy rate by 450 bps since 2011, without any reduction in minimum deposit rate on saving accounts will significantly reduce banking sector spreads. Continuing energy crises and slow down in global economy would continue to arrest growth and as a consequence the demand for fresh credit from private sector is likely to be slow in the near future. The banks would, therefore, be forced to invest in low yield government securities and as a result profit margin of the banking sector may be affected.

Changes in Directorship

Mr. R. Zakir Mahmood retired as President & CEO of the Bank after serving for over twelve years on September, 28 2012. He will, however, continue as a Director on the Board of HBL. Mr. Nauman K. Dar has been appointed as President & CEO of HBL. The Board places on record their appreciation for the contribution of Mr. R. Zakir Mahmood and wish the new President and CEO Mr. Nauman K. Dar every success.

Meetings of the Board:

Eleven Board meetings were held during 2012 and were attended by the Directors as follows:

| Name | | Attendance |
|---------------------------|---------------------------------------|------------|
| Mr. Sultan Ali Allana | Chairman | 11 |
| Mr. Nauman K. Dar* | President and Chief Executive Officer | 3 |
| Mr. R. Zakir Mahmood** | Director | 11 |
| Mr. Moez Ahamed Jamal | Director | 11 |
| Mr. Sajid Zahid | Director | 11 |
| Mr. Ahmed Jawad | Director | 11 |
| Mr. Mushtaq Malik | Director | 11 |
| Mr. Sikandar Mustafa Khan | Director | 11 |

*Appointed as President & CEO w.e.f September 29,2012

**Retired as President & CEO w.e.f September 28,2012

Auditors:

The present auditors, Messrs Ernst & Young Ford Rhodes Sidat Hyder, retire. As per Code of Corporate Governance they are eligible for reappointment. Accordingly, the Board of Directors endorses the recommendation of the Audit Committee for the appointment of Messrs Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, as the auditors of the bank for the financial year 2013.

Statement under Section XVI of the Code of Corporate Governance:

The Board is committed to ensure that requirements of corporate governance set by Securities and Exchange Commission of Pakistan are fully met and the Directors are pleased to report that:

- The financial statements prepared by the management of the Bank present a true and fair view of the state of its affairs, operational results, cash flows and changes in equity.
- Proper books of accounts of the Bank have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- The Bank has followed international accounting standards (as applicable to Banks in Pakistan) in the preparation of accounts and there is no departure from the said standards.
- As a continuous process, efforts have been made to effectively implement the internal control system.

HBL is in the process of adopting an internationally accepted COSO Internal Control – Integrated Framework as part of compliance with SBP Internal Control Guidelines. The Bank has also evaluated its Internal Control over Financial Reporting (ICFR) using the US PCAOB Auditing Standard (AS – 5). A dedicated Management Testing and Reporting Framework for ICFR is being developed as a part of COSO implementation project.

- f) There are no doubts about the Banks' ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance as detailed in the regulations.
- h) Key operating and financial data for the last ten years is presented in the financial statements under the section "Progress since 2002 to 2012 – Unconsolidated".
- i) The Directors, CEO, CFO and Company Secretary have confirmed that neither they nor their spouses are engaged in the business of stock brokerage.
- j) Risk Management, Human Resource and Audit Committees constituted by the Board are functioning efficiently in accordance with their Terms of Reference. The Board has met regularly and held eleven meetings in the year.

The Statement of Internal Control, Statement of Compliance with Review Report and the Auditors' reports are attached to the Financial Statements.

Statement of Corporate Social Responsibility – (CSR)

HBL as a responsible Corporate Citizen is committed in fulfilling its role to serve society in areas such as health, education, low cost housing, disaster mitigation, environment protection, preservation of craft, culture and heritage, arts, poverty alleviation, empowerment of women, rural/socio economic development, entrepreneurial development and strengthening of civil society.

To achieve above objectives the Bank established HBL Foundation in 2009 with the mandate to promote development and well being of the people with the objective of improving their quality of life. The Bank has been consistently donating huge amount to the Fund towards achievement of its objective. A sum of Rs.218 million was donated to the Fund in 2012, whereas total donation by the Bank amounted to Rs. 255 million (including donation to the Foundation) for 2012 for the achieving objectives as set out above.

HBL is an equal opportunity employer based on merit without any discrimination in race, religion and gender. It provides extensive in house training facilities for continuous personal development of its employees.

HBL is extremely active in promoting sports in Pakistan. In this connection the Bank regularly sponsors / co-sponsors several sports events.

Value of Investments in employee retirement benefits fund:

The following is the value of investments of provident, gratuity, pension and benevolent funds maintained by the Bank, based on the latest audited financial statements.

| | Rupees in Million |
|--|-------------------|
| Employee's Provident Fund | 8,224 |
| Employee's Pension Fund | 3,620 |
| Employee's Gratuity Fund | 1,146 |
| Employee's Benevolent Fund – Executive and Officers | 997 |
| Employee's Benevolent Fund – Clerical and Non-Clerical | 354 |

Pattern of Shareholding:

The pattern of Shareholding as at December 31, 2012 is annexed to the financial statements.

Training programs attended by Directors:

Details have been provided in Statement of Compliance.

Appreciation and Acknowledgement:

I would like to appreciate the efforts of our Regulators and Government of Pakistan and in particular the Ministry of Finance and the State Bank of Pakistan for developing and strengthening the banking and financial service industry through improved regulatory and governance framework.

I would like to take this opportunity to also thank on behalf of the Board and Management of the Bank, the customers and the shareholders for entrusting their confidence in us and assure them that we remain committed to maintaining high service standards and a strong culture of good corporate governance and compliance in all our endeavors.

On behalf of the Board

Nauman K. Dar

President & Chief Executive Officer

February 12, 2013

Auditors' Report

To the members - Unconsolidated

We have audited the annexed unconsolidated statement of financial position of Habib Bank Limited (the Bank) as at 31 December, 2012 and the related unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated cash flow statement, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for 87 branches which have been audited by us and 35 branches audited by auditors abroad and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
 - (i) the unconsolidated statement of financial position and unconsolidated profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- (c) in our opinion and to the best of our information and according to the explanations given to us the unconsolidated statement of financial position, unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated cash flow statement and unconsolidated statement of changes in equity, together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December

2012 and its true balance of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and

- (d) in our opinion zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants

Audit Engagement Partner: Omer Chughtai

Date: February 12, 2013

Karachi

Unconsolidated Statement of Financial Position

As at December 31, 2012

| 2012 (US \$ in '000) | 2011 | | Note | 2012 (Rupees in '000) | 2011 |
|--------------------------------------|-------------------|--|------|--------------------------|----------------------|
| ASSETS | | | | | |
| 1,567,935 | 1,061,044 | Cash and balances with treasury banks | 5 | 152,324,425 | 103,080,076 |
| 246,090 | 360,123 | Balances with other banks | 6 | 23,907,534 | 34,985,809 |
| 255,567 | 428,010 | Lendings to financial institutions | 7 | 24,828,255 | 41,581,029 |
| 7,999,874 | 4,116,734 | Investments | 8 | 777,185,323 | 399,939,469 |
| 4,735,688 | 4,284,742 | Advances | 9 | 460,070,634 | 416,261,389 |
| 218,067 | 176,092 | Operating fixed assets | 10 | 21,185,101 | 17,107,263 |
| 59,120 | 71,614 | Deferred tax asset | 11 | 5,743,464 | 6,957,290 |
| 541,385 | 452,305 | Other assets | 12 | 52,595,429 | 43,941,323 |
| <u>15,623,726</u> | <u>10,950,664</u> | | | <u>1,517,840,165</u> | <u>1,063,853,648</u> |
| LIABILITIES | | | | | |
| 194,325 | 143,022 | Bills payable | 13 | 18,878,652 | 13,894,502 |
| 1,977,449 | 347,041 | Borrowings | 14 | 192,108,597 | 33,714,904 |
| 11,746,459 | 9,009,895 | Deposits and other accounts | 15 | 1,141,164,975 | 875,308,597 |
| 50,000 | 50,000 | Sub-ordinated loans | 16 | 4,857,485 | 4,497,285 |
| - | - | Liabilities against assets subject to finance lease | | - | - |
| - | - | Deferred tax liability | | - | - |
| 393,435 | 356,395 | Other liabilities | 17 | 38,221,804 | 34,983,770 |
| <u>14,361,668</u> | <u>9,906,353</u> | | | <u>1,395,231,513</u> | <u>962,399,058</u> |
| <u>1,262,058</u> | <u>1,044,311</u> | NET ASSETS | | <u>122,608,652</u> | <u>101,454,590</u> |
| REPRESENTED BY: | | | | | |
| Shareholders' equity | | | | | |
| 124,784 | 113,440 | Share capital | 18 | 12,122,748 | 11,020,680 |
| 374,036 | 310,898 | Reserves | | 36,337,497 | 30,203,696 |
| 639,514 | 537,610 | Unappropriated profit | | 62,128,562 | 52,228,646 |
| 1,138,334 | 961,948 | | | 110,588,807 | 93,453,022 |
| 123,724 | 82,363 | Surplus on revaluation of assets - net of deferred tax | 19 | 12,019,845 | 8,001,568 |
| <u>1,262,058</u> | <u>1,044,311</u> | | | <u>122,608,652</u> | <u>101,454,590</u> |
| CONTINGENCIES AND COMMITMENTS | | | | | |
| 20 & 21 | | | | | |

The annexed notes 1 to 49 and annexures I to V form an integral part of these unconsolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Unconsolidated Profit and Loss Account

For the year ended December 31, 2012

| 2012 (US \$ in '000) | 2011 (US \$ in '000) | | Note | 2012 (Rupees in '000) | 2011 (Rupees in '000) |
|---------------------------------------|-------------------------|--|-----------|--------------------------|--------------------------|
| 1,177,562 | 992,771 | Mark-up / return / profit / interest earned | 22 | 114,399,790 | 96,447,370 |
| 600,354 | 427,827 | Mark-up / return / profit / interest expensed | 23 | 58,324,168 | 41,563,287 |
| 577,208 | 564,944 | Net mark-up / profit / interest income | | 56,075,622 | 54,884,083 |
| 57,834 | 66,270 | Provision against non-performing loans and advances | 9.4 / 9.6 | 5,618,514 | 6,438,120 |
| 72 | (705) | Charge / (reversal) against off-balance sheet obligations | 17.1 | 7,015 | (68,525) |
| (4,094) | 9,023 | (Reversal) / charge against diminution in the value of investments | 8.7 | (397,705) | 876,626 |
| - | - | Bad debts written off directly | | - | - |
| 53,812 | 74,588 | | | 5,227,824 | 7,246,221 |
| 523,396 | 490,356 | Net mark-up / profit / interest income after provisions | | 50,847,798 | 47,637,862 |
| Non mark-up / interest income | | | | | |
| 60,274 | 52,347 | Fee, commission and brokerage income | | 5,855,599 | 5,085,472 |
| 5,305 | 3,875 | Dividend income | | 515,378 | 376,450 |
| 23,241 | 35,716 | Income from dealing in foreign currencies | | 2,257,827 | 3,469,827 |
| 9,894 | 4,382 | Gain on sale of securities | 24 | 961,241 | 425,674 |
| 294 | (15) | Unrealised gain / (loss) on held for trading securities | 8.13 | 28,583 | (1,451) |
| 28,529 | 28,123 | Other income | 25 | 2,771,622 | 2,732,153 |
| 127,537 | 124,428 | Total non mark-up / interest income | | 12,390,250 | 12,088,125 |
| 650,933 | 614,784 | | | 63,238,048 | 59,725,987 |
| Non mark-up / interest expense | | | | | |
| 294,700 | 278,694 | Administrative expenses | 26 | 28,629,971 | 27,075,005 |
| 2,860 | (1,152) | Other provisions / write offs - net | 12.1 | 277,848 | (111,873) |
| 188 | 799 | Other charges | 27 | 18,285 | 77,588 |
| 7,060 | 6,729 | Workers welfare fund | 28 | 685,873 | 653,706 |
| 304,808 | 285,070 | Total non mark-up / interest expenses | | 29,611,977 | 27,694,426 |
| 346,125 | 329,714 | Profit before taxation | | 33,626,071 | 32,031,561 |
| Taxation | | | | | |
| 124,460 | 104,190 | current | 29 | 12,091,228 | 10,122,028 |
| 4,346 | 1,813 | prior | | 422,246 | 176,132 |
| (4,648) | 10,207 | deferred | | (451,568) | 991,585 |
| 124,158 | 116,210 | | | 12,061,906 | 11,289,745 |
| 221,967 | 213,504 | Profit after taxation | | 21,564,165 | 20,741,816 |
| -----Rupees----- | | | | | |
| Basic and diluted earnings per share | | | 30 | 17.79 | 17.11 |

The annexed notes 1 to 49 and annexures I to V form an integral part of these unconsolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Unconsolidated Statement of Comprehensive Income

For the year ended December 31, 2012

| 2012 (US \$ in '000) | | 2011 | | 2012 (Rupees in '000) | | 2011 | |
|-------------------------|----------------|---|--|--------------------------|-------------------|------|--|
| 221,968 | 213,504 | Profit for the year | | 21,564,165 | 20,741,816 | | |
| | | Other comprehensive income | | | | | |
| 40,941 | 4,711 | Effect of translation of net investment in foreign branches | | 3,977,384 | 457,701 | | |
| <u>262,909</u> | <u>218,215</u> | Comprehensive income transferred to equity | | <u>25,541,549</u> | <u>21,199,517</u> | | |
| | | Components of comprehensive income not recognized as income and equity | | | | | |
| 17,703 | - | Surplus on revaluation of fixed assets | | 1,719,888 | - | | |
| (1,986) | - | Deferred tax on revaluation of fixed assets | | (192,959) | - | | |
| 43,336 | 8,709 | Surplus on revaluation of investments | | 4,210,126 | 846,081 | | |
| (15,166) | (3,060) | Deferred tax on revaluation of investments | | (1,473,308) | (297,323) | | |
| <u>306,796</u> | <u>223,864</u> | | | <u>29,805,296</u> | <u>21,748,275</u> | | |

The annexed notes 1 to 49 and annexures I to V form an integral part of these unconsolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Unconsolidated Statement of Changes in Equity

For the year ended December 31, 2012

| | RESERVES | | | | | Total |
|--|---------------|------------------------------|------------|------------------|-----------------------|-------------|
| | Share Capital | Exchange translation reserve | Statutory | Revenue Reserves | | |
| | | | | General | Unappropriated profit | |
| ----- (Rupees in '000) ----- | | | | | | |
| Balance as at December 31, 2010 | 10,018,800 | 7,787,885 | 13,810,116 | 6,073,812 | 44,121,103 | 81,811,716 |
| Total comprehensive income for the year | | | | | | |
| Profit for the year ended December 31, 2011 | - | - | - | - | 20,741,816 | 20,741,816 |
| - Other comprehensive income | | | | | | |
| Effect of translation of net investment in foreign branches | - | 457,701 | - | - | - | 457,701 |
| | - | 457,701 | - | - | 20,741,816 | 21,199,517 |
| Transactions with owners, recorded directly in equity | | | | | | |
| Final cash dividend paid at Rs. 6.5 per share for the year ended December 31, 2010 | - | - | - | - | (6,512,220) | (6,512,220) |
| Issued as bonus shares | 1,001,880 | - | - | - | (1,001,880) | - |
| Half year interim cash dividend paid at Rs. 3 per share | - | - | - | - | (3,306,204) | (3,306,204) |
| | 1,001,880 | - | - | - | (10,820,304) | (9,818,424) |
| Transferred from surplus on revaluation of fixed assets - net of tax | - | - | - | - | 260,213 | 260,213 |
| Transferred to statutory reserves | - | - | 2,074,182 | - | (2,074,182) | - |
| Balance as at December 31, 2011 | 11,020,680 | 8,245,586 | 15,884,298 | 6,073,812 | 52,228,646 | 93,453,022 |
| Total comprehensive income for the year | | | | | | |
| Profit for the year ended December 31, 2012 | - | - | - | - | 21,564,165 | 21,564,165 |
| - Other comprehensive income | | | | | | |
| Effect of translation of net investment in foreign branches | - | 3,977,384 | - | - | - | 3,977,384 |
| | - | 3,977,384 | - | - | 21,564,165 | 25,541,549 |
| Transactions with owners, recorded directly in equity | | | | | | |
| Final cash dividend paid at Rs. 4 per share for the year ended December 31, 2011 | - | - | - | - | (4,408,272) | (4,408,272) |
| Half year interim cash dividend paid at Rs. 3.5 per share | - | - | - | - | (4,242,962) | (4,242,962) |
| Issued as bonus shares | 1,102,068 | - | - | - | (1,102,068) | - |
| | 1,102,068 | - | - | - | (9,753,302) | (8,651,234) |
| Transferred from surplus on revaluation of fixed assets - net of tax | - | - | - | - | 245,470 | 245,470 |
| Transferred to statutory reserve | - | - | 2,156,417 | - | (2,156,417) | - |
| Balance as at December 31, 2012 | 12,122,748 | 12,222,970 | 18,040,715 | 6,073,812 | 62,128,562 | 110,588,807 |

The annexed notes 1 to 49 and annexures I to V form an integral part of these unconsolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Unconsolidated Cash Flow Statement

For the year ended December 31, 2012

| 2012 (US \$ in '000) | 2011 | | Note | 2012 (Rupees in '000) | 2011 |
|-------------------------|-------------|--|------|--------------------------|---------------|
| | | CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| 346,125 | 329,714 | Profit before taxation | | 33,626,071 | 32,031,561 |
| (5,305) | (3,875) | Dividend income | | (515,378) | (376,450) |
| (9,894) | (4,382) | Gain on sale of securities | | (961,241) | (425,674) |
| (15,199) | (8,257) | | | (1,476,619) | (802,124) |
| 330,926 | 321,457 | | | 32,149,452 | 31,229,437 |
| | | Adjustment for: | | | |
| 13,874 | 13,979 | Depreciation | | 1,347,848 | 1,357,994 |
| 806 | 446 | Amortisation | | 78,344 | 43,237 |
| (4,094) | 9,023 | (Reversal) / charge against diminution in the value of investments | | (397,705) | 876,626 |
| 57,834 | 66,270 | Provision against non-performing loans and advances | | 5,618,514 | 6,438,120 |
| (294) | 15 | Unrealised (gain) / loss on held for trading securities | | (28,583) | 1,451 |
| 3,708 | 2,218 | Exchange loss on sub-ordinated loans | | 360,200 | 215,450 |
| 300 | (80) | Loss / (gain) on sale of operating fixed assets - net | | 29,144 | (7,746) |
| (491) | - | Gain on sale of non-banking asset | | (47,707) | - |
| 2,932 | (2,498) | Miscellaneous provisions | | 284,863 | (242,697) |
| 74,575 | 89,373 | | | 7,244,918 | 8,682,435 |
| 405,501 | 410,830 | | | 39,394,370 | 39,911,872 |
| | | (Increase) / decrease in operating assets | | | |
| 172,443 | (115,715) | Lendings to financial institutions | | 16,752,774 | (11,241,685) |
| (274,268) | (32,909) | Investments - held for trading | | (26,645,032) | (3,197,053) |
| (508,779) | 126,599 | Advances | | (49,427,759) | 12,299,051 |
| (90,703) | (71,570) | Other assets | | (8,811,806) | (6,953,029) |
| (701,307) | (93,595) | | | (68,131,823) | (9,092,716) |
| | | Increase / (decrease) in operating liabilities | | | |
| 51,304 | 42,404 | Bills payable | | 4,984,150 | 4,119,753 |
| 1,630,408 | (38,244) | Borrowings | | 158,393,693 | (3,715,429) |
| 2,736,564 | 1,587,647 | Deposits and other accounts | | 265,856,378 | 154,239,460 |
| 33,571 | 103,914 | Other liabilities | | 3,261,430 | 10,095,010 |
| 4,451,847 | 1,695,721 | | | 432,495,651 | 164,738,794 |
| 4,156,041 | 2,012,956 | | | 403,758,198 | 195,557,950 |
| (130,392) | (124,615) | Income tax paid - net | | (12,667,500) | (12,106,276) |
| 4,025,649 | 1,888,341 | Net cash flows from operating activities | | 391,090,698 | 183,451,674 |
| | | CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| (3,551,253) | (1,557,717) | Net investments | | (345,003,167) | (151,331,752) |
| 5,312 | 3,868 | Dividend income received | | 516,090 | 375,739 |
| (40,687) | (28,721) | Fixed capital expenditure | | (3,952,777) | (2,789,755) |
| 1,436 | 1,704 | Proceeds from sale of fixed assets | | 139,491 | 165,552 |
| 823 | - | Proceeds from sale of non-banking asset | | 80,000 | - |
| 40,941 | 4,712 | Effect of translation of net investment in foreign branches | | 3,977,384 | 457,701 |
| (3,543,428) | (1,576,154) | Net cash flows used in investing activities | | (344,242,979) | (153,122,515) |
| | | CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| (89,364) | (100,570) | Dividend paid | | (8,681,645) | (9,770,459) |
| (89,364) | (100,570) | Net cash flows used in financing activities | | (8,681,645) | (9,770,459) |
| 392,857 | 211,617 | Increase in cash and cash equivalents during the year | | 38,166,074 | 20,558,700 |
| 1,357,665 | 1,194,428 | Cash and cash equivalents at beginning of the year | | 131,896,727 | 116,038,081 |
| 63,503 | 15,122 | Effects of exchange rate changes on cash and cash equivalents | | 6,169,158 | 1,469,104 |
| 1,421,168 | 1,209,550 | | | 138,065,885 | 117,507,185 |
| 1,814,025 | 1,421,167 | Cash and cash equivalents at end of the year | 31 | 176,231,959 | 138,065,885 |

The annexed notes 1 to 49 and annexures I to V form an integral part of these unconsolidated financial statements.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Notes to the Unconsolidated Financial Statement

For the year ended December 31, 2012

1. STATUS AND NATURE OF BUSINESS

Habib Bank Limited (the Bank) is incorporated in Pakistan and is engaged in commercial banking, modaraba management and asset management related services in Pakistan and overseas. The Bank's Registered office is at Habib Bank Tower, 4th Floor, Jinnah Avenue, Islamabad and Principal office is at Habib Bank Plaza, I.I.Chundrigar Road, Karachi. The Bank's shares are listed on all three stock exchanges in Pakistan. The Bank operates 1,497 (2011: 1,464) branches inside Pakistan including 33 (2011: 22) Islamic Banking Branches and 43 branches (2011: 42) outside the country including Karachi Export Processing Zone (KEPZ).

2. BASIS OF PRESENTATION

- These unconsolidated financial statements represents separate financial statements of Habib Bank Limited. The unconsolidated financial statements of the Bank are being issued separately.
- In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.
- The US Dollar amounts shown in the unconsolidated financial statements are stated solely for information convenience. The statement of unconsolidated financial position, profit and loss account, statement of comprehensive income and cash flow statement for the year ended December 31, 2012 and 2011 and have been converted using the exchange rate of Rs. 97.1497 per US Dollar.

2.1 Basis of measurement

These unconsolidated financial statements have been prepared under the historical cost convention except that certain classes of fixed assets are stated at revalued amounts less accumulated depreciation, trading and available for sale investments, derivative financial instruments and forward foreign exchange contracts are measured at fair value.

The unconsolidated financial statements are presented in Pakistan Rupees, which is Bank's functional currency. The amounts are rounded to nearest thousand.

2.2 Use of estimates and judgments

The preparation of unconsolidated financial statements in conformity with the approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in application of accounting policies are as follows:

- i) Classification of investments (refer 4.3)
- ii) Valuation and impairment of available for sale equity investments and associates (refer 4.12)
- iii) Provision against non performing advances (refer 4.4)
- iv) Fixed assets, depreciation and amortisation (refer 4.5)
- v) Fair value of derivatives (refer 4.17)
- vi) Defined benefits plans and other benefits (refer 4.8)

2.2.1 Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

3. STATEMENT OF COMPLIANCE

- 3.1** These unconsolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP and Securities and Exchange Commission of Pakistan (SECP). Whenever the requirements of Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the directives issued by SBP and SECP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the said directives shall prevail.

The SBP, vide its BSD Circular Letter No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments Recognition and Measurement and International Accounting Standard 40, Investment Property for banking companies till further instructions. Further, SECP has deferred applicability of IFRS - 7, 'Financial Instruments: Disclosures' on banks through S.R.O 411(1)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these unconsolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2013:

- Amendments to IAS 1 'Presentation of Financial Statements: Financial statement presentation' regarding other comprehensive income (effective for annual periods beginning on or after 1 July 2012). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Bank's financial position.
- Amendments to IAS 19 - Employee Benefits (Revised): For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognized in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income / expense. All other changes in the net defined benefit asset / liability are recognized in other comprehensive income with no subsequent recycling to profit and loss. Had the change been taken in current year, profit before taxation would have been higher by Rs. 1.18 billion and comprehensive income would have been lower by Rs. 1.18 billion.
- Amendments in IAS 28 Investments in Associates: As a consequence of the new IFRS 11 Joint Arrangements, IAS 28 Investments in Associates, has been renamed as IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment results in no impact on the Bank's financial position as it is already accounting joint ventures through equity method. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.
- Amendments in IAS 32 Financial Instruments: Presentation Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014). These amendments clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. It is clarified that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event. Further clarifying offsetting criteria to settlement systems, the IAS 32 requires the reporting entity to intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendments clarify that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion. These amendments are likely to affect presentation of assets and liabilities in the Bank's financial position.

- Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

| | IASB Effective date (annual periods beginning Standard on or after) |
|--|---|
| IFRS 9 – Financial Instruments: Classification and Measurement | January 01, 2015 |
| IFRS 10 – Consolidated Financial Statements | January 01, 2013 |
| IFRS 11 – Joint arrangements | January 01, 2013 |
| IFRS 12 – Disclosure of Interest in Other Entities | January 01, 2013 |
| IFRS 13 – Fair Value Measurement | January 01, 2013 |

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury and other banks in current and deposit accounts.

4.2 Lendings / borrowings (reverse repo / repo)

Where securities are sold subject to a commitment to re-purchase them at a pre-determined price, they remain on the statement of financial position and a liability is recorded in respect of the consideration received in "borrowings". Conversely, securities purchased under analogous commitments to resell are not recognized on the statement of financial position and the consideration paid is recorded in "lendings to financial institutions".

The difference between the sale and purchase price is recognized as mark-up / return expensed or earned on time proportion basis as the case may be.

4.3 Investments

The Bank classifies its investment portfolio into the following categories:

Held-for-trading

These are securities, which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term trading exists.

Held-to-maturity

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

Available-for-sale

These are investments that do not fall under the held-for-trading or held-to-maturity categories.

Investments, including those referred to in para above, are accounted for as follows:

- Quoted securities are carried at fair value.
- Unquoted equity securities are valued at lower of cost and break-up value. Break-up value of unquoted equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.
- Securities classified as held-to-maturity are carried at amortised cost less impairment loss if any.

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 Bank commits to purchase or sell the investments.

Investments other than those categorised as held for trading include transaction costs associated with the investments. In case of investments classified as held for trading, transaction costs are expensed in the profit and loss account.

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the Prudential Regulation issued by the SBP.

Any unrealized surplus / deficit arising on revaluation of investments classified as 'held-for-trading' is taken to the profit and loss account and unrealized surplus / deficit arising on revaluation of investments classified as 'available-for-sale' is taken directly to surplus / deficit on revaluation of securities in the statement of financial position.

Investment in subsidiaries / associates / joint venture

Investments in subsidiaries, associates and joint ventures are recorded at cost less impairment if any.

4.4 Advances

Advances are stated net of provision against non-performing advances. Provision against non-performing advances of Pakistan operations and domestic subsidiaries, including general provision is made in accordance with the requirements of the prudential regulations issued by the SBP. Provision against non-performing advances of overseas branches and subsidiary companies are made as per the requirements of the respective regulatory regimes. Advances are written off when there are no realistic prospects of recovery in accordance with the requirements of the prudential regulations issued by the SBP or the requirements of respective regulatory regimes.

Finance lease receivables

Leases where the Bank transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable is recognized at an amount equal to the present value of the lease payments including any guaranteed residual value. Net investment in finance lease is included in advances to customers.

Ijarah

Assets given on Ijarah, after taking into account the estimated residual value, are stated at cost less accumulated depreciation using straight line method over the life of the asset. Impairment evaluation of loss on sale expected from the unilateral commitment given by the customer to purchase the asset at the expiry of the Ijarah term and the Bank's policy to accept the offer is carried out by comparing the Written Down Value to the Net Present Value of the expected cash flows at the date of statement of financial position. Impairment losses evaluated, are booked in the Profit and Loss Account as and when occurred. The residual value of the Ijarah asset is the estimated amount that Bank could obtain from disposal of assets as defined in para 6 of IAS 16 - Property, plant and equipment. This has been estimated on the basis that all assets given on Ijarah have an economic life of ten years and if the assets were depreciated over this life the written down value at end of Ijarah term would represent the residual value.

These Ijarah are shown under advances and further analysis is provided in annexure V of these unconsolidated financial statements.

4.5 Operating fixed assets and depreciation

4.5.1 Tangible

Fixed assets and capital work-in-progress, are stated at cost, except for land and buildings which are carried at revalued amount less accumulated depreciation, where applicable, and accumulated impairment losses (if any).

Cost of fixed assets of foreign branches include exchange differences arising on translation at year-end rates. 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. Surplus arising on revaluation is credited to the 'surplus on revaluation of fixed assets' account (net of deferred tax). Under the provision of the Companies Ordinance, 1984, deficit arising on revaluation of fixed assets is adjusted against the balance in the above surplus account.

Surplus on revaluation of fixed assets to the extent of the incremental depreciation charged on the related assets is transferred by the Bank to un-appropriated profits (net of deferred tax).

All operating assets are being depreciated over their expected useful lives using the straight-line method from the date the assets are available for use.

Depreciation is calculated so as to write-off the assets over their expected useful lives at the rates specified in note 10.3 to these unconsolidated financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each date of statement of financial position.

Depreciation on addition and deletion of tangible assets during the year is charged in proportion to the period of use.

Normal repairs and maintenance are charged to the profit and loss account as and when incurred. However, renewals are capitalized.

Gains or losses arising on the disposal of fixed assets are included in income currently. Surplus on revaluation of fixed assets (net of deferred tax) realized on disposal and incremental depreciation during the year is transferred directly to un-appropriated profit.

4.5.2 Intangible

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method over their estimated useful lives. Amortization is charged at the rate stated in note 10.2. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful life and amortization method are reviewed and adjusted, if appropriate at each date of statement of financial position. Intangible assets having an indefinite useful life are stated at acquisition cost less impairment, if any.

4.6 Borrowings / deposits

a) Borrowings / deposits are recorded at the proceeds received.

b) The cost of borrowings / deposits is recognized as an expense in the period in which this is incurred.

4.7 Sub-Ordinated Debt

Sub-ordinated debt is initially recorded at the amount of proceeds received. Mark-up accrued on sub-ordinated debt is charged to the profit and loss account.

4.8 Employee benefits

The Bank operates the following schemes for its employees:

i) Approved Pension Fund (Defined benefit scheme)

For those who opted for pension scheme introduced in 1977, the Bank operates a pension scheme to its executives / officers and clerical employees. However, for the executives / officers this benefit is based on the salary and services as at March 31, 2005. The Provident Fund and Gratuity benefit were offered to such executives / officers in respect of the future service after that date. During the year, the Bank has shifted the gross pension calculation basis to the last drawn basic salary at the time of retirement. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

ii) Approved Gratuity Fund (Defined benefit scheme)

For those who did not opt for pension scheme introduced in 1977 and opted for Gratuity scheme instead and for the new employees hired on or after 01.01.2002, the Bank operates approved gratuity scheme. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

iii) Provident Fund (Defined contributory scheme)

Under this scheme, both employees and the Bank contributes to the fund.

iv) Benevolent Fund (Defined contributory scheme)

The Bank operates funded benevolent schemes for its executives / officers and clerical employees. Under this scheme, the employees of the Bank are entitled to receive defined grants / facilities during their service and after retirement. The benevolent fund plan covers all the employees of the Bank. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

v) Post Retirement Medical Benefits

The Bank also provides post retirement medical benefits to its officers/executives and clerical employees retiring before December 31, 2005. The employees under officers and executives cadre are entitled to receive lump sum payments in lieu of post retirement medical facilities as a full and final settlement, effective January 01, 2006 onwards. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

vi) Compensated Absences

The Bank also makes provision in the financial statements for its liabilities towards compensated absences. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

vii) Other Post Retirement Benefits

The scheme offers a maximum of six months' benefits to executives retiring after completing 25 years of service. However in case of death of an executive, the house rent benefit is paid for one year. Liability under the scheme is determined on the basis of actuarial advice using the Projected Unit Credit Method.

Actuarial gain / loss

Actuarial gain / loss arise out of differences between actuarial assumptions and actual experience are recognized immediately in profit and loss.

4.9 Foreign currency**Foreign currency transactions**

Transactions in foreign currencies are translated to Pakistani rupees at the exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of statement of financial position. The fair value of forward cover taken from the SBP for foreign currency deposits is added / deducted from value of foreign currency deposits. Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

Foreign operations

The assets and liabilities of foreign operations are translated to Pakistani rupees at exchange rates prevailing at the date of statement of financial position. The income and expense of foreign operations are translated at average rate of exchange for the year.

Translation gains and losses

Translation gains and losses are included in the profit and loss account, except those arising on the translation of net investment in foreign operations i.e., foreign branches which are taken to equity under "Exchange Translation Reserve" and are recognized in profit or loss account on disposal.

Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the date of statement of financial position.

4.10 Revenue recognition

Advances and investments

Income on advances is recognized on a time proportion basis as per terms of contract. Debt security investments are recognized on a time proportion basis that takes into account effective yield on the asset. Where debt securities are purchased at a premium or discount, those premiums / discounts are amortized through the profit and loss account over the remaining maturity, using the effective yield method.

Interest or mark-up / profit recoverable on classified advances and investments is recognized on receipt basis. Interest / mark-up / profit on rescheduled / restructured advances and investments is recognized as permitted by the regulations of SBP or overseas regulatory authorities of countries where the branches / companies operate, except where in the opinion of the management it would not be prudent to do so.

Dividend income from investments is recognized when the right to receive is established.

Lease financing

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) 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. Repossessed vehicles on account of loan default are recorded in memorandum account.

Unrealized lease income is suspended on classified leases, in accordance with the requirements of the Prudential Regulations of the SBP. Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognized as income on receipt basis.

Murabaha

Murabaha transactions are reflected as receivable at the invoiced amount. However, the profit on that sale revenue not due for payment is deferred by recording a credit to the "Deferred Murabaha Income" account.

Letters of credit and guarantees

Commission on letters of credit and guarantees etc. is recognized on time proportion basis.

Customer Loyalty Programmes

The revenue from award credits for loyalty points earned on use of various products of the Bank is measured by reference to their fair value and is recognised when award credits are redeemed.

Fee, Commission and Brokerage Income

Fee, Commission and Brokerage income is recognized on accrual basis

4.11 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity.

Current

Current taxation is the tax payable on taxable income earned from local as well as foreign operations for the year using tax rates enacted at the date of statement of financial position and, any adjustments to tax payable relating to prior years.

Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences between the amounts attributed to the assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognized on differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

4.12 Impairment

i) Available for sale equity securities

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

ii) Impairment in associates and subsidiaries

The Bank considers that the decline in the recoverable value of the investment in associates and subsidiaries below their cost may be evidence of impairment. Recoverable value is calculated as the higher of fair value less costs to sell and value in use. An impairment loss is recognized when the recoverable amount falls below the carrying value and is charged to the profit and loss account. Subsequent reversal of impairment loss, upto the cost of the investment in associates and subsidiaries, is credited to the profit and loss account.

iii) Impairment in non-financial assets

The carrying amount of the Bank's assets (other than deferred tax asset) are reviewed at each date of statement of financial position to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account except for an impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the revaluation surplus. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

4.13 Provision for guarantee claim

Provision for guarantee claim is recognized when intimated and reasonable certainty exists that the Bank will settle the obligation. Expected recoveries are recognized by debiting customer's account. Charge to profit and loss account is stated net of expected recoveries.

4.14 Other provisions

Other provisions are recognized when the Bank has a legal or constructive obligation as a result of past events and it is probable that 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 date of statement of financial position and are adjusted to reflect the current best estimate.

4.15 Off setting

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

4.16 Financial Assets and Liabilities

Financial instruments carried on the statement of financial position include cash and bank balances, lending to financial institutions, investments, advances, certain receivables, bills payable, borrowings, deposits, sub-ordinated loans and certain other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the relevant policy notes.

4.17 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value using valuation techniques. All the derivative financial instruments are carried as an asset when the fair value is positive and liability when the fair value is negative. Any change in the fair value of derivative financial instruments is taken directly to the profit and loss account.

4.18 Dividend distribution

Declarations of dividend to holders of the equity instruments of the Bank are recognised as liability in the period in which it is approved.

4.19 Earnings per share

The Bank presents basic and diluted earnings per share (EPS). Basic and diluted earnings per share is calculated by dividing profit for the year attributable to equityholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

4.20 Share issuance cost

Share issuance cost directly attributable to issuance of shares, is recognized as deduction from the share premium account.

4.21 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format of reporting is based on business segments.

Business segments

- Retail Banking

Consists of retail lending, deposits and banking services to private individuals and small businesses including credit cards.

- Corporate / Commercial Banking

Consists of lendings for project finance, trade finance, corporate and commercial customers and investment banking, includes advices and placements to corporate mergers and acquisitions, underwriting, privatizations and securitization.

- Treasury

Involves the businesses of proprietary trading, fixed income, equity and foreign exchanges.

- International Banking Group

It represents Bank's operations in 25 countries and is considered a separate segment for monitoring purposes.

- Head Office

This includes balances held at Head Office level for regulatory requirements or other operational reasons and business segments not shown separately. This also includes some non performing loans not managed by other business segments, statutory liquidity and shareholders equity related balances and their associated cost / income.

Geographical segments

The Bank operates in following geographic regions:

- Pakistan
- Asia Pacific (including South Asia)
- Europe
- North America
- Middle East
- Others

| | Note | 2012 (Rupees in '000) | 2011 |
|---|-----------|--------------------------|--------------------|
| 5. CASH AND BALANCES WITH TREASURY BANKS | | | |
| In hand including National Prize Bonds | | | |
| Local currency | | 20,759,209 | 14,734,633 |
| Foreign currency | | <u>3,241,284</u> | <u>2,112,234</u> |
| | | <u>24,000,493</u> | <u>16,846,867</u> |
| With State Bank of Pakistan in | | | |
| Local currency current account | 5.2 | <u>33,564,976</u> | 32,539,366 |
| Foreign currency current account | | 4,996,232 | 3,369,553 |
| Foreign currency deposit account | 5.1 / 5.3 | <u>14,953,636</u> | <u>10,138,523</u> |
| | | <u>53,514,844</u> | 46,047,442 |
| With other Central Banks in | | | |
| Foreign currency current account | 5.1 / 5.4 | <u>45,393,834</u> | 15,163,289 |
| Foreign currency deposit account | | <u>13,723,505</u> | 10,347,857 |
| | | <u>59,117,339</u> | 25,511,146 |
| With National Bank of Pakistan in | | | |
| Local currency current account | | <u>15,691,749</u> | 14,674,621 |
| | | <u>152,324,425</u> | <u>103,080,076</u> |

- 5.1** The above balances include remunerative accounts amounting to Rs. 62,144.813 million (2011: 25,575.353 million).
- 5.2** This represents current accounts maintained for Cash Reserve Requirement of SBP.
- 5.3** This represents deposit accounts maintained for Special Cash Reserve Requirement of SBP and US Dollar Settlement account maintained with the SBP. This carries mark-up at the annual rate of 0% (2011: 0%).
- 5.4** Balances held with the Central Banks of respective countries in accordance with the requirements of the local statutory / regulatory requirements. Since, the Bank operates in different countries, these carry varied mark-up rates as given by the Central Banks of respective countries.

| 6. BALANCES WITH OTHER BANKS | Note | 2012 (Rupees in '000) | 2011 (Rupees in '000) |
|------------------------------|------|--------------------------|--------------------------|
| In Pakistan | | | |
| On current account | | 288,510 | 730,091 |
| On deposit account | | <u>402,282</u> | <u>-</u> |
| | | <u>690,792</u> | <u>730,091</u> |
| Outside Pakistan | 6.1 | | |
| On current account | | <u>5,605,490</u> | 2,394,040 |
| On deposit account | | <u>17,611,252</u> | <u>31,861,678</u> |
| | | <u>23,216,742</u> | <u>34,255,718</u> |
| | | <u>23,907,534</u> | <u>34,985,809</u> |

6.1 This includes remunerative current account balance amounting to Rs. 743.075 million (2011: Rs. 32.866 million). Since, the Bank operates in different countries, these carry varied mark-up rates as given by the external banks of respective countries.

| 7. LENDINGS TO FINANCIAL INSTITUTIONS | Note | 2012 (Rupees in '000) | 2011 (Rupees in '000) |
|--|-------|--------------------------|--------------------------|
| 7.1 In local currency | | | |
| Call money lendings | 7.2.1 | 6,780,000 | 1,450,000 |
| Repurchase agreement lendings (reverse repo) | 7.2 | <u>18,048,255</u> | <u>40,131,029</u> |
| | | <u>24,828,255</u> | <u>41,581,029</u> |

| 7.2 Securities held as collateral against lendings to financial institutions | Note | 2012 | | | 2011 | | |
|--|-------|-------------------|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | | Held by bank | Further given as collateral | Total | Held by bank | Further given as collateral | Total |
| ----- (Rupees in '000) ----- | | | | | | | |
| Market treasury bills | 7.2.1 | 15,763,590 | - | 15,763,590 | 38,058,870 | - | 38,058,870 |
| Pakistan investment bonds | | <u>2,284,665</u> | - | <u>2,284,665</u> | 2,072,159 | - | 2,072,159 |
| | | <u>18,048,255</u> | - | <u>18,048,255</u> | <u>40,131,029</u> | - | <u>40,131,029</u> |

7.2.1 Market value of securities held as collateral against lendings to financial institutions as at December 31, 2012 amounted to Rs. 18,095.918 million (2011: Rs. 40,253.648 million). These carry mark-up rates ranging from 7.0% to 9.75% per annum (2011: 12.15% to 13.10% per annum) and 6.5% to 9.5% per annum (2011: 11.25% to 13.40% per annum) for call money lendings and repurchase agreement lendings respectively.

| 8. INVESTMENTS | Note | 2012 | | | 2011 | | |
|--|------------|--------------|---------------------|-------------|--------------|---------------------|------------------------------|
| | | Held by bank | Given as collateral | Total | Held by bank | Given as collateral | Total |
| | | | | | | | ----- (Rupees in '000) ----- |
| 8.1 Investments by type | | | | | | | |
| Held for Trading securities (HFT) | | | | | | | |
| Federal Government Securities | | | | | | | |
| - Pakistan Investment Bonds | | 2,203,724 | - | 2,203,724 | 395,470 | - | 395,470 |
| - Market Treasury Bills | | 28,676,723 | - | 28,676,723 | 2,870,862 | - | 2,870,862 |
| Fully paid-up ordinary shares | | | | | | | |
| - Listed companies | | 31,195 | - | 31,195 | - | - | - |
| Overseas Government Securities | | 348,908 | - | 348,908 | - | - | - |
| Debentures and Corporate Debt Instruments / Units | | | | | | | |
| - Unlisted securities | | - | - | - | 1,349,186 | - | 1,349,186 |
| | | 31,260,550 | - | 31,260,550 | 4,615,518 | - | 4,615,518 |
| Held-to-maturity securities (HTM) | 8.4 | | | | | | |
| Federal Government Securities | | | | | | | |
| - Pakistan Investment Bonds | 8.8 / 8.10 | 43,217,624 | - | 43,217,624 | 44,077,760 | - | 44,077,760 |
| Debentures and Corporate Debt Instruments / Units | | | | | | | |
| - Listed securities | | 210,064 | - | 210,064 | - | - | - |
| - Unlisted securities | | 4,003,414 | - | 4,003,414 | 4,192,815 | - | 4,192,815 |
| Overseas Government securities | | 12,198,340 | - | 12,198,340 | 8,726,933 | - | 8,726,933 |
| | | 59,629,442 | - | 59,629,442 | 56,997,508 | - | 56,997,508 |
| Available-for-sale Securities (AFS) | | | | | | | |
| Federal Government Securities | | | | | | | |
| - Market Treasury Bills | 8.8 / 8.10 | 405,856,222 | 157,998,809 | 563,855,031 | 265,930,965 | - | 265,930,965 |
| - Pakistan Investment Bonds | | 46,136,502 | - | 46,136,502 | 26,335,105 | - | 26,335,105 |
| - Government of Pakistan Guaranteed Bonds | | 425,000 | - | 425,000 | 425,000 | - | 425,000 |
| - Government of Pakistan Bonds / Sukuk / (US Dollar / Euro) | | 31,599,959 | - | 31,599,959 | 16,095,202 | - | 16,095,202 |
| Overseas Government Securities | | 2,482,359 | - | 2,482,359 | 758,133 | - | 758,133 |
| Fully paid-up ordinary shares | | | | | | | |
| - Listed companies | | 4,229,365 | - | 4,229,365 | 2,505,080 | - | 2,505,080 |
| - Unlisted companies | | 769,510 | - | 769,510 | 761,038 | - | 761,038 |
| Debentures and Corporate Debt Instruments / Units | | | | | | | |
| - Listed securities | | 11,446,544 | - | 11,446,544 | 6,264,741 | - | 6,264,741 |
| - Unlisted securities | | 12,665,068 | - | 12,665,068 | 11,688,877 | - | 11,688,877 |
| NIT Units | | 11,113 | - | 11,113 | 11,113 | - | 11,113 |
| Preference shares | | 100,000 | - | 100,000 | 200,000 | - | 200,000 |
| | | 515,721,642 | 157,998,809 | 673,720,451 | 330,975,254 | - | 330,975,254 |
| Investment in Subsidiary Companies | 8.5 | 5,690,591 | - | 5,690,591 | 5,690,591 | - | 5,690,591 |
| Investment in Associates and Joint Venture | 8.6 | 4,592,905 | - | 4,592,905 | 4,132,079 | - | 4,132,079 |
| Investment at cost | | 616,895,130 | 157,998,809 | 774,893,939 | 402,410,950 | - | 402,410,950 |
| Provision for diminution / impairment in the value of investments including associates | 8.7 | (1,473,880) | - | (1,473,880) | (1,996,585) | - | (1,996,585) |
| Net investment | | 615,421,250 | 157,998,809 | 773,420,059 | 400,414,365 | - | 400,414,365 |
| Surplus / (deficit) on revaluation of held for trading securities | 8.13 | 28,583 | - | 28,583 | (1,451) | - | (1,451) |
| Surplus / (deficit) on revaluation of available for sale securities | 19.2 | 3,736,681 | - | 3,736,681 | (473,445) | - | (473,445) |
| Total investments at market value | | 619,186,514 | 157,998,809 | 777,185,323 | 399,939,469 | - | 399,939,469 |

8.2 Investments by segments

| | Note | 2012 (Rupees in '000) | 2011 (Rupees in '000) |
|--|------|---------------------------|---------------------------|
| Federal Government Securities | | | |
| - Market treasury bills | | 592,531,754 | 268,801,827 |
| - Pakistan investment bonds | | 91,557,850 | 70,808,336 |
| - Government of Pakistan guaranteed bonds | | 425,000 | 425,000 |
| - Government of Pakistan bonds / Sukuk / (US Dollar / Euro) | | 31,599,959 | 16,095,202 |
| Overseas Government Securities | | 15,029,607 | 9,485,066 |
| Fully paid-up Ordinary Shares | | | |
| - Listed companies | | 4,260,560 | 2,505,080 |
| - Unlisted companies | | 769,510 | 761,038 |
| Debentures and Corporate Debt Instruments / Units | | | |
| - Listed securities | | 11,656,608 | 6,264,741 |
| - Unlisted securities | 8.3 | 16,668,482 | 17,230,877 |
| NIT units | | 11,113 | 11,113 |
| Preference shares | | 100,000 | 200,000 |
| Investment in subsidiary companies | 8.5 | 5,690,591 | 5,690,591 |
| Investment in associates and joint venture company | 8.6 | 4,592,905 | 4,132,079 |
| | | <u>774,893,939</u> | <u>402,410,950</u> |
| Provision for diminution / impairment in the value of investments including associates | 8.7 | <u>(1,473,880)</u> | <u>(1,996,585)</u> |
| Net investment | | <u>773,420,059</u> | <u>400,414,365</u> |
| Surplus / (deficit) on revaluation of held for trading securities | 8.13 | 28,583 | (1,451) |
| Surplus / (deficit) on revaluation of available for sale securities | 19.2 | 3,736,681 | (473,445) |
| | | <u><u>777,185,323</u></u> | <u><u>399,939,469</u></u> |

8.3 This includes investment in the Variable Rate Subordinated Loan Notes issued by Habib Allied International Bank Plc, UK (Subsidiary) amounting to Rs. 5,148.804 million (US \$ 53 million) (2011: Rs. 3,868.065)(US \$ 43 million) . These notes are perpetual and are repayable either at the option of the Bank or five years after receipt of repayment notice from the note holder. The Financial Services Authority (FSA) approval is required prior to repayment. Interest is payable on a six monthly basis at 6 month LIBOR + 5.5% to 5.75%.

8.4 The market value of investment classified as held-to-maturity (HTM) and investment in listed associates and joint venture is as follows:

| | December 31, 2012 | | December 31, 2011 | |
|---|-----------------------------|--------------|-------------------|--------------|
| | Book value | Market value | Book value | Market value |
| | ------(Rupees in '000)----- | | | |
| - Investment classified as held-to-maturity | 59,611,817 | 61,533,198 | 56,997,508 | 56,040,383 |
| - Investment in listed associates and joint venture | 3,556,674 | 9,972,507 | 3,095,848 | 4,857,766 |

8.5 Investment in subsidiaries

| | 2012 (Rupees in '000) | 2011 (Rupees in '000) |
|---|--------------------------|--------------------------|
| Habib Allied International Bank Plc - Holding 90.5% (2011: 90.5%) | 2,139,834 | 2,139,834 |
| Habib Finance International Limited, Hong Kong - wholly owned | 686,488 | 686,488 |
| Habib Bank Financial Services (Private) Limited - wholly owned | 32,500 | 32,500 |
| HBL Currency Exchange (Private) Limited - wholly owned | 400,000 | 400,000 |
| HBL Asset Management Limited - wholly owned | 100,000 | 100,000 |
| HBL Income Fund 56.19% (2011: 58.71%) - listed | 739,586 | 739,586 |
| HBL Multi Asset Fund 89.96% (2011: 93.21%) - listed | 248,181 | 248,181 |
| HBL Stock Fund 81.08% (2011: 82.47%) - listed | 1,344,002 | 1,344,002 |
| | <u>5,690,591</u> | <u>5,690,591</u> |

| 8.6 Investment in associates and joint venture company | Note | 2012 (Rupees in '000) | 2011 |
|---|---------|--------------------------|-----------|
| Himalayan Bank Limited, Nepal - Holding 20% (2011: 20%) - Listed | | 7,197 | 7,197 |
| Diamond Trust Bank Limited, Kenya - Holding 11.68% (2011: 11.21%) - Listed | | 1,555,452 | 1,234,431 |
| Kyrgyz Investment and Credit Bank, Kyrgyz Republic - Holding 18% (2011: 18%) - Unlisted | | 256,231 | 256,231 |
| Jubilee General Insurance Company Limited - Holding 16.24% (2011: 14.27%) - Listed | | 1,525,621 | 1,385,816 |
| Jubilee Life Insurance Company Limited - Holding 17.95% (2011: 17.95%) - Listed | | 468,404 | 468,404 |
| HBL Money Market Fund - Holding 1.51% (2011: 1.55%) - Listed | | 100,000 | 100,000 |
| HBL Islamic Money Market Fund - Holding 73.14% (2011: 64.08%) - Listed | | 250,000 | 250,000 |
| HBL Islamic Stock Fund - Holding 97.65% (2011: 96.14%) - Listed | | 250,000 | 250,000 |
| HBL Pension Equity Sub Fund - Holding 92.53% (2011: 99.28%) - Unlisted | | 30,000 | 30,000 |
| HBL Pension Debt Sub Fund - Holding 44.5% (2011: 96.34%) - Unlisted | 8.6.1.1 | 30,000 | 30,000 |
| HBL Pension Money Market Sub Fund - Holding 39.55% (2011: 97.26%) - Unlisted | | 30,000 | 30,000 |
| HBL Islamic Pension Equity Sub Fund - Holding 83.44% (2011: 99.93%) - Unlisted | | 30,000 | 30,000 |
| HBL Islamic Pension Debt Sub Fund - Holding 65.25% (2011: 99.93%) - Unlisted | | 30,000 | 30,000 |
| HBL Islamic Pension Money Market Sub Fund - Holding 61.47% (2011: 99.97%) - Unlisted | | 30,000 | 30,000 |
| | | 4,592,905 | 4,132,079 |

8.6.1 The Bank has significant influence in Diamond Trust Bank Limited, Kyrgyz Investment and Credit Bank, Jubilee General Insurance Company Limited and Jubilee Life Insurance Company Limited because of Aga Khan Fund for Economic Development's (parent of Bank) holding in these entities.

8.6.1.1 The Bank has subscribed for units of these funds. Currently, the holding of the Bank is high due to initial investments which are expected to go down with sale of units. Accordingly, these investments have been accounted for as investment in associates under IAS 28.

8.6.2 The investments have been tested for impairment under the policy of the Bank as given in note 4.12 and provision has been made where required and disclosed in note 8.7.

8.6.3 Summary of financial information of associates and joint venture company

| | 2012 | | | | | |
|---|---|-------------|-------------|------------|------------|-----------|
| | Based on the financial statements as on | Assets | Liabilities | Equity | Revenue | Profit |
| | ------(Rupees in '000)----- | | | | | |
| Diamond Trust Bank Limited, Kenya | September 30, 2012 | 146,682,771 | 126,868,021 | 19,814,750 | 13,721,613 | 3,225,369 |
| Himalayan Bank Limited, Nepal | October 16, 2012 | 62,117,775 | 56,421,320 | 5,696,454 | 1,168,732 | 220,475 |
| Kyrgyz Investment and Credit Bank | December 31, 2011 | 16,408,390 | 12,777,420 | 3,630,970 | 1,438,107 | 558,965 |
| Jubilee Life Insurance Co. Ltd. | September 30, 2012 | 21,001,275 | 19,408,222 | 1,593,053 | 107,922 | 360,791 |
| Jubilee General Insurance Co. Ltd. | September 30, 2012 | 10,860,248 | 7,030,003 | 3,830,245 | 2,828,804 | 583,993 |
| HBL Money Market Fund | December 31, 2012 | 8,835,789 | 52,299 | 8,783,490 | 1,042,378 | 913,188 |
| HBL Islamic Stock Fund | December 31, 2012 | 375,442 | 8,925 | 366,517 | 81,347 | 67,853 |
| HBL Islamic Money Market Fund | December 31, 2012 | 414,391 | 3,305 | 411,086 | 44,249 | 35,567 |
| HBL Pension Equity Sub Fund | December 31, 2012 | 46,635 | 310 | 46,325 | 4,265 | 3,429 |
| HBL Pension Debt Sub Fund | December 31, 2012 | 74,793 | 414 | 74,379 | 5,976 | 5,768 |
| HBL Pension Money Market Sub Fund | December 31, 2012 | 83,241 | 320 | 82,921 | 5,801 | 5,831 |
| HBL Islamic Pension Equity Sub Fund | December 31, 2012 | 52,476 | 408 | 52,068 | 5,745 | 4,915 |
| HBL Islamic Pension Debt Sub Fund | December 31, 2012 | 50,515 | 334 | 50,181 | 4,245 | 3,773 |
| HBL Islamic Pension Money Market Sub Fund | December 31, 2012 | 53,328 | 233 | 53,095 | 4,144 | 3,856 |

2011

| Based on the financial statements as on | 2011 | | | | | |
|---|-----------------------------|-------------|-------------|------------|-----------|-----------|
| | Assets | Liabilities | Equity | Revenue | Profit | |
| | ------(Rupees in '000)----- | | | | | |
| Diamond Trust Bank Limited, Kenya | September 30, 2011 | 113,703,197 | 100,574,944 | 13,128,253 | 6,621,275 | 2,150,182 |
| Himalayan Bank Limited, Nepal | October 16, 2011 | 55,744,110 | 50,972,421 | 4,771,689 | 1,323,860 | 192,760 |
| Kyrgyz Investment and Credit Bank | December 31, 2010 | 10,701,739 | 8,523,794 | 2,177,945 | 959,402 | 158,962 |
| Jubilee Life Insurance Company Limited | September 30, 2011 | 14,455,998 | 13,182,256 | 1,273,742 | 350,947 | 217,937 |
| Jubilee General Insurance Company Limited | September 30, 2011 | 9,387,618 | 6,114,093 | 3,273,525 | 2,068,685 | 527,845 |
| HBL Money Market Fund | December 31, 2011 | 7,772,880 | 28,290 | 7,744,590 | 753,741 | 677,416 |
| HBL Islamic Stock Fund | December 31, 2011 | 280,280 | 6,635 | 273,645 | 21,119 | 11,588 |
| HBL Islamic Money Market Fund | December 31, 2011 | 427,923 | 2,388 | 425,535 | 31,038 | 26,486 |
| HBL Pension Equity Sub Fund | December 31, 2011 | 30,055 | 124 | 29,931 | 199 | 106 |
| HBL Pension Debt Sub Fund | December 31, 2011 | 31,443 | 126 | 31,317 | 272 | 177 |
| HBL Pension Money Market Sub Fund | December 31, 2011 | 31,146 | 126 | 31,020 | 271 | 176 |
| HBL Islamic Pension Equity Sub Fund | December 31, 2011 | 29,744 | 125 | 29,619 | 255 | 162 |
| HBL Islamic Pension Debt Sub Fund | December 31, 2011 | 30,347 | 126 | 30,221 | 294 | 200 |
| HBL Islamic Pension Money Market Sub Fund | December 31, 2011 | 30,335 | 126 | 30,209 | 293 | 199 |

8.6.3.1 The Bank has made further investment in the following associates during the year, consequently, shareholding has increased to:

| | December 31, 2012 | December 31, 2011 |
|---|-----------------------|-------------------|
| | Shareholding % | |
| Jubilee General Insurance Company Limited, Pakistan | 16.24% | 14.27% |
| Diamond Trust Bank Limited, Kenya | 11.68% | 11.21% |

8.7 Particulars of provision held against diminution in value of investments Note

The balances disclosed in note 8.1 are stated net of specific provision held.

The analysis of total provision held is as follows:

| | 2012 | 2011 |
|--|------------------------|------------------|
| | (Rupees in '000) | |
| Opening balance | 1,996,585 | 3,870,384 |
| Charge for the year | - | 139,767 |
| Reversal | (189,908) | - |
| Impairment charge on listed securities | 129,770 | 736,859 |
| Impairment reversal on listed securities | (337,567) | - |
| Total (reversal) / charge - net | (397,705) | 876,626 |
| Write offs | (125,000) | (2,755,439) |
| Exchange adjustment | - | 5,014 |
| Closing balance | 8.7.1 <u>1,473,880</u> | <u>1,996,585</u> |

8.7.1 Particulars of provision in respect of type and segment

Held to Maturity securities (HTM)

| | | |
|---|--------|--------|
| - Debentures and Corporate Debt Instruments | 17,623 | 41,136 |
|---|--------|--------|

Available-for-sale Securities (AFS)

| | | |
|---|---------|---------|
| - Fully paid-up ordinary shares | | |
| - Listed companies | 358,556 | 533,549 |
| - Unlisted companies | 57,982 | 51,240 |
| - Debentures and Corporate Debt Instruments | 295,374 | 440,772 |
| - Preference shares | - | 100,000 |
| - Units | 171,084 | 256,627 |

Associates

| | | |
|--|------------------|------------------|
| | 573,261 | 573,261 |
| | <u>1,473,880</u> | <u>1,996,585</u> |

- 8.8** Investments held for maintaining the liquidity requirements of the SBP amounted to Rs. 151.245 million as at December 31, 2012 (2011: Rs. 111.394 million).
- 8.9** Investments include Rs. 543.114 million as at December 31, 2012 (2011: Rs. 519.958 million) pledged with SBP and National Bank of Pakistan against TT/DD discounting facilities and demand loan facilities.
- 8.10** Investments include Rs. 9.992 million as at December 31, 2012 (2011: Rs. 9.567 million) pledged with the Controller of Military Accounts in lieu of Regimental Fund Accounts being maintained at various branches of the Bank.
- 8.11** Investments include strategic investments amounting to Rs. 6,669.633 million as at December 31, 2012 (2011: Rs. 6,208.819 million) under BPD circular letter No. 16 of 2006 dated August 1, 2006.
- 8.12** Information relating to investments including credit ratings in shares of listed and unlisted companies, redeemable capital and bonds, required to be disclosed as part of the financial statements by the SBP, is given in Annexure "I" and is an integral part of these financial statements.

| | Note | 2012 (Rupees in '000) | 2011 |
|--|-------|--------------------------|--------------------|
| 8.13 Unrealized gain / (loss) on revaluation of held for trading securities | | | |
| Market Treasury Bills | | 16,298 | 1,503 |
| Pakistan Investment Bonds | | 11,699 | (2,954) |
| Shares | | (1,447) | - |
| Overseas Government Securities | | 2,033 | - |
| | | <u>28,583</u> | <u>(1,451)</u> |
| 9. ADVANCES | | | |
| Loans, cash credits, running finances, etc. | | | |
| In Pakistan | | 385,628,553 | 361,151,387 |
| Outside Pakistan | | 67,238,996 | 60,225,576 |
| | | <u>452,867,549</u> | <u>421,376,963</u> |
| Net investment in finance lease - in Pakistan | 9.1.3 | 4,591,123 | 3,715,662 |
| Bills discounted and purchased (excluding Government treasury bills): | | | |
| Payable in Pakistan | | 12,122,572 | 10,420,082 |
| Payable outside Pakistan | | 32,180,550 | 24,451,110 |
| | | 44,303,122 | 34,871,192 |
| Provision against non-performing advances | 9.4 | (41,691,160) | (43,702,428) |
| | | <u>460,070,634</u> | <u>416,261,389</u> |
| Fully provided non-performing advances classified as loss for more than five years | | | |
| In Pakistan | | 18,622,245 | 13,640,851 |
| Provision | 9.6 | (18,622,245) | (13,640,851) |
| | | <u>-</u> | <u>-</u> |
| 9.1 Particulars of advances | | | |
| 9.1.1 In local currency | | 365,643,551 | 333,739,450 |
| In foreign currency including foreign currency financing by domestic branches amounting to Rs. 19,631.886 million (2011: Rs. 20,045.548 million) | | 94,427,083 | 82,521,939 |
| | | <u>460,070,634</u> | <u>416,261,389</u> |
| 9.1.2 Short term (for upto one year) | | 315,849,032 | 218,566,908 |
| Long term (for over one year) | | 144,221,602 | 197,694,481 |
| | | <u>460,070,634</u> | <u>416,261,389</u> |

9.1.3 Net investment in finance lease

| | 2012 | | | | 2011 | | | |
|-----------------------------------|------------------------------|---|----------------------|-------------|-------------------------|---|----------------------|-------------|
| | Not later than one year | Later than one and less than five years | More than five years | Total | Not later than one year | Later than one and less than five years | More than five years | Total |
| | ----- (Rupees in '000) ----- | | | | | | | |
| Lease rentals receivable | 22,966 | 4,926,753 | 1,083,631 | 6,033,350 | 27,212 | 3,833,610 | 1,059,103 | 4,919,925 |
| Residual value | 31 | 6,605 | 1,452 | 8,088 | 215 | 30,006 | 8,392 | 38,613 |
| Gross investment in finance lease | 22,997 | 4,933,358 | 1,085,083 | 6,041,438 | 27,427 | 3,863,616 | 1,067,495 | 4,958,538 |
| Unearned finance income | (1,474) | (1,132,010) | (316,831) | (1,450,315) | (1,991) | (927,568) | (313,317) | (1,242,876) |
| Net investment in finance lease | 21,523 | 3,801,348 | 768,252 | 4,591,123 | 25,436 | 2,936,048 | 754,178 | 3,715,662 |

9.2 Advances include Rs. 50,667.052 million (2011: Rs. 51,313.511 million) which have been placed under non-performing status, other than those accounts classified as loss and fully provided for more than five years which have been placed in separate category as referred to in note 9.6 as detailed below:

| Category of classification | Note | 2012 | | | | | | | | |
|-----------------------------------|-------|------------------------------|------------|------------|-----------------------------|-----------|------------|-----------------------------|-----------|------------|
| | | Non-performing advances | | | Provision required and held | | | Net non-performing advances | | |
| | | Domestic | Overseas | Total | Domestic | Overseas | Total | Domestic | Overseas | Total |
| | | ----- (Rupees in '000) ----- | | | | | | | | |
| Specific provision | | | | | | | | | | |
| Other assets especially mentioned | | 610,771 | - | 610,771 | - | - | - | 610,771 | - | 610,771 |
| Substandard | | 5,609,462 | 1,063,854 | 6,673,316 | 1,360,027 | 198,284 | 1,558,311 | 4,249,435 | 865,570 | 5,115,005 |
| Doubtful | | 4,315,131 | 1,867,471 | 6,182,602 | 2,102,214 | 791,318 | 2,893,532 | 2,212,917 | 1,076,153 | 3,289,070 |
| Loss | | 30,083,005 | 7,117,358 | 37,200,363 | 28,156,285 | 6,997,177 | 35,153,462 | 1,926,720 | 120,181 | 2,046,901 |
| | | 40,618,369 | 10,048,683 | 50,667,052 | 31,618,526 | 7,986,779 | 39,605,305 | 8,999,843 | 2,061,904 | 11,061,747 |
| General provision | 9.2.2 | - | - | - | 1,532,092 | 553,763 | 2,085,855 | - | - | - |
| | | 40,618,369 | 10,048,683 | 50,667,052 | 33,150,618 | 8,540,542 | 41,691,160 | 8,999,843 | 2,061,904 | 11,061,747 |

| Category of classification | 2011 | | | | | | | | |
|-----------------------------------|------------------------------|------------|------------|-----------------------------|-----------|------------|-----------------------------|-----------|-----------|
| | Non-performing advances | | | Provision required and held | | | Net non-performing advances | | |
| | Domestic | Overseas | Total | Domestic | Overseas | Total | Domestic | Overseas | Total |
| | ----- (Rupees in '000) ----- | | | | | | | | |
| Specific provision | | | | | | | | | |
| Other assets especially mentioned | 1,112,720 | - | 1,112,720 | - | - | - | 1,112,720 | - | 1,112,720 |
| Substandard | 5,362,602 | 331,675 | 5,694,277 | 1,265,232 | 58,503 | 1,323,735 | 4,097,370 | 273,172 | 4,370,542 |
| Doubtful | 3,963,781 | 2,289,098 | 6,252,879 | 1,981,890 | 1,705,549 | 3,687,439 | 1,981,891 | 583,549 | 2,565,440 |
| Loss | 30,557,708 | 7,695,926 | 38,253,634 | 29,834,144 | 7,273,500 | 37,107,644 | 723,564 | 422,426 | 1,145,990 |
| | 40,996,811 | 10,316,699 | 51,313,510 | 33,081,266 | 9,037,552 | 42,118,818 | 7,915,545 | 1,279,147 | 9,194,692 |
| General provision | - | - | - | 1,277,090 | 306,520 | 1,583,610 | - | - | - |
| | 40,996,811 | 10,316,699 | 51,313,510 | 34,358,356 | 9,344,072 | 43,702,428 | 7,915,545 | 1,279,147 | 9,194,692 |

9.2.1 Classification of overseas non-performing advances and provision there against and general provisioning of overseas have been made in accordance with the accounting policy as referred in note 4.4.

9.2.2 This includes general provision for agri loans amounting to Rs. 775 million which has been maintained by the Bank on prudent basis as the Bank is in process of analyzing the impact of flood effected portfolio on account by account level.

9.3 The Bank monitors non-performing advances classified as loss for more than five years and fully provided as a separate category as shown in note 9.6. This category is not included in note 9.2 and in analytical break-up of other notes.

9.4 Particulars of provision against non-performing advances

| | Note | 2012 | | | 2011 | | |
|---|------|-------------------|------------------|-------------------|-------------------|------------------|-------------------|
| | | Specific | General | Total | Specific | General | Total |
| ----- (Rupees in '000) ----- | | | | | | | |
| Opening balance | | 42,118,818 | 1,583,610 | 43,702,428 | 37,038,350 | 1,380,868 | 38,419,218 |
| Exchange adjustment / other movement | | 60,798 | 36,773 | 97,571 | 746,210 | 8,679 | 754,889 |
| Charge for the year | | 6,863,545 | 489,473 | 7,353,018 | 7,461,210 | 208,320 | 7,669,530 |
| Reversals | | (787,681) | (24,001) | (811,682) | (401,036) | (14,257) | (415,293) |
| Net charge against non-performing loans | | 6,075,864 | 465,472 | 6,541,336 | 7,060,174 | 194,063 | 7,254,237 |
| Write offs | 9.7 | (2,656,791) | - | (2,656,791) | (753,595) | - | (753,595) |
| Transferred to over 5 years category | 9.6 | (5,993,384) | - | (5,993,384) | (1,972,321) | - | (1,972,321) |
| Closing balance | | <u>39,605,305</u> | <u>2,085,855</u> | <u>41,691,160</u> | <u>42,118,818</u> | <u>1,583,610</u> | <u>43,702,428</u> |
| n local currency | | 31,618,526 | 1,532,092 | 33,150,618 | 33,081,266 | 1,277,090 | 34,358,356 |
| n foreign currency | | 7,986,779 | 553,763 | 8,540,542 | 9,037,552 | 306,520 | 9,344,072 |
| | | <u>39,605,305</u> | <u>2,085,855</u> | <u>41,691,160</u> | <u>42,118,818</u> | <u>1,583,610</u> | <u>43,702,428</u> |

9.5 Forced sale value (FSV) against non-performing advances

In accordance with BSD Circular No. 2 dated January 27, 2009 and BSD Circular No.10 dated October 20, 2009 issued by the SBP, the Bank has availed the benefit of FSV against the non-performing advances (excluding consumer housing finance portfolio). Had this benefit of FSV not been taken by the Bank, the specific provision against non-performing advances as at December 31, 2012 would have been higher by Rs. 1,707.585 million and profit before taxation for the year ended December 31, 2012 would have been lower by approximately Rs 1,019.859 million (after taking into account the effect of discounting of FSV taken in previous year). Increase in retained earnings net of tax amounting to Rs. 1,109.930 million would not be available for the distribution of cash and stock dividend to share holders.

| | Note | 2012 | 2011 |
|--|------|-------------------|-------------------|
| (Rupees in '000) | | | |
| 9.6 Particulars of provision against fully provided non-performing advances classified as loss for more than five years | | | |
| Opening balance | | 13,640,851 | 12,527,683 |
| Transferred to interest suspense | | (18,617) | - |
| Reversal | | (922,822) | (816,117) |
| Transferred during the year | 9.4 | 5,993,384 | 1,972,321 |
| Write offs | 9.7 | (70,551) | (43,036) |
| | | <u>18,622,245</u> | <u>13,640,851</u> |
| 9.7 Particulars of write-offs | | | |
| 9.7.1 Against provisions | | <u>2,727,342</u> | <u>796,631</u> |
| 9.7.2 Analysis of write-offs | | | |
| Rs. 500,000 and above in Pakistan (Note 9.8) | | 115,275 | 53,038 |
| Below Rs. 500, 000 in Pakistan and overseas | | 2,612,067 | 743,593 |
| | | <u>2,727,342</u> | <u>796,631</u> |

9.8 Details of advances write-off of Rs 500,000 and above

The statement required under sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 in respect of written-off advances or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2012 is given in Annexure II.

9.9 Particulars of advances to directors, associated companies, etc

| | 2012 | | | 2011 | | |
|---|---------------------|---|----------------------------------|---------------------|---|----------------------------------|
| | Balance outstanding | Maximum total amount of advances including temporary advances outstanding** | Limit sanctioned during the year | Balance outstanding | Maximum total amount of advances including temporary advances outstanding** | Limit sanctioned during the year |
| ----- (Rupees in '000) ----- | | | | | | |
| Debts due by directors or executives of the Bank or any of them either severally or jointly with any other persons | | | | | | |
| - in respect of directors | - | - | - | - | - | - |
| - in respect of executives *(other than key management personnel) | 1,516,400 | 1,549,100 | 443,704 | 1,231,700 | 1,265,700 | 476,312 |
| - in respect of key management personnel / companies in which key management personnel are interested | 371,200 | 382,000 | 64,257 | 383,208 | 392,308 | 46,450 |
| 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 | 571,668 | 1,063,827 | 100,000 | 1,060,273 | 1,088,593 | 391,500 |
| Debts due by Subsidiary company | 33,969 | 56,384 | - | 70,858 | 102,324 | - |

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

* These represent staff advances given by the Bank to its executives as per their terms of employment

** Maximum amount has been arrived at by reference to month end balance

10. OPERATING FIXED ASSETS

| | Note | 2012 (Rupees in '000) | 2011 |
|--------------------------|------|--------------------------|-------------------|
| Capital work-in-progress | 10.1 | 1,713,276 | 803,132 |
| Intangible assets | 10.2 | 240,030 | 126,445 |
| Tangible fixed assets | 10.3 | 19,231,795 | 16,177,686 |
| | | <u>21,185,101</u> | <u>17,107,263</u> |

10.1 Capital work-in-progress

| | | |
|-------------|------------------|----------------|
| Civil works | 948,078 | 586,317 |
| Others | 765,198 | 216,815 |
| | <u>1,713,276</u> | <u>803,132</u> |

10.2 Intangible assets

| Description | 2012 | | | | | | Rate of Amortisation % |
|-------------------|-----------------------|-------------------------|-----------------------|---|-------------------------|-------------------------|------------------------|
| | COST | | AMORTISATION | | Book value | | |
| | As at January 1, 2012 | As at December 31, 2012 | As at January 1, 2012 | Charge for the year (Amortisation on deletions) | As at December 31, 2012 | As at December 31, 2012 | |
| | | | Rupees in '000 | | | | |
| Computer Software | 1,550,696 | 1,742,135 | 1,424,251 | 78,344 (490) | 1,502,105 | 240,030 | 33.33 |
| | | | Rupees in '000 | | | | |
| Description | 2011 | | | | | | Rate of Amortisation % |
| | COST | | AMORTISATION | | Book value | | |
| | As at January 1, 2011 | As at December 31, 2011 | As at January 1, 2011 | Charge for the year (Amortisation on deletions) | As at December 31, 2011 | As at December 31, 2011 | |
| | | | Rupees in '000 | | | | |
| Computer Software | 1,418,523 | 1,33,475 (1,302) | 1,382,316 | 43,237 (1,302) | 1,424,251 | 126,445 | 33.33 |

10.3 Tangible fixed assets

| Description | COST / REVALUATION | | | DEPRECIATION | | | Rate of depreciation % | | | |
|------------------------|----------------------------|---|---|-------------------------|-----------------------|---|------------------------|---|------------|-------|
| | As at January 1, 2012 | Additions/ (deletions)/ adjustments during the year | Surplus/ (deficit) on revaluation during the year | As at December 31, 2012 | As at January 1, 2012 | Charge for the year/ (depreciation on deletions)/ adjustments during the year | | Surplus/ (deficit) on revaluation during the year | | |
| | ----- Rupees in '000 ----- | | | | | | | | | |
| Land | 9,388,643 | 559,767 (156,864) (1,526) | 1,168,572 | 10,958,592 | - | - | - | 10,958,592 | - | |
| Building | 4,995,869 | 582,132 (4,943) 99,417 | (250,767) | 5,421,708 | 638,658 | 135,278 (184) 35,578 | (348,917) | 460,413 | 4,961,295 | 1.67 |
| Machinery | 610,109 | 46,637 (15,275) | (93,781) | 547,690 | 463,527 | 124,900 (15,275) | (546,948) | 26,204 | 521,486 | 10 |
| Leasehold improvements | 2,238,641 | 344,867 (4,107) | - | 2,579,401 | 1,434,870 | 346,848 (2,358) | - | 1,779,360 | 800,041 | 20 |
| Furniture and fixtures | 6,870,729 | 1,202,409 (276,877) 134,325 | - | 7,930,586 | 5,525,017 | 698,544 (274,340) 111,861 | - | 6,061,082 | 1,869,504 | 20-33 |
| Vehicles | 390,163 | 28,080 (33,839) 6,971 | - | 391,375 | 254,396 | 42,278 (31,146) 4,970 | - | 270,498 | 120,877 | 10 |
| | 24,494,154 | 2,763,892 (491,905) 239,187 | 824,024 | 27,829,352 | 8,316,468 | 1,347,848 (323,303) 152,409 | (895,865) | 8,597,557 | 19,231,795 | |



| Description | 2011 | | | | 2012 | | | | Rate of depreciation % | |
|------------------------|-----------------------|---|---|-------------------------|-----------------------|---|---|-------------------------|------------------------------------|-------|
| | COST / REVALUATION | | DEPRECIATION | | COST / REVALUATION | | DEPRECIATION | | | |
| | As at January 1, 2011 | Additions/ (deletions)/ adjustments during the year | Surplus/ (deficit) on revaluation during the year | As at December 31, 2011 | As at January 1, 2011 | Charge for the year/ (depreciation on deletions)/ adjustments | Surplus/ (deficit) on revaluation during the year | As at December 31, 2011 | Book value as at December 31, 2011 | |
| | Rupees in '000 | | | | | | | | | |
| Land | 8,468,476 | 1,059,068 (139,860) 959 | - | 9,388,643 | - | - | - | - | 9,388,643 | - |
| Building | 4,692,701 | 296,114 (9,026) 16,080 | - | 4,995,869 | 477,885 | 154,630 (516) 6,659 | - | 638,658 | 4,357,211 | 2.5 |
| Machinery | 571,484 | 38,625 | - | 610,109 | 274,991 | 188,536 | - | 463,527 | 146,582 | 10 |
| Leasehold improvements | 2,006,689 | 231,952 | - | 2,238,641 | 1,102,465 | 332,405 | - | 1,434,870 | 803,771 | 20 |
| Furniture and fixtures | 6,588,555 | 648,919 (388,121) 21,376 | - | 6,870,729 | 5,258,962 | 625,039 (379,611) 20,627 | - | 5,525,017 | 1,345,712 | 20-33 |
| Vehicles | 394,874 | 33,448 (37,714) (445) | - | 390,163 | 234,321 | 57,384 (36,788) (521) | - | 254,396 | 135,767 | 20 |
| | 22,722,779 | 2,308,126 (574,721) 37,970 | - | 24,494,154 | 7,348,624 | 1,357,994 (416,915) 26,765 | - | 8,316,468 | 16,177,686 | |

10.4 With effect from July 01, 2012, estimated useful life of building and vehicles has been revised from 40 years to 60 years and 5 years to 10 years respectively to make it more reflective of consumption pattern of these assets. The effect of these changes on depreciation expense in current and next year as follows:

| | December 31, 2012 | December 31, 2013 |
|----------------------------------|-------------------|-------------------|
| | Building | Vehicle |
| | Rupees in '000 | |
| Decrease in Depreciation expense | 24,647 | 36,352 |
| | 17,500 | 29,039 |

- 10.5** Habib Bank Limited's (HBL) domestic properties were revalued by independent professional valuers as on June 30, 2012. These properties were revalued by Iqbal A. Nanjee & Co., professional valuers on the basis of market value. The revaluation has resulted in increasing the surplus on revaluation of fixed assets by Rs. 1,695.912 million. HBL property of Lebanon branch was revalued as on November 23, 2012 by Banking Control Commission of Lebanon resulted in a surplus of Rs. 15.721 million. HBL property of KEPZ branch was revalued on July 27, 2012 by J & M Associates, licensed valuer, on market value basis resulted in a surplus of Rs. 8.255 million. These revaluations have resulted in a cumulative surplus of Rs. 1,719.888 million. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

| | Domestic | Lebanon | KEPZ |
|-----------|------------------------------|---------|-------|
| | ----- (Rupees in '000) ----- | | |
| Land | 9,446,155 | - | 232 |
| Building | 4,081,358 | 17,843 | 2,177 |
| Machinery | 70,588 | - | - |

The movement in surplus on revaluation of properties is given in note 19.1 to these unconsolidated financial statements.

10.6 Details of disposal of fixed assets

The information relating to disposal of fixed assets in aggregate having book value exceeding Rs. 250,000 or cost exceeding Rs. 1 million (whichever is lower), are required to be disclosed as part of the financial statements by the SBP is given in Annexure III and is an integral part of these financial statements.

- 10.7** At December 31, 2012 carrying value of properties and equipment retired from active service and held for disposal purposes amounted to Rs. 3.824 million (2011: Rs. 142.998 million). The cost / valuation of fully depreciated properties and equipment that are still in the Bank's use, as at the above date, amounted to Rs. 5,116.025 million (2011: Rs. 4,450.289 million).

| 11. DEFERRED TAX ASSET | Note | 2012 (Rupees in '000) | 2011 |
|--|------|--------------------------|------------------|
| <i>Deductible temporary differences on</i> | | | |
| - provision against investments | | 292,295 | 384,490 |
| - provision against doubtful debts & Off-balance sheet | | 6,396,134 | 6,144,996 |
| - liabilities written back under sec. 34(5) of the ITO | | 1,329,866 | 972,499 |
| - provision against others | | 117,016 | 117,316 |
| - revaluation of investments | 19.2 | (1,307,803) | 165,505 |
| | | 6,827,508 | 7,784,806 |
| <i>Taxable temporary differences on</i> | | | |
| - fixed assets | | (1,084,044) | (827,516) |
| Net deferred tax asset recognised by the Bank | | <u>5,743,464</u> | <u>6,957,290</u> |

11.1 Movement in temporary differences during the year

| | Balance as at January 1, 2011 | Recognised in profit or loss | Recognised in equity | Balance as at December 31, 2011 | Recognised in profit or loss | Recognised in equity | Balance as at December 31, 2012 |
|--|-------------------------------------|------------------------------------|-------------------------|---------------------------------------|------------------------------------|-------------------------|---------------------------------------|
| ----- (Rupees in '000) ----- | | | | | | | |
| Deductible temporary differences on | | | | | | | |
| - provision against investments | 1,068,345 | (683,855) | - | 384,490 | (92,195) | - | 292,295 |
| - provision against doubtful debts & Off-balance sheet | 6,957,566 | (812,570) | - | 6,144,996 | 251,138 | - | 6,396,134 |
| - liabilities written back under sec. 34(5) of the ITO | 200,970 | (83,654) | - | 972,499 | 357,367 | - | 1,329,866 |
| - provision against others | 1,035,295 | (62,796) | - | 117,316 | (300) | - | 117,016 |
| - on revaluation of investments | 462,828 | - | (297,323) | 165,505 | - | (1,473,308) | (1,307,803) |
| Taxable temporary differences on | | | | | | | |
| - fixed assets | (889,678) | 62,162 | - | (827,516) | (64,442) | (192,086) | (1,084,044) |
| | <u>8,835,326</u> | <u>(1,580,713)</u> | <u>(297,323)</u> | <u>6,957,290</u> | <u>451,568</u> | <u>(1,665,394)</u> | <u>5,743,464</u> |

12. OTHER ASSETS

| | Note | 2012 (Rupees in '000) | 2011 (Rupees in '000) |
|---|------|--------------------------|--------------------------|
| Income / mark-up / profit accrued in local currency | | 13,916,480 | 14,721,391 |
| Income / mark-up / profit accrued in foreign currency | | 1,024,173 | 808,174 |
| Advances, deposits, advance rent and other prepayments | | 1,796,426 | 963,633 |
| Advances against murabaha | | 366,226 | 196,894 |
| Advance taxation (payments less provisions) | | 10,572,213 | 10,418,187 |
| Receivable from defined benefit plans | | - | 63,080 |
| Stationery and stamps on hand | | 42,467 | 41,637 |
| Accrued income | | 371,021 | 161,954 |
| Due from Government of Pakistan / SBP | | 2,547,755 | 1,622,525 |
| Unrealised gain on forward foreign exchange contract/ derivative instruments | | 587,819 | 1,154,950 |
| Non-banking assets acquired in satisfaction of claims [market value Rs. 3,093.330 million (2011: Rs. 2,008.437 million)] | | 2,573,070 | 2,239,003 |
| Receivable from National Saving Centre / Clearing in transit | | 18,890,141 | 11,300,092 |
| Claim against fraud and forgeries | | 202,973 | 73,743 |
| Others | | <u>235,027</u> | <u>460,546</u> |
| | | 53,125,791 | 44,225,809 |
| Provision held against other assets | 12.1 | (530,362) | (284,486) |
| Other Assets - net | | <u>52,595,429</u> | <u>43,941,323</u> |

12.1 Provision against other assets

| | | |
|-------------------------|----------------|----------------|
| Opening balance | 284,486 | 421,742 |
| Charge for the year | 281,768 | 51,406 |
| Reversal | (3,920) | (163,279) |
| Net charge / (reversal) | 277,848 | (111,873) |
| Write off | (36,946) | (29,501) |
| Exchange adjustment | 4,974 | 4,118 |
| Closing balance | <u>530,362</u> | <u>284,486</u> |

13. BILLS PAYABLE

| | | |
|------------------|-------------------|-------------------|
| In Pakistan | 18,363,545 | 13,087,411 |
| Outside Pakistan | 515,107 | 807,091 |
| | <u>18,878,652</u> | <u>13,894,502</u> |

14. BORROWINGS

Note 2012 2011
(Rupees in '000)

| | | |
|------------------|--------------------|-------------------|
| In Pakistan | 182,420,105 | 27,761,453 |
| Outside Pakistan | 9,688,492 | 5,953,451 |
| | <u>192,108,597</u> | <u>33,714,904</u> |

14.1 Particulars of borrowings

| | | |
|---------------------|--------------------|-------------------|
| In local currency | 182,420,105 | 27,761,453 |
| In foreign currency | 9,688,492 | 5,953,451 |
| | <u>192,108,597</u> | <u>33,714,904</u> |

14.2 Details of borrowings

Secured

Borrowings from State Bank of Pakistan under:

| | | | |
|--|------|------------|------------|
| - Export refinance scheme | 14.3 | 16,845,030 | 18,182,197 |
| - Long term financing facility - locally manufactured and imported plant & machinery | | 5,074,278 | 4,204,722 |
| - Long term finance - export oriented projects | | 974,062 | 1,774,534 |
| - Refinance facility for modernization of SMEs | | 12,649 | - |
| - Financing facility for Storage of Agricultural Produce | | 15,277 | - |

| | | | |
|---------------------------------|------|--------------------|-------------------|
| Repurchase agreement borrowings | 14.4 | 157,998,809 | - |
| | | <u>180,920,105</u> | <u>24,161,453</u> |

Unsecured

In Pakistan

| | | | |
|----------------------------------|------|-----------|-----------|
| - Interbank call money borrowing | 14.5 | 1,500,000 | 3,600,000 |
|----------------------------------|------|-----------|-----------|

Outside Pakistan

| | | | |
|-----------------------------------|------|--------------------|-------------------|
| - Overdrawn nostro accounts | 14.6 | 1,186,682 | 708,353 |
| - Borrowings of overseas branches | | 8,501,810 | 5,245,098 |
| | | 9,688,492 | 5,953,451 |
| | | <u>11,188,492</u> | <u>9,553,451</u> |
| | | <u>192,108,597</u> | <u>33,714,904</u> |

14.3 Borrowings from SBP under the export and export oriented projects refinance schemes of SBP are secured by the Bank's cash and security balances held by SBP. These carry annual mark-up rates ranging from 7.2% to 9.8% (2011: 9.7% to 11%).

14.4 These carry annual mark-up rates ranging from 8.8% to 9.2%.

14.5 These carry annual mark-up rates ranging from 8.0% to 9.0% (2011: 9.7% to 13.05%).

14.6 Since, the Bank operates in different countries, these carry varied mark-up rates as given by the external banks of respective countries.

15. DEPOSITS AND OTHER ACCOUNTS

2012 2011
(Rupees in '000)

Customers

| | | |
|-------------------------------------|----------------------|--------------------|
| Current accounts - non-remunerative | 281,887,233 | 222,815,278 |
| Current accounts - remunerative | 1,446,233 | 1,694,058 |
| Savings chequing account | 485,129,429 | 388,468,078 |
| Fixed deposits | 354,430,663 | 245,987,658 |
| | <u>1,122,893,558</u> | <u>858,965,072</u> |

Financial institutions

| | | |
|-------------------------------------|----------------------|--------------------|
| Current accounts - non-remunerative | 4,086,107 | 5,052,260 |
| Savings chequing account | 4,490,688 | 2,815,116 |
| Fixed deposits | 9,694,622 | 8,476,149 |
| | <u>18,271,417</u> | <u>16,343,525</u> |
| | <u>1,141,164,975</u> | <u>875,308,597</u> |



15.1 Particulars of deposits

| | 2012 | 2011 |
|---|----------------------|--------------------|
| | (Rupees in '000) | |
| In local currency | 939,452,816 | 720,626,687 |
| In foreign currencies {including foreign currency deposits of domestic branches of Rs.101,599.466 million (2011: Rs. 70,334.543 million)} | 201,712,159 | 154,681,910 |
| | <u>1,141,164,975</u> | <u>875,308,597</u> |

16. SUB-ORDINATED LOAN

The Bank has obtained loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million (2011: US \$ 50 million) equivalent to Rs. 4,857.485 million (2011: Rs. 4,497.285 million). The principal amount is repayable in four equal half yearly installments commencing from June 2013 to December 2014. Interest is payable on bi - annual basis commencing from December 2007 at LIBOR + 1.75%. The loan is unsecured and subordinated as to payment of principal and interest to all other indebtedness of the Bank (including deposits). The loan may not be prepaid or repaid before maturity without the prior written approval of the SBP. The Bank is not exposed to significant exchange risk as the loan forms part of the Bank's foreign currency net open position.

| | Note | 2012 | 2011 |
|--|--------|-------------------|-------------------|
| | | (Rupees in '000) | |
| 17. OTHER LIABILITIES | | | |
| Mark-up / return / profit payable in local currency | | 18,127,380 | 15,140,777 |
| Mark-up / return / profit payable in foreign currency | | 832,323 | 577,420 |
| Security deposits | | 395,762 | 277,710 |
| Accrued expenses | | 5,163,175 | 6,621,833 |
| Unrealised loss on forward foreign exchange contracts / derivative instruments | | 380,774 | 870,377 |
| Unclaimed dividends | | 109,756 | 45,545 |
| Dividend payable | | 21,194 | 51,605 |
| Provision for employees' compensated absences | 33.2.8 | 1,355,387 | 1,720,577 |
| Provision for post retirement medical benefits | 33.2.3 | 2,235,674 | 2,399,600 |
| Provision against off-balance sheet obligations | 17.1 | 1,083,490 | 1,152,456 |
| Branch adjustment account | | 1,936,719 | 1,663,072 |
| Provision for staff retirement benefits | | 666,909 | 611,156 |
| Payable to defined benefit plan | | 1,089,600 | 44,863 |
| Provision for workers welfare fund | | 1,850,951 | 1,165,078 |
| Unearned income | | 172,871 | 126,342 |
| Qarza-e-Hasna Fund | | 344,585 | 346,913 |
| Duties and taxes payable | | 1,020,963 | 785,654 |
| Insurance payable | | 146,565 | 106,361 |
| Reward points payable | | 57,946 | 40,352 |
| Liability against trading of securities | | - | 266,772 |
| Payable to HBL foundation | | 557,189 | 355,079 |
| Others | | 672,591 | 614,228 |
| | | <u>38,221,804</u> | <u>34,983,770</u> |

17.1 Provision against off-balance sheet obligations

| | | |
|--------------------------|------------------|------------------|
| Opening balance | 1,152,456 | 1,215,804 |
| Charge for the year | 133,485 | - |
| Reversal | (126,470) | (68,525) |
| Net charge / (reversal) | 7,015 | (68,525) |
| Write off | - | (8,186) |
| Other movement | (93,071) | - |
| Exchange adjustment | 17,090 | 13,363 |
| Closing balance | <u>1,083,490</u> | <u>1,152,456</u> |

18. SHARE CAPITAL

18.1 Authorised Capital

| 2012 | 2011 | | 2012 | 2011 |
|--------------------------|------------------|--------------------------------|-------------------|-------------------|
| Number of shares in '000 | | | (Rupees in '000) | |
| <u>3,000,000</u> | <u>1,380,000</u> | Ordinary shares of Rs. 10 each | <u>30,000,000</u> | <u>13,800,000</u> |

18.2 Issued, subscribed and paid-up capital

| 2012 | 2011 | | | |
|--------------------------|------------------|--------------------------------|-------------------|-------------------|
| Number of shares in '000 | | | | |
| | | Ordinary shares of Rs. 10 each | | |
| 690,000 | 690,000 | Fully paid in cash | 6,900,000 | 6,900,000 |
| <u>522,275</u> | <u>412,068</u> | Issued as bonus shares | <u>5,222,748</u> | <u>4,120,680</u> |
| <u>1,212,275</u> | <u>1,102,068</u> | | <u>12,122,748</u> | <u>11,020,680</u> |

18.3 Exchange translation reserve

This comprises all foreign currency differences arising from the translation of financial statements of foreign operations.

18.4 Statutory reserves

Every banking company incorporated in Pakistan is required to transfer 20% of their profits to a statutory reserve until the reserve equals share capital, thereafter 10% of the profits of the holding company are to be transferred to this reserve.

18.5 Dividends

2012
2011
(Rupees in '000)

The following cash dividends and bonus shares were declared and paid / issued by the Bank:

| | | |
|---|------------------|------------------|
| Cash dividend: Rs. 7 per share (2011: Rs. 6.5 per share) | <u>7,714,476</u> | <u>6,512,220</u> |
| Bonus share: 1 shares for every 10 shares held (2011: 1 share for every 10 shares held) | <u>1,102,068</u> | <u>1,001,880</u> |
| Half year interim cash dividend: Rs. 3.5 per share | <u>4,242,962</u> | |

After December 31, 2012 the following dividends were proposed by the Directors for 2012. The dividends have not been accounted for and, there are no income tax consequences.

| | |
|---|------------------|
| Cash dividend: Rs. 4 per share | <u>4,849,099</u> |
| Bonus share: 1 share for every 10 shares held | <u>1,212,275</u> |

19. SURPLUS ON REVALUATION OF ASSETS - net of deferred tax

Note

2012
2011
(Rupees in '000)

| | | | |
|------------------------------------|------|-------------------|------------------|
| Surplus arising on revaluation of: | | | |
| - fixed assets | 19.1 | 9,590,967 | 8,309,508 |
| - investments | 19.2 | 2,428,878 | (307,940) |
| | | <u>12,019,845</u> | <u>8,001,568</u> |

19.1 Surplus on revaluation of fixed assets

| | 2012 (Rupees in '000) | 2011 |
|--|--------------------------|------------------|
| Surplus on revaluation of fixed assets as at January 1 | 9,093,164 | 9,420,908 |
| Surplus on revaluation of bank's properties recognised during the year | 1,719,888 | - |
| Surplus realised on disposal of revalued properties during the year - net of deferred tax | (155,285) | (139,331) |
| Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax | (90,185) | (120,882) |
| Related deferred tax liability of incremental depreciation charged during the year | (48,577) | (65,090) |
| Related deferred tax liability on disposal of revalued properties | (873) | (2,441) |
| Surplus on revaluation of fixed assets as at December 31 | <u>10,518,132</u> | <u>9,093,164</u> |
| Less: related deferred tax liability on: | | |
| - revaluation as at January 1 | 783,656 | 851,187 |
| - revaluation of bank's properties recognized during the year | 192,959 | - |
| - surplus realised on disposal of revalued properties during the year | (873) | (2,441) |
| - incremental depreciation charged during the year transferred to profit and loss account | (48,577) | (65,090) |
| | <u>927,165</u> | <u>783,656</u> |
| | <u>9,590,967</u> | <u>8,309,508</u> |

19.2 Surplus / (deficit) on revaluation of investments

| | | |
|---|------------------|------------------|
| Market Treasury Bills | 1,863,369 | 611,825 |
| Pakistan Investment Bonds | 1,490,249 | (197,281) |
| Government of Pakistan Sukuk and US Dollar / Euro Bonds | (95,595) | (834,680) |
| Listed Securities | 212,728 | (143,341) |
| NIT Units | 11,283 | 6,359 |
| Other Investments | 254,647 | 83,673 |
| | <u>3,736,681</u> | <u>(473,445)</u> |
| Related deferred tax (liability) / asset | (1,307,803) | 165,505 |
| | <u>2,428,878</u> | <u>(307,940)</u> |

20. CONTINGENCIES AND COMMITMENTS**20.1 Direct credit substitutes - financial guarantees**

| | | |
|--------------------------|-------------------|-------------------|
| Guarantees in favour of: | | |
| - Government | 306,856 | 354,078 |
| - Financial institutions | 295,000 | 318,596 |
| - Others | 35,371,437 | 22,307,830 |
| | <u>35,973,293</u> | <u>22,980,504</u> |

20.2 Transaction-related contingent liabilities

| | | |
|--------------------------|-------------------|-------------------|
| Guarantees in favour of: | | |
| - Government | 535,006 | 1,604,813 |
| - Financial institutions | 3,610,133 | 636,292 |
| - Others | 39,724,102 | 31,814,519 |
| | <u>43,869,241</u> | <u>34,055,624</u> |

20.3 Trade-related commitments

| | | |
|--------------------------------|--------------------|--------------------|
| Credit cash | 75,837,119 | 70,202,498 |
| Credit documentary acceptances | 18,535,338 | 21,899,930 |
| Credit acceptances | 34,790,322 | 23,115,049 |
| | <u>129,162,779</u> | <u>115,217,477</u> |

20.4 Other contingencies

| | | |
|---|-------------------|-------------------|
| Claims against the Bank not acknowledged as debts | <u>33,445,873</u> | <u>84,516,467</u> |
|---|-------------------|-------------------|

20.5 Commitments in respect of forward lending

The bank makes commitments to extend credit in the normal course of its business but none of these commitments are irrevocable and do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

| | 2012 | 2011 |
|--|------------------|-------------|
| | (Rupees in '000) | |
| 20.6 Commitments in respect of forward foreign and local exchange contracts | | |
| Purchase | 161,434,192 | 130,739,964 |
| Sale | 161,344,507 | 130,737,821 |

The above commitments have maturities falling within one year.

Commitments in respect of foreign currency options

| | | |
|----------|-----------|---------|
| Purchase | 1,317,948 | 336,655 |
| Sale | 1,317,948 | 336,655 |

Commitments in respect of Cross Currency Swaps

| | | |
|----------|-----------|-----------|
| Purchase | 3,659,009 | 2,868,771 |
| Sale | 3,659,009 | 2,868,771 |

Commitments in respect of foreign and local currency interest rate swaps

| | | |
|----------|---------|---------|
| Purchase | 444,199 | 482,551 |
| Sale | 291,449 | 329,801 |

| | | |
|---|---------|---------|
| 20.7 Commitments for acquisition of operating fixed assets / intangibles | 663,125 | 512,471 |
|---|---------|---------|

20.8 HBL has entered into contract with Citi Bank N.A, Pakistan to acquire its consumer portfolio with expected transaction value of Rs. 2 billion. The transaction has been approved by the Competition Commission of Pakistan, however approval from SBP is awaited.

20.9 The income tax returns of the Bank have been submitted upto and including the Bank's financial year 2011. The tax authorities have concluded the audit of years 2002 through 2011.

While amending the assessment under section 122(5A) of the Income Tax Ordinance, 2001 for the tax year 2006, the tax authorities have disallowed double income tax relief relating to Azad Jammu & Kashmir (AJK) branches. The exposure of the Bank on this issue at the period end is Rs. 2,923 million.

Management's view is that the settlement reached, after deliberations by the technical committee formed by the Prime Minister and Chairman AJ&K Council, relates to the long outstanding issue of basis of computation of income in AJK. The foreign tax credit claimed by the Bank is in accordance with accounting practice and the law.

Appeal against this issue is pending at appellate stage; however, the management is confident that the eventual outcome of this issue will be in the favour of the Bank.

With reference to allowability of provision as per rule 8(A) of the seventh schedule, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognized deferred tax asset on such provision amounting to Rs. 2.542 billion.

21. DERIVATIVE INSTRUMENTS

Derivatives are a type of financial contract, the value of which is determined by reference to one or more underlying assets or indices. The major categories of such contracts include forwards, futures, swaps and options. Derivatives also include structured financial products that have one or more characteristics of forwards, futures, swaps and options.

The Bank as an Authorized Derivative Dealer (ADD) is an active participant in the Pakistan derivatives market. Although the ADD license covers only the transactions mentioned below (permitted under the Financial Derivatives Business Regulations issued by the SBP), the Bank offers a wide variety of derivatives products to satisfy customers' needs, specific approval for which is sought from the SBP on a transaction by transaction basis:

- (a) Foreign Currency Options
- (b) Forward Rate Agreements
- (c) Interest Rate Swaps
- (d) Cross Currency Swaps

These transactions cover the aspects of both market making and hedging.

The authority for approving policies lies with the Board of Directors (BoD) and the Board Risk Management Committee (BRMC). The Market Risk Committee (MRC) has been assigned the responsibility of ensuring meticulous compliance with these policies.

With regard to derivatives, the MRC is authorized to:

- Review the derivatives business with reference to market risk exposure and assign various limits in accordance with the risk appetite of the Bank.
- Review the Derivatives Business Policy and recommend approval to the BRMC / BoD.
- Review and approve derivatives product programs.
- Authorize changes in procedures and processes regarding derivatives and structured products.

Overall responsibility for derivatives trading activity lies with the Treasury and Capital Markets Group (TCM). Measurement & monitoring of market and credit risk exposure and limits and its reporting to the senior management and the BoD is done by Market & Treasury Risk (MTR), which also coordinates with the business regarding approvals for derivatives risk limits. Treasury Operations records derivatives activity in the Bank's books, and handles its reporting to the SBP.

21.1. Product Analysis

| Counterparties | 2012 | | | | | |
|--------------------------------|---------------------|--------------------------------------|------------------|--------------------------------------|----------------------|--------------------------------------|
| | Interest Rate Swaps | | FX Options | | Cross Currency Swaps | |
| | No. of Contracts | Notional Principal* (Rupees in '000) | No. of Contracts | Notional Principal* (Rupees in '000) | No. of Contracts | Notional Principal* (Rupees in '000) |
| With Banks for | | | | | | |
| Hedging | - | - | - | - | - | - |
| Market Making | 1 | 291,449 | 49 | 1,317,948 | 4 | 3,659,009 |
| With other entities for | | | | | | |
| Hedging | - | - | - | - | - | - |
| Market Making | 2 | 444,199 | 49 | 1,317,948 | 4 | 3,659,009 |
| Total | | | | | | |
| Hedging | - | - | - | - | - | - |
| Market Making | 3 | 735,648 | 98 | 2,635,896 | 8 | 7,318,018 |

| Counterparties | 2011 | | | | | |
|--------------------------------|---------------------|--------------------------------------|------------------|---------------------------------------|----------------------|---------------------------------------|
| | Interest Rate Swaps | | FX Options | | Cross Currency Swaps | |
| | No. of Contracts | Notional Principal* (Rupees in '000) | No. of Contracts | Notional Principal * (Rupees in '000) | No. of Contracts | Notional Principal * (Rupees in '000) |
| With Banks for | | | | | | |
| Hedging | - | - | - | - | - | - |
| Market Making | 1 | 329,801 | 8 | 336,655 | 3 | 2,868,771 |
| With other entities for | | | | | | |
| Hedging | - | - | - | - | - | - |
| Market Making | 2 | 482,551 | 8 | 336,655 | 3 | 2,868,771 |
| Total | | | | | | |
| Hedging | - | - | - | - | - | - |
| Market Making | 3 | 812,352 | 16 | 673,310 | 6 | 5,737,542 |

* At the exchange rate prevailing at the end of the reporting year.

21.2. Maturity Analysis

| Remaining Maturity | 2012 | | | | |
|------------------------------|------------------|--------------------|-----------------|---------------|--------------|
| | No. of Contracts | Notional Principal | Mark to Market | | |
| | | | Negative | Positive | Net |
| ----- (Rupees in '000) ----- | | | | | |
| Upto 1 Month | 2 | 40,932 | (56) | 56 | - |
| 1 to 3 Months | 34 | 1,890,874 | (14,858) | 15,076 | 218 |
| 3 Months to 6 Months | 67 | 2,536,207 | (19,786) | 18,299 | (1,487) |
| 6 Months to 1 Years | 2 | 4,481,268 | (297) | 1,794 | 1,497 |
| 1 to 2 Years | 2 | 1,157,383 | (2,862) | 5,737 | 2,875 |
| 3 to 5 Years | 2 | 582,898 | (14,935) | 15,442 | 507 |
| | <u>109</u> | <u>10,689,562</u> | <u>(52,794)</u> | <u>56,404</u> | <u>3,610</u> |
| Remaining Maturity | 2011 | | | | |
| | No. of Contracts | Notional Principal | Mark to Market | | |
| | | | Negative | Positive | Net |
| ----- (Rupees in '000) ----- | | | | | |
| Upto 1 Month | 2 | 63,239 | (679) | 679 | - |
| 1 to 3 Months | 12 | 559,649 | (2,753) | 2,753 | - |
| 3 Months to 6 Months | 2 | 50,422 | (202) | 202 | - |
| 1 to 2 Years | 7 | 5,890,293 | (29,420) | 37,271 | 7,851 |
| 3 to 5 Years | 2 | 659,602 | (15,309) | 15,999 | 690 |
| | <u>25</u> | <u>7,223,205</u> | <u>(48,363)</u> | <u>56,904</u> | <u>8,541</u> |

| 22. MARK-UP / RETURN / PROFIT EARNED | 2012 | 2011 |
|---|--------------------|-------------------|
| | (Rupees in '000) | |
| <i>On loans and advances to</i> | | |
| - Customers | 50,990,895 | 53,948,102 |
| - Financial institutions | 314,565 | 335,189 |
| <i>On investments</i> | | |
| - Available for sale | 52,802,827 | 36,450,895 |
| - Held for Trading | 1,452,756 | 522,999 |
| - Held to maturity | 5,648,183 | 1,555,366 |
| On deposits with financial institutions | 1,112,044 | 706,163 |
| On lendings to financial institutions | 2,078,520 | 2,928,656 |
| | <u>114,399,790</u> | <u>96,447,370</u> |
| | | |
| 23. MARK-UP / RETURN / PROFIT EXPENSED | | |
| Deposits | 50,671,594 | 37,528,486 |
| Securities sold under repurchase agreement borrowings | 4,903,995 | 789,508 |
| Other short term borrowings | 2,330,984 | 2,709,435 |
| Long term borrowings | 417,595 | 535,858 |
| | <u>58,324,168</u> | <u>41,563,287</u> |
| | | |
| 24. GAIN ON SALE OF SECURITIES –NET | | |
| <i>Federal Government Securities</i> | | |
| - Market treasury bills | 585,362 | 300,689 |
| - Pakistan investment bonds | 115,490 | (91,109) |
| - Other securities | 122,830 | 2,015 |
| Listed shares | 137,559 | 214,079 |
| | <u>961,241</u> | <u>425,674</u> |
| | | |
| 25. OTHER INCOME | | |
| Incidental charges | 2,149,866 | 2,078,525 |
| Rent on lockers | 339,294 | 334,714 |
| (Loss) / gain on sale of operating fixed assets - net | (29,144) | 7,746 |
| Gain on sale of non-banking asset | 47,707 | - |
| Rent on property | 104,354 | 100,052 |
| Bad debts recovered | 32,277 | 34,472 |
| Miscellaneous earnings | 127,268 | 176,644 |
| | <u>2,771,622</u> | <u>2,732,153</u> |

26. ADMINISTRATIVE EXPENSES

| | Note | 2012 (Rupees in '000) | 2011 |
|---|------|--------------------------|-------------------|
| Salaries, allowances, etc. | | 15,035,670 | 14,062,091 |
| Charge for defined benefit / contribution plan and other benefits | | 1,333,512 | 1,586,161 |
| Non-executive directors' fees | | 19,800 | 13,700 |
| Brokerage and commission | | 40,435 | 20,872 |
| Rent, taxes, insurance, electricity, etc. | | 2,991,928 | 2,601,691 |
| Legal and professional charges | | 919,941 | 1,599,031 |
| Communications | | 646,091 | 552,710 |
| Repairs and maintenance | | 1,323,579 | 1,142,460 |
| Stationery and printing | | 610,493 | 516,629 |
| Auditors' remuneration | 26.1 | 88,075 | 69,940 |
| Advertisement and publicity | | 1,144,546 | 995,642 |
| Amortization | 10.2 | 78,344 | 43,237 |
| Depreciation | 10.3 | 1,347,848 | 1,357,994 |
| Entertainment | | 145,048 | 116,014 |
| Travelling | | 390,201 | 333,095 |
| Conveyance | | 125,905 | 107,837 |
| Training | | 202,532 | 126,449 |
| Security charges | | 872,574 | 761,933 |
| Remittance charges | | 132,051 | 164,623 |
| Donations | 26.3 | 254,886 | 253,028 |
| Documentation and processing charges | | 524,288 | 409,788 |
| Others | | 402,224 | 240,080 |
| | | <u>28,629,971</u> | <u>27,075,005</u> |

26.1 Auditors' remuneration

| | | | |
|---|--|---------------|---------------|
| Audit fee | | 3,959 | 3,682 |
| Fee for interim review | | 3,600 | 3,350 |
| Fee for audit of local branches of the Bank | | 9,209 | 8,159 |
| Special certifications / examinations and sundry advisory services | | 1,791 | 1,652 |
| Out of pocket expenses | | 2,938 | 3,202 |
| | | <u>21,497</u> | <u>20,045</u> |
| Overseas branches | | 66,578 | 49,895 |
| | | <u>88,075</u> | <u>69,940</u> |

26.2 The Bank operates a short term employee benefit scheme which includes cash award / special bonus for all employees. Under this scheme, the bonus for all Executives, including the Chief Executive Officer is determined on the basis of employees' evaluation and the Bank's performance during the year. The aggregate amount determined for the eligible employees in respect of the above scheme relating to all Executives and for the Key Management Personnel of the Bank amounted to Rs.1,173.519 million (2011: Rs. 601.053 million) and Rs. 933.804 million (2011: Rs. 418.043 million) respectively.

26.3 Details of the donations in excess of Rs. 100,000 and above are given in Annexure IV.

26.4 Benazir Employees' Stock Option Scheme

On August 14, 2009, the Government of Pakistan (GoP) launched Benazir Employees' Stock Option Scheme ["the Scheme"] for employees of certain State Owned Enterprises (SOEs) and non-State Owned Enterprises.

The Scheme, needs to be accounted for by the covered entities, including the Bank, under the provision of amended International Financial Reporting Standard 2 - Share Based Payments (IFRS 2). However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the SECP has granted exemption to such entities from the application of IFRS 2 to the Scheme.

Had the exemption not been granted the staff costs of the Bank for the period would have been higher by Rs. 1,502 million, profit before taxation would have been lower by Rs. 1,502 million (earnings per share would have been lower by Rs. 1.24 per share) and, as the Scheme is fully funded by GoP, there would have been no impact on retained earnings / equity of the Bank.



| 27. OTHER CHARGES | 2012 (Rupees in '000) | 2011 |
|---|--------------------------|---------------|
| Penalties imposed by State Bank of Pakistan | <u>18,285</u> | <u>77,588</u> |

28. WORKERS WELFARE FUND

The Worker's Welfare Ordinance, 1971 has been amended vide Finance Act, 2008 by virtue of which the Bank is now liable to pay WWF @ 2% of profit before tax as per accounts or declared income as per income tax return, whichever is higher.

| 29. TAXATION | 2012 (Rupees in '000) | 2011 |
|-----------------------------|--------------------------|-------------------|
| For Pakistan - for the year | 11,011,992 | 9,256,457 |
| current | (451,568) | 991,585 |
| deferred | | |
| For Pakistan - prior year | 422,246 | (412,996) |
| current | - | 589,128 |
| deferred | | |
| For Overseas - for the year | 1,079,236 | 865,571 |
| current | - | - |
| deferred | | |
| | <u>12,061,906</u> | <u>11,289,745</u> |

For the purpose of taxation overseas include the Bank's branches in Azad Jammu & Kashmir region.

29.1 Relationship between tax expense and accounting profit

| | | |
|--|-------------------|-------------------|
| Accounting profit for the current year | <u>33,626,071</u> | <u>32,031,561</u> |
| Tax on income @ 35% (2011: 35%) | 11,769,125 | 11,211,046 |
| - Reduced rate income | (135,865) | 464,540 |
| - Penalty imposed by SBP | 6,400 | 27,155 |
| - Prior year charge | 422,246 | (412,996) |
| Tax charge for the current year | <u>12,061,906</u> | <u>11,289,745</u> |

30. BASIC AND DILUTED EARNINGS PER SHARE

| | | |
|--|----------------------|----------------------|
| Profit for the year attributable to equity holders of the Bank | <u>20,851,454</u> | <u>20,741,816</u> |
| | (Number) | |
| Weighted average number of ordinary shares | <u>1,212,274,800</u> | <u>1,212,274,800</u> |
| | (Rupees) | |
| Basic and diluted earnings per share | <u>17.20</u> | <u>17.11</u> |

31. CASH AND CASH EQUIVALENTS

| | Note | 2012 (Rupees in '000) | 2011 |
|--------------------------------------|------|--------------------------|--------------------|
| Cash and balance with treasury banks | 5 | 152,024,425 | 103,080,076 |
| Balance with other banks | 6 | 24,205,252 | 34,985,809 |
| | | <u>176,229,677</u> | <u>138,065,885</u> |

32. STAFF STRENGTH

| | | (Number) | |
|----------------------|--|---------------|---------------|
| Permanent | | 13,799 | 13,476 |
| Others | | 18 | 19 |
| Total staff strength | | <u>13,817</u> | <u>13,495</u> |

33. DEFINED BENEFIT PLANS AND OTHER BENEFITS

33.1 Principal actuarial assumptions

The latest actuarial valuation for pension and gratuity schemes was carried out as at December 31, 2012 using the Projected Unit Credit Actuarial Cost method and assuming that no indexation of pension will take place. The following significant assumptions were used for the valuation of these schemes:

| | 2012 | 2011 |
|---|---------------------|------|
| | -----Per annum----- | |
| Valuation discount rate | 12% | 13% |
| Expected rate of increase in salary level | 11% | 11% |
| Expected rate of return on funds invested | 12% | 13% |

33.2 Pension, gratuity and benevolent fund schemes

33.2.1 Fair value of plan assets and present value of defined benefits obligations of these schemes as at December 31, 2012 are as follows:

| | Pension | | Gratuity | | Benevolent | | Post-employment medical benefits | |
|---|------------------------------|---------------|-----------------|-----------------|----------------|---------------|----------------------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | | | |
| Fair value of plan assets | 5,030,128 | 4,014,786 | 204,657 | 329,342 | 1,587,950 | 1,478,094 | - | - |
| Present value of defined benefit obligation | (6,132,451) | (3,951,706) | (302,753) | (374,205) | (1,175,073) | (1,469,644) | (2,182,363) | (2,455,614) |
| (Deficit) / surplus | (1,102,323) | 63,080 | (98,096) | (44,863) | 412,877 | 8,450 | (2,182,363) | (2,455,614) |
| Unrecognized past service cost | 110,969 | - | (150) | - | (51,044) | 87,294 | (53,311) | 56,014 |
| Asset / (provision) recognized in the balance sheet | <u>(991,354)</u> | <u>63,080</u> | <u>(98,246)</u> | <u>(44,863)</u> | <u>361,833</u> | <u>95,744</u> | <u>(2,235,674)</u> | <u>(2,399,600)</u> |

33.2.1.1 The surplus on benevolent fund has not been accounted for as this is a contributory scheme with contribution both from the employees and the Bank.

33.2.2 The following amounts have been charged / (credited) to the profit and loss account in respect of the above-referred schemes:

| | Pension | | Gratuity | | Benevolent | | Post-employment medical benefits | |
|------------------------------------|------------------------------|------------------|---------------|----------------|------------------|-----------------|----------------------------------|----------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | | | |
| Current service cost | 35,236 | 40,660 | 11,315 | 10,984 | 19,529 | 18,915 | 27,756 | 21,460 |
| Mark-up cost | 572,317 | 472,479 | 40,197 | 44,436 | 160,808 | 176,042 | 303,459 | 281,158 |
| Expected return on plan assets | (566,390) | (456,547) | (34,365) | (38,153) | (191,317) | (166,562) | - | - |
| Actuarial loss / (gain) recognized | 906,897 | (242,228) | 41,687 | (20,730) | 59,010 | (112,051) | 173,538 | 71,705 |
| Past service cost | (93,626) | - | (5,451) | - | (237,790) | 26,459 | (426,049) | 25,953 |
| Contributions - employees | - | - | - | - | (38,164) | - | - | - |
| Charge / (reversal) for the year | <u>854,434</u> | <u>(185,636)</u> | <u>53,383</u> | <u>(3,463)</u> | <u>(227,924)</u> | <u>(57,197)</u> | <u>78,704</u> | <u>400,276</u> |

Charge for the year is included in administrative expenses (note 26 to the financial statements) under 'Charge for defined benefit plans and other benefits' account head. A sensitivity analysis to estimate the impact of increase in

33.2.3 Movement in amounts (receivable from) / payable to defined benefit plans

| | Pension | | Gratuity | | Benevolent | | Post-employment medical benefits | |
|--------------------------------|------------------------------|-----------------|---------------|---------------|------------------|-----------------|----------------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | | | |
| Opening balance | (63,080) | 122,556 | 44,863 | 48,326 | (95,744) | (14,273) | 2,399,600 | 2,162,309 |
| Charge / (credit) for the year | 854,434 | (185,636) | 53,383 | (3,463) | (227,924) | (57,197) | 78,704 | 400,276 |
| Contributions during the year | (1,100,000) | - | - | - | (38,164) | (24,274) | - | - |
| Benefits payable | 1,300,000 | - | - | - | - | - | (242,630) | (162,985) |
| Closing balance | <u>991,354</u> | <u>(63,080)</u> | <u>98,246</u> | <u>44,863</u> | <u>(361,832)</u> | <u>(95,744)</u> | <u>2,235,674</u> | <u>2,399,600</u> |

33.2.4 The significant portion of the assets comprises of debt securities.

33.2.5 Movement of present value of defined benefit obligation

| | Pension | | Gratuity | | Benevolent | | Post-employment medical benefits | |
|-------------------------|------------------------------|--------------------|------------------|------------------|--------------------|--------------------|----------------------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | | | |
| Opening balance | (3,951,706) | (3,752,486) | (374,205) | (363,236) | (1,469,644) | (1,405,002) | (2,455,614) | (2,244,246) |
| Current service cost | (35,236) | (40,660) | (11,315) | (10,984) | (19,529) | (18,915) | (27,756) | (21,460) |
| Mark-up cost | (572,317) | (472,479) | (40,197) | (44,436) | (160,808) | (176,042) | (303,459) | (281,158) |
| Benefits paid | 415,881 | 236,064 | 129,999 | 42,843 | 89,182 | 101,666 | 242,630 | 162,985 |
| Past Service Cost | (1,317,343) | - | 5,601 | - | 376,129 | - | 535,374 | - |
| Actuarial (loss) / gain | (671,730) | 77,855 | (12,636) | 1,608 | 9,597 | 28,649 | (173,538) | (71,735) |
| Closing balance | <u>(6,132,451)</u> | <u>(3,951,706)</u> | <u>(302,753)</u> | <u>(374,205)</u> | <u>(1,175,073)</u> | <u>(1,469,644)</u> | <u>(2,182,363)</u> | <u>(2,455,614)</u> |

33.2.6 Movement of fair value of plan assets

| | Pension | | Gratuity | | Benevolent | |
|--|------------------------------|------------------|----------------|----------------|------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | |
| Opening balance | 4,014,786 | 3,629,930 | 329,342 | 314,910 | 1,453,820 | 1,281,248 |
| Return on plan assets | 566,390 | 456,547 | 34,365 | 38,153 | 191,317 | 166,562 |
| Employer contribution | 1,100,000 | - | - | - | 38,164 | 24,274 |
| Employee contributions | - | - | - | - | 227,924 | - |
| Benefits paid | (415,881) | (236,064) | (129,999) | (42,843) | (89,182) | (101,666) |
| Actuarial (loss) / gain on plan assets | (235,167) | 164,373 | (29,051) | 19,122 | (68,607) | 83,402 |
| Closing balance | <u>5,030,128</u> | <u>4,014,786</u> | <u>204,657</u> | <u>329,342</u> | <u>1,753,436</u> | <u>1,453,820</u> |

33.2.7 Actual return on plan assets

| | Pension | | Gratuity | | Benevolent | |
|--|------------------------------|----------------|--------------|---------------|----------------|----------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | |
| Expected return on plan assets | 566,390 | 456,547 | 34,365 | 38,153 | 191,317 | 166,562 |
| Actuarial (loss) / gain on plan assets | (235,167) | 164,373 | (29,051) | 19,122 | (68,607) | 83,402 |
| Actual return on plan assets | <u>331,223</u> | <u>620,920</u> | <u>5,314</u> | <u>57,275</u> | <u>122,710</u> | <u>249,964</u> |

33.2.8 Other benefits - Employee compensated absences

The liability of the Bank in respect of employee compensated absences as at December 31, 2012, amounted to Rs. 1,355.387 million (2011: Rs. 1,720.577 million). Provision for this balance is held by Bank.

The reversal for the year amounting to Rs. 295.982 million (2011 charge: Rs. 191.602 million) is included in administrative expenses (note 26 to these financial statements) under 'Charge for defined benefit plans and other benefits' account head.

33.2.9 Components of plan assets as a percentage of total plan assets

| | 2012 | | | 2011 | | |
|-------------------------------------|--------------|---------------|-----------------|--------------|---------------|-----------------|
| | Pension fund | Gratuity fund | Benevolent fund | Pension fund | Gratuity fund | Benevolent fund |
| Government securities | 91.11% | 99.08% | 99.44% | 97.93% | 89.27% | 99.44% |
| Ordinary shares of listed companies | 8.26% | - | - | 1.61% | - | - |
| Others (including bank balances) | 0.63% | 0.92% | 0.56% | 0.46% | 10.73% | 0.56% |

As per actuarial recommendations, the expected return on plan assets was assumed at 12% per annum on Pension Fund assets, Gratuity Fund assets and Benevolent Fund assets. The expected return on plan assets was determined by considering the expected returns available on the underlying assets.

33.2.10 Expected contributions to be paid to the funds in the next financial year

The Bank contributes to the pension and gratuity funds according to the actuary's advice. Contribution to the benevolent fund is made by the Bank as per the rates set out in the benevolent fund scheme.

Based on actuarial advice, the management estimates that the charge / (reversal) in respect of defined benefit plans for the year ended December 31, 2012, subject to the provisions of the Trust Deeds, would be as follows:

| | 2013 | | | | |
|---|--------------|---------------|-----------------|---------------------------------|-------------------------------|
| | Pension fund | Gratuity fund | Benevolent fund | Post retirement medical benefit | Employee compensated absences |
| Expected charge / (reversal) for the year | 291,217 | 19,934 | (57,996) | 260,339 | 157,332 |

----- (Rupees in '000) -----

33.2.11 Five year data on surplus / (deficit) of the plans and experience adjustments

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|------------------------------|-------------|-------------|-------------|-------------|
| | ----- (Rupees in '000) ----- | | | | |
| Pension Fund | | | | | |
| Present value of defined benefit obligations | (6,132,451) | (3,951,706) | (3,752,490) | (3,823,669) | (3,958,503) |
| Fair value of plan assets | 5,030,128 | 4,014,787 | 3,629,930 | 11,308,988 | 10,235,607 |
| (Deficit) / surplus | (1,102,323) | 63,081 | (122,560) | 7,485,319 | 6,277,104 |
| Experience adjustments on plan liabilities [loss / (gain)] | 671,730 | (77,855) | (351,250) | 130,299 | (1,133,269) |
| Experience adjustments on plan assets [loss / (gain)] | 235,166 | (164,373) | 433,160 | (492,159) | 294,093 |
| Gratuity Fund | | | | | |
| Present value of defined benefit obligations | (302,753) | (374,205) | (363,236) | (335,598) | (357,163) |
| Fair value of plan assets | 204,657 | 329,342 | 314,910 | 770,148 | 651,072 |
| (Deficit) / surplus | (98,096) | (44,863) | (48,326) | 434,550 | 293,909 |
| Experience adjustments on plan liabilities [loss / (gain)] | 12,636 | (1,608) | 10,321 | (14,581) | 54,269 |
| Experience adjustments on plan assets [loss / (gain)] | 29,051 | (19,122) | 21,601 | (51,792) | 11,542 |
| Benevolent Fund | | | | | |
| Present value of defined benefit obligations | (1,175,073) | (1,469,644) | (1,405,002) | (1,432,930) | (1,249,439) |
| Fair value of plan assets | 1,587,950 | 1,478,094 | 1,281,248 | 1,170,236 | 1,276,397 |
| Surplus / (deficit) | 412,877 | 8,450 | (123,754) | (262,694) | 26,958 |
| Experience adjustments on plan liabilities [loss / (gain)] | (9,597) | (28,649) | (136,963) | (273,358) | (242,864) |
| Experience adjustments on plan assets [loss / (gain)] | 68,607 | (83,402) | (6,668) | 43,186 | 36,686 |
| Post retirement medical benefit | | | | | |
| Present value of defined benefit obligations | (2,182,363) | (2,455,614) | (2,244,246) | (2,180,320) | (2,422,945) |
| Experience adjustments on plan liabilities [loss / (gain)] | 173,538 | 71,735 | (80,259) | (242,351) | (213,334) |

34. DEFINED CONTRIBUTION PLAN

34.1 Provident Fund

For employees hired on or after January 1, 2002 and for those who did not opt for the Bank's Pension scheme introduced in 1977, the Bank operates an approved Provident Fund under which both the Bank and employees contribute at following rates:

| | |
|---|---------------------------|
| 6% of the Basic Salary | For Executives & Officers |
| 12% of the Basic Salary | For Clerical Staff |
| For Contractual Employees as per their Service Contracts. | |

The staff who are covered by the Bank's Pension plan now also eligible for Provident fund benefits effective from April 04, 2005 by contributing 6% of the basic pay. Bank also makes equal contributions for these employees.

Payments are made to the employees on retirement, death, resignation and discharge as specified in the rules of the Fund.

The total assets of the Fund were Rs. 10,538.559 million as at December 31, 2011 (2010: Rs. 9,343.967 million) as per latest available audited financial statements.

35. REMUNERATION OF DIRECTORS AND EXECUTIVES

| | President | | Directors | | Executives | |
|--|------------------------------|---------------|---------------|---------------|------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | ----- (Rupees in '000) ----- | | | | | |
| Remuneration / fee of non executives directors | - | - | 26,147 | 20,973 | - | - |
| Managerial remuneration (including allowances) | 31,711 | 21,720 | - | - | 4,536,047 | 3,593,406 |
| Contribution to provident and benevolent fund | 1,271 | 1,224 | - | - | 122,000 | 98,269 |
| Medical | 221 | 204 | - | - | 232,840 | 181,292 |
| House-rent, maintenance, furnishing, others | 3,358 | 1,940 | - | - | - | - |
| Utilities | 516 | 353 | - | - | - | - |
| Conveyance | 791 | 325 | - | - | - | - |
| | <u>37,868</u> | <u>25,766</u> | <u>26,147</u> | <u>20,973</u> | <u>4,890,887</u> | <u>3,872,967</u> |
| Number of persons | <u>2</u> | <u>1</u> | <u>6</u> | <u>6</u> | <u>2,666</u> | <u>2,168</u> |

The Chief Executive Officer and certain Executives are provided with free club memberships and the Chairman / Chief Executive Officer are also provided with free use of the Bank's maintained cars in accordance with their entitlement.

In addition to the above, all executives, including Chief Executive Officer of the Bank are also entitled to certain short term employee benefits which are disclosed in note 26.2 to these financial statements.

36. RELATED PARTY TRANSACTIONS

Aga Khan Fund for Economic Development (AKFED), S.A, Switzerland holds 51% shares of the Bank. The Bank has related party relationship with its subsidiaries, associated undertakings, joint venture company (refer note 8.5 and 8.6), associates of AKFED Group entities, employee benefit schemes (refer note 4.8) of the Bank / related party, and members of the Key Management Personnel of the Bank / related party, including both Executive and Non-Executive Directors.

Banking transactions with the related parties are executed on arm's length basis i.e. substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk (i.e. under the comparable uncontrolled price method) other than those under terms of employment. Details of advances to related parties are given in note 9.9 to these unconsolidated financial statements.

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

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

| | 2012 | | | | | |
|------------------------------|--|-----------------------|----------------------|------------|---------------|---------------------|
| | Individual and companies related through | | | | | |
| | Key Management Personnel | Parent Group Entities | Subsidiary companies | Associates | Joint venture | Other related party |
| -----Rs. in 000----- | | | | | | |
| Balance Sheet | | | | | | |
| Deposits | 115 | 3,989,868 | 812,286 | 7,040,968 | 59,556 | 2,963,637 |
| Borrowings | - | 726,107 | 278,539 | - | - | - |
| Investments | - | - | 10,839,525 | 4,585,708 | 7,197 | - |
| Markup / Other Receivable | - | 32,904 | 9,103 | 220,000 | - | - |
| Mark-up / Other Payable | - | 113,770 | 1,120 | 28,884 | - | 1,223,959 |
| Placements / Lendings | - | 1,330,363 | 7,212,257 | - | - | - |
| Overdrawn Nostro | - | 656,893 | - | 292,891 | 738 | - |
| Impairment provision | - | - | - | 573,261 | - | - |
| Profit and Loss | | | | | | |
| Interest / Other Income | 12,400 | 222,984 | 131,836 | 1,249,676 | - | - |
| Interest / Other Expense | - | 328,573 | 19,708 | 687,887 | - | 171,878 |
| Dividend income | - | - | - | 158,791 | 71,585 | - |
| Others | | | | | | |
| Other contingencies | - | 361,835 | - | - | - | 127,318 |
| Securities Held as custodian | - | 4,852,220 | 898,100 | 18,035,000 | - | 12,378,000 |
| Other transactions | 80,250 | 199 | - | 2,427 | - | - |

| | 2011 | | | | | |
|------------------------------|--|-----------------------|----------------------|------------|---------------|---------------------|
| | Individual and companies related through | | | | | |
| | Key Management Personnel | Parent Group Entities | Subsidiary companies | Associates | Joint venture | Other related party |
| -----Rs. in 000----- | | | | | | |
| Balance Sheet | | | | | | |
| Deposits | - | 2,977,032 | 554,076 | 4,105,211 | 27,833 | 635,603 |
| Borrowings | - | - | 323,289 | - | - | - |
| Investments | - | - | 9,558,656 | 4,124,882 | 7,197 | - |
| Markup / Other Receivable | - | 57,541 | 9,515 | 115,149 | - | 63,080 |
| Mark-up / Other Payable | - | 167,418 | 1,810 | 24,430 | - | 85,513 |
| Placements / Lendings | - | 362,928 | 12,668,849 | - | 6,489 | - |
| Overdrawn Nostro | - | 622,334 | 52,858 | 486,045 | - | - |
| Impairment provision | - | - | - | 573,261 | - | - |
| Profit and Loss | | | | | | |
| Interest / Other Income | 19,000 | 241,445 | 308,712 | 836,571 | - | - |
| Interest / Other Expense | - | 159,960 | 23,043 | 444,500 | - | 127,729 |
| Dividend income | - | - | - | 61,556 | 44,850 | - |
| Others | | | | | | |
| Other contingencies | - | 103,044 | - | - | - | - |
| Securities Held as custodian | 92,730 | 3,715,550 | 945,000 | 15,003,000 | - | 14,129,800 |
| Acceptance | - | - | 24,215 | - | - | - |

36.1 The donations given in note 26 of these unconsolidated financial statements include donations to HBL Foundation. The Foundation was established by the Board of Directors of HBL to promote development and advance the welfare and well being of the people with the object of improving their quality of life. Liability to the fund is shown in note 17.

36.2 Key Management Personnel

Key Management Personnel comprises Members of Management Forum, Regional Management, Country Managers and Senior Executives:

| | 2012 (Rupees in '000) | 2011 |
|--|--------------------------|----------------|
| Managerial remuneration (including allowances) | 1,117,531 | 903,892 |
| Contribution to provident and benevolent fund | 22,586 | 19,333 |
| Medical | 36,408 | 29,225 |
| | <u>1,176,525</u> | <u>952,450</u> |
| Number of persons | <u>159</u> | <u>147</u> |

In addition, Key Management Personnel are paid short-term employee benefits which are disclosed in note 26.2.

37. RISK MANAGEMENT FRAMEWORK

Risk taking is central to banking activity. Success in any venture in general and the banking business in particular is dependent on how well an institution manages its risk. The main goal is to minimize risk and be proactive in efficiently identifying, assessing, measuring (as far as possible), monitoring and controlling risks to an organisation's strategic advantage.

As HBL plans to continue diversifying its business and ensuring sustained growth and profitability amidst increasing competitiveness and challenges in the banking industry and works to implement the comprehensive risk management, capital adequacy and internal control standards enforced by the SBP. To this end, the Bank has a well defined Risk Management Framework comprising of an effective risk management strategy, risk management structure and a policy framework.

Risk Management Structure

The Bank's risk management approach is underpinned by an appropriate risk management structure. This structure is represented by various lines of defence in order to ensure that the risks are managed effectively on an entity level:

| | | |
|--|--------------------|---|
| Supervisory Level | Board of Directors | Board Risk Management Committee and Board Audit Committee |
| | Management | ALCO, Management Risk Committee, Credit Policy Committee, Operational Risk Management Committee etc. |
| Risk Initiation - Operating Units/ Risk Owners | | All Business and Support Groups i.e., Corporate, Investment Banking, Commercial, Retail, Treasury, IT, HR, etc. |
| Risk Control | | Risk Management Group, Compliance |
| Risk Assurance | | Internal Audit and Business Risk Review |

Board of Directors (BoD)

The Board provides strategic direction for effective risk management and has the ultimate responsibility for managing all material risks that the Bank is/ may be exposed to, and for ensuring that the required human resources, culture, practices and systems are in place to address such risks. In discharging these responsibilities for overall risk management, the Board has established the Board Risk Management Committee.

Board Risk Management Committee (BRMC)

BRMC is a Board level oversight committee and is the highest risk related policy making and oversight body for all types of risks faced by the Bank, notably credit, market, liquidity and operational risks. It comprises of four directors of the Board (majority being non-executive) including the Chairman of the Board. The Committee is supported by the Chief Risk Officer (CRO) and other executives as required. BRMC assists the Board in determining the strategic direction of the Bank by providing them the risk perspective.

Asset & Liability Committee (ALCO)

ALCO is the focal point for defining and leading the entire asset liability management process within the Bank. In this regard, ALCO also has responsibility for oversight of all market and liquidity risks. It is chaired by the President/CEO and has representation from all business groups, CRO, Chief Financial Officer (CFO), and Head of Market Risk.

Management Risk Committee (MRC)

Management Risk Committee is a senior management body headed by the CRO that mainly covers risks on integrated basis from an overall perspective of strategy, policy/ framework development, assessment/ measurement tools, MIS framework and Basel II implementation, whereas routine aspects in relation to such risks are managed by designated risk departments. In addition, the Bank has other senior management committees i.e., CPC, ALCO and ORMC to manage more specifically the credit, market and liquidity and operational risks respectively.

Credit Policy Committee (CPC)

Credit Policy Committee, at the functional level, has the responsibility to translate the decisions about strategy into framework, policies and standards for the origination, approval, disbursement, monitoring and reporting of credits and also to participate with the business line management in setting up the Bank's target portfolio profile and limits and in monitoring alignment with the risk strategies, appetite and limits etc. approved by the competent authorities. The CPC is chaired by the CRO with the members comprising of at least one Senior Credit Officer from Corporate Banking, Investment Banking, Commercial and Retail Lending and at least one representative each from the Credit Policy and Credit Administration Divisions within RMG. The risk management function is independent of business group / divisions.

Operational Risk Management Committee (ORMC)

Operational Risk Management Committee is a senior management body responsible for operational risk management within the Bank both from the strategic as well as tactical perspectives. The Committee has representation from Risk Management Group, Operations, Global Compliance Group and Finance, being headed by the CRO as its Chairman.

Risk Management Group (RMG)

For effective implementation of the risk management framework, a dedicated function i.e. Risk Management Group operates within the Bank, independent from the other business units, support functions as well as the Internal Audit function. RMG is responsible to perform the functions pertaining to development and oversight of risk strategy, policy, framework, methodology and MIS. The Group is headed by a designated Group Executive i.e. CRO reporting to the President but with an independent reporting line to BRMC so as to enable reporting of all material risk issues and matters, particularly in relation to exceptional circumstances where there may be a conflict/ disagreement with the President.

RMG has designated separate personnel/departments to cater to the following significant areas with each of them reporting to the CRO:

- Credit Policy
- Credit Approvals
- Credit Administration
- Portfolio Management
- Consumer Risk Management
- Market & Liquidity Risk Management

The Operational Risk Management Division (ORMD) operates within Global Compliance Group (GCG) independent from the other business units, support functions as well as the Internal Audit function. The Head ORMD is one of the members of the Operational Risk Committee which is chaired by the CRO. In this manner, issues and matters concerning operational risk are independently communicated to CRO so as to enable knowledge of the Bank-wide risks. The key issues are reported to BRMC through the forum of the Operational Risk Committee and/ or MRC, where applicable. In addition, the Head ORMD has a dotted reporting relationship with the CRO.

Business Risk Review (BRR)

BRR working under Internal Audit provide independent assessment to the Board and the senior management of the Bank's risk management framework that includes policies, procedures, methodologies, reporting, and systems.

Credit Risk Management

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with the agreed contract terms. Credit risk makes up the largest part of the Bank's risk exposures. The Bank's credit process is guided by centrally established credit policies, rules and guidelines continuing a close-to-the market approach with an aim to maintain a well-diversified portfolio of credit risk, which produces a reliable and consistent return.

Credit risk policies are established by the Credit Policy Committee/ CRO and approved by the Board through the Board Risk Management Committee. The Bank has a system of checks and balances in place around the extension of credit that are:

- An independent risk management function.
- Approval rules based on three-initial system and co-guarantor approach.
- An independent audit and risk review function.

The Credit Risk Strategy reflects Bank's tolerance for risk i.e. credit risk appetite and the level of expected profitability. This, as a minimum, reflects Bank's strategy to grant credit based on various products, economic sectors, client segments etc., target markets giving due consideration to risks specific to each target market.

Salient features of our credit approval process are delineated below:

- Every extension of credit to any counterparty requires approval by the personnel having credit approval authorities.
- All Business groups must apply consistent standards in arriving at their credit decisions.
- Every material change to a credit facility requires approval at the appropriate/ pre-defined level.
- Credit approval authority is assigned to individuals according to their qualifications and experience.

Certain groups of exposures/ facilities are managed under product programs, which are approved by various levels of approving authorities as defined in the Credit Policy Manual. Each product program contains detailed credit criteria, regulatory, compliance and documentation requirements.

The Bank uses internal risk rating system to supplement the credit risk measurement procedure for all Corporate and Commercial, and most of the Retail exposures. All in all, over 90% of all exposures are rated. All obligor risk ratings are validated and approved by authorized personnel belonging to both the business units and risk management function. The Bank is currently involved with external consultants to introduce more effective internal risk rating framework that will be aligned with the Foundation Internal Ratings Based (FIRB) approach of the Basel II accord.

Stress testing on the credit portfolio is performed according to the guidelines issued by SBP at defined frequency. The scope of stress testing is being expanded to include scenarios in addition to those defined in the SBP guidelines.

The disbursement, administration and monitoring of credit facilities are managed by Credit Administration Departments (CAD) linked to various business units and operates under the CRO as part of the Risk Management Group. CAD is also responsible for collateral/ documents management.

The Bank monitors its credit portfolio on continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problem advances is a tenet of the Bank's credit culture and is intended to ensure that greater attention is paid to such exposure. The Bank has an established Remedial Assets function to focus on expediting recoveries from problem credits. The function negotiates with problem borrowers and recommends restructuring and/ or rescheduling of stuck up loans to the senior management. Cases where the possibilities of economically viable means of recovery are exhausted, legal proceedings are initiated. The Bank follows the guidelines of SBP or the Regulators under which it is operating in other countries for classification/ provisioning/ write-off of problem advances.

Country Risk

The Bank has in place a comprehensive Country Risk Policy. Limits are established for Cross Border Transfer Risk (CBTR) based on the ratings assigned by the internationally recognized rating agencies. The limit utilization is controlled at Head office level and country risk exposures are reported to BRMC at defined frequency. CBTR arises from exposure to counterparties in Countries other than the country where exposure is located. The Bank defines transfer risk as arising where an otherwise solvent and willing debtor is unable to meet its obligation due to the imposition of governmental or regulatory controls restricting its ability to perform under its obligation towards its foreign liabilities.

Market Risk Management

It is the risk of loss due to adverse movements in market rates or prices, such as foreign exchange rates, interest rates and equity prices. It emanates from the trading activities mainly carried out by Treasury and investments/ structural positions housed in banking book.

Market risk at the Bank level is managed by the RMG under the supervision of ALCO supported by the Treasury Middle Office (TMO). The Bank carries a limited amount of market risk the bulk of which is located in the banking book stemming from the mismatches in structural assets and liabilities positions.

Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship. Substantial part of the Bank's assets and liabilities are subject to floating rates hence are re-priced simultaneously. However, the Bank is exposed to interest rate risk as a result of mismatches on a relatively small part of its assets and liabilities. The major portion related to this risk is reflected in the banking book owing to the retail activities and investments qualifying for statutory reserve requirements. The overall potential impact of the mismatches on the earnings in short term and economic value of the portfolio in the long term is not material and is being managed within the tolerance limits approved by the Board. The Bank uses simulation and duration gap models to measure and monitor the interest rate sensitivity on the potential earnings and the Bank's economic value of equity.

Foreign Exchange Risk

The Bank's assets are typically funded in the same currency as that of the business transacted to eliminate foreign exchange exposure. However, the Bank is obliged to maintain a reasonable open position in various currencies resulting from the sizeable trade related transactions handled across the Bank. Foreign exchange risks are controlled and monitored through the limits approved by ALCO within the overall limit advised by SBP. The regulatory limit for foreign exchange is relatively small compared to the size of the Bank; hence, the risk generated through foreign exchange activities is insignificant.

End-of-the-day positions are marked to market daily according to the guidelines of SBP and sensitivity is conducted in line with the internal market risk policy of the Bank. The intra-day positions are managed by treasury through stop loss/ dealers limits.

Liquidity Risk Management

Liquidity risk is the risk that the Bank will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets, or to obtain adequate funding. ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management. The Bank follows a comprehensive liquidity risk management policy duly approved by ALCO and the Board. The policy stipulates maintenance of various ratios, funding preferences, and evaluation of Bank's liquidity under normal and crisis situation (stress testing). To comply with the policy, the Bank has also conducted a behavioral study on its demand deposits to evaluate their stickiness, which may not reflect in their maturity profile. Such evaluation forms part of the liquidity management process to realistically project the reliance on such funding sources. As a result of close monitoring and strict policy towards reliance on core deposit, the Bank has been able to avoid concentration/ reliance on volatile deposit in its books. A comprehensive contingency plan to deal with crisis situation is also in place.

Operational Risk Management (ORM)

In line with the approved Operational Risk Management Policy, Bank has instituted an Operational Risk Management Division (ORMD). Operational Risk Management Policy and a detailed ORM Framework has been prepared and implemented. Operational Risk Coordinators (ORCs) have been assigned from more than 20 departments of the Bank being responsible for implementation of the ORM Framework in coordination with ORMD. The Bank has been granted permission/certification by SBP to move to the more advanced approach i.e. Alternative Standardised Approach (ASA) under Basel II with a capital floor i.e., operational risk charge under ASA should not fall below a certain percentage of operational risk capital charge calculated under BIA for initial 3 years. Capital floors are 90% for 2012, 80% for 2013 and 70% for 2014. HBL is the first Pakistani bank to achieve this milestone.

The Bank's ORM framework and practices address all the significant areas of ORM within the Bank including Risk Control Self Assessment (RCSA), Key Risk Indicators, Operational Loss Data Management, Operational Risk Reporting, Capital Calculation etc. Detailed RCSA exercises are conducted at regular intervals across the Bank, the results of which are continually evaluated against the losses. Operational loss data collection and evaluation has been underway since 2009. The Bank has also established Key Risk Indicators (KRI) and is monitoring them at regular intervals. Operational risk reports are regularly submitted to the senior management.

Derivatives risk management

There are a number of risks undertaken by the Bank, which need to be monitored and assessed.

Credit Risk

Credit risk refers to the risk of non-performance or default by a party (a customer, guarantor, trade counterparty, third party, etc.), resulting in an adverse impact on the Bank's profitability. Credit risk associated with derivatives transactions is categorized into settlement risk and pre-settlement risk. The credit limit proposals for derivatives transactions are reviewed by the MTR Head who recommends appropriate limits to the Credit Committee for approval. The credit exposure of each counterparty is estimated and monitored by Treasury Middle Office on a daily basis.

Market Risk

The Bank, as a policy, hedges back-to-back all Options transactions. In addition, the Bank does not carry any exchange risk on its Cross Currency Swaps portfolio as it hedges the exposure in the interbank market. To manage the interest rate risk of Interest Rate Derivatives, the Bank has implemented various limits which are monitored and reported by Treasury Middle Office on a daily basis.

Liquidity Risk

Derivatives transactions, usually being non-funded in nature, do not carry a specific funding liquidity risk.

The liquidity risk arises from the fact that in Pakistan interest rate derivatives generally have a uni-directional demand, and no perfect hedge is available. The Bank mitigates its risk by limiting the portfolio in terms of tenor, notional and sensitivity limits, and can also hedge its risk by taking on and off balance sheet positions in the interbank market, where available.

Operational Risk

The staff involved in the process of trading, settlement and risk management of derivatives are carefully trained to deal with the complexities involved in the process. Adequate systems and controls are in place to carry out derivatives transactions smoothly. Each transaction is processed in accordance with the product program or transaction memo, which contains detailed accounting and operational aspects of the transaction to further mitigate operational risk. In addition, the Treasury Middle Office and the Compliance and Control Department are assigned the responsibility of monitoring any deviation from policies and procedures. The Bank's Audit and Inspection Group also reviews this function, which covers regular review of systems, transactional processes, accounting practices and end-user roles and responsibilities.

The Bank uses a derivatives system which provides an end-to-end valuation solution, supports the routine transactional process and provides analytical tools to measure various risk exposures, carry out stress tests and sensitivity analysis. Treasury Middle Office produces various reports for higher management (BoD, BRMC, MRC, etc) on a periodic basis. These reports provide details of the derivatives business profile containing outstanding positions, profitability, risk exposures and the status of compliance with limits.

Risk Management alignment with Basel II project

The Bank is one of the few financial institutions in Pakistan planning to adopt the Foundation Internal Ratings Based (FIRB) Approach for credit risk and Internal Models Approach (IMA) for Market Risk (Alternate Standardized Approach for operational risk has already been adopted) under the Basel II Framework and consequently enhancing the quality of risk management processes, methodologies, systems and reporting. In order to undertake the Basel II initiatives in a systematic manner and in full compliance with the related requirements, the Bank has sought the services of an international firm. Bank's Basel II Program includes a number of aspects involving organizational alignments, enhancements in the existing policies, procedures, processes and controls, development of new risk frameworks, existing system upgrades, selection and deployment of various risk applications, development of advanced risk management tools and methodologies and introduction of improved risk reporting MIS. A lot of effort has already gone into aligning Bank's risk management structure, policies, procedures and systems with the requirements of Basel II while the remaining initiatives are currently being undertaken in an integrated manner with plans for completion in due course.

The Bank also realizes the criticality of quality human resource and is already in the process of augmenting the skill set by necessary induction and training measures to enable undertaking of planned initiatives and consistently implementing the new risk management framework in line with Basel II. Once completed, the Bank expects to achieve a number of significant business benefits from its Basel II program with more robust risk management and internal control environment in line with international best practices.

Bank is currently engaged in the deployment of a comprehensive suite of advanced systems for Loan Origination, Credit Administration/ Collateral Management, and Internal Risk Ratings as part of FIRB related initiatives for credit risk.

38. CAPITAL ADEQUACY

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

38.1 Regulatory Capital Base

| | 2012 (Rupees in '000) | 2011 (Rupees in '000) |
|---|--------------------------|--------------------------|
| Tier 1 Capital | | |
| 1.1 Fully Paid-up capital | 12,122,748 | 11,020,680 |
| 1.2 General Reserves as disclosed on the Balance Sheet | 24,114,527 | 21,958,110 |
| 1.3 Un-appropriated/ un-remitted profits (net of accumulated losses, if any) | 62,128,562 | 52,228,646 |
| | 98,365,837 | 85,207,436 |
| Deductions: | | |
| 1.4 Book value of intangibles | 679,027 | 277,468 |
| 1.5 Shortfall in provisions required against classified assets irrespective of any relaxation allowed. | 2,758,267 | - |
| 1.6 50% Investments in equity and other regulatory capital of majority owned Securities or other financial subsidiaries not consolidated in the balance sheet | 4,253,813 | 3,613,443 |
| | 7,691,107 | 3,890,911 |
| Total eligible Tier 1 capital | 90,674,730 | 81,316,525 |
| Supplementary Capital | | |
| Tier 2 Capital | | |
| 2.1 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets | 1,310,855 | 808,610 |
| 2.2 Revaluation Reserves up to 45% | 6,414,666 | 3,878,874 |
| 2.3 Foreign Exchange Translation Reserves | 12,222,970 | 8,245,586 |
| 2.4 Subordinated debt -upto maximum of 50% of Total eligible Tier 1 capital | 485,749 | 1,798,914 |
| Total tier 2 Capital | 20,434,240 | 14,731,984 |
| Deductions: | | |
| 2.5 50% Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet | 4,253,813 | 3,613,443 |
| Total eligible Tier 2 Capital | 16,180,427 | 11,118,541 |
| Total Eligible Capital (1+2) | 106,855,157 | 92,435,066 |

38.2 Risk-Weighted Exposures

| | Note | Capital Requirements | | Risk Weighted Assets | |
|---|------|----------------------|-------------|----------------------|-------------|
| | | 2012 | 2011 | 2012 | 2011 |
| ------(Rupees in '000)----- | | | | | |
| Credit Risk | | | | | |
| On-balance sheet | | | | | |
| Other sovereigns, GOP, PG, SBP other than PKR | | 4,581,782 | 3,202,463 | 45,817,820 | 32,024,628 |
| PSE's | | 611,759 | 454,272 | 6,117,592 | 4,542,715 |
| Banks | | 1,663,124 | 1,419,212 | 16,631,244 | 14,192,116 |
| Corporates | | 22,889,336 | 22,840,701 | 228,893,361 | 228,407,009 |
| Retail Portfolio | | 4,424,599 | 4,521,976 | 44,245,989 | 45,219,761 |
| Secured by residential property | | 271,415 | 231,560 | 2,714,153 | 2,315,598 |
| Past due loans | | 1,034,368 | 917,806 | 10,343,682 | 9,178,057 |
| Listed Equity investments | | 706,339 | 437,955 | 7,063,387 | 4,379,553 |
| Unlisted equity investments | | 354,689 | 629,290 | 3,546,891 | 6,292,902 |
| Investments in fixed assets | | 2,050,607 | 1,682,980 | 20,506,074 | 16,829,795 |
| Other assets | | 1,138,813 | 1,227,854 | 11,388,131 | 12,278,541 |
| | | 39,726,831 | 37,566,068 | 397,268,324 | 375,660,676 |
| Off-balance sheet | | | | | |
| Non-market related | | 9,628,409 | 6,692,856 | 96,284,086 | 66,928,556 |
| Market related | | 106,811 | 185,309 | 1,068,107 | 1,853,089 |
| | | 9,735,220 | 6,878,165 | 97,352,193 | 68,781,645 |
| Market Risk | | | | | |
| Interest Rate Risk | | 3,779,118 | 2,090,860 | 47,238,975 | 26,135,744 |
| Equity Position Risk | | 640,962 | 297,342 | 8,012,025 | 3,716,772 |
| Foreign Exchange Risk | | 3,872,293 | 2,998,376 | 48,403,662 | 37,479,697 |
| | | 8,292,373 | 5,386,578 | 103,654,662 | 67,332,213 |
| Operational Risk (Restricted to 90% of Basic Indicator Approach) | | | | | |
| | | 8,588,908 | 7,864,214 | 107,361,353 | 98,302,680 |
| | | 66,343,332 | 57,695,024 | 705,636,532 | 610,077,214 |
| Capital adequacy ratio | | | | | |
| Total eligible regulatory capital held | 38.1 | 106,855,157 | 92,435,066 | | |
| Total risk weighted assets | 38.2 | 705,636,532 | 610,077,214 | | |
| Capital adequacy ratio | | 15.14% | 15.15% | | |

38.3 Types of Exposures and ECAI's used

| Exposures | JCR-VIS | PACRA | MOODYs | STANDARD & POOR | ECA SCORES |
|-----------------------------------|---------|-------|--------|-----------------|------------|
| PSE's | ✓ | ✓ | | | |
| Banks | ✓ | ✓ | ✓ | | |
| Corporates | ✓ | ✓ | | | |
| Sovereigns and GOP other than PKR | | | ✓ | ✓ | ✓ |

38.4 Credit Exposures subject to Standardised approach

| Exposures | Rating Category | 2012 | | | 2011 | | |
|--|-----------------|--------------------|---------------|--------------|--------------------|---------------|--------------|
| | | Amount Outstanding | Deduction CRM | Net exposure | Amount Outstanding | Deduction CRM | Net exposure |
| ------(Rupees in '000)----- | | | | | | | |
| Cash and cash equivalent | | 24,000,493 | - | 24,000,493 | 16,846,867 | - | 16,846,867 |
| Claims on GOP in PKR | | 278,529,336 | 159,982,937 | 118,546,399 | 131,197,556 | 26,204,154 | 104,993,402 |
| Claims on SBP arising out of statutory obligations | | 19,923,432 | - | 19,923,432 | 13,466,775 | - | 13,466,775 |
| Claims on other sovereigns and GOP other than PKR | 1 | 33,023,508 | - | 33,023,508 | 3,621,086 | - | 3,621,086 |
| Claims on other sovereigns and GOP other than PKR | 2 | 3,163,492 | - | 3,163,492 | 1,610,563 | - | 1,610,563 |
| Claims on other sovereigns and GOP other than PKR | 3 | 22,341,299 | - | 22,341,299 | 13,437,524 | - | 13,437,524 |
| Claims on other sovereigns and GOP other than PKR | 4,5 | 19,361,348 | - | 19,361,348 | 15,709,295 | - | 15,709,295 |
| Claims on other sovereigns and GOP other than PKR | 6 | 9,305,121 | - | 9,305,121 | 5,791,362 | - | 5,791,362 |
| Claims on other sovereigns and GOP other than PKR | Unrated | 695,834 | - | 695,834 | 594,553 | - | 594,553 |
| PSE | 1 | 4,731,671 | - | 4,731,671 | 11,083,506 | - | 11,083,506 |
| PSE | Unrated | 143,480,819 | 73,975,276 | 69,505,543 | 102,420,433 | 41,799,397 | 60,621,036 |
| Banks | 1 | 41,372,361 | - | 41,372,361 | 27,628,967 | 1,107,538 | 26,521,429 |
| Banks | 2,3 | 4,719,999 | 253,175 | 4,466,824 | 3,656,586 | 745,778 | 2,910,808 |
| Banks | Unrated | 17,515,563 | 2,356,216 | 15,159,347 | 12,325,836 | - | 12,325,836 |
| Bank - three months or less | 1,2,3 | 43,643,972 | 31,203,173 | 12,440,799 | 68,158,020 | 45,024,313 | 23,133,707 |
| Bank - three months or less | Unrated | 10,733,158 | - | 10,733,158 | 12,864,885 | - | 12,864,885 |
| Corporate | 1 | 45,907,769 | 12,092,178 | 33,815,591 | 56,050,128 | 307 | 56,049,821 |
| Corporate | 2 | 10,176,734 | 30,791 | 10,145,943 | 24,990,592 | - | 24,990,592 |
| Corporate | 3,4 | 1,690,144 | 75 | 1,690,069 | 579,925 | - | 579,925 |
| Corporate | 5,6 | 46,165 | - | 46,165 | - | - | - |
| Corporate | Unrated | 355,181,364 | 10,420,874 | 344,760,490 | 303,112,702 | 7,360,774 | 295,751,928 |
| Retail | | 65,504,256 | 5,548,568 | 59,955,688 | 65,744,862 | 3,936,498 | 61,808,364 |
| Residential mortgage | | 7,754,723 | - | 7,754,723 | 6,615,995 | - | 6,615,995 |
| Past due loans | | 11,061,747 | - | 11,061,747 | 9,194,692 | - | 9,194,692 |
| Listed equity and regulatory capital instruments | | 7,063,387 | - | 7,063,387 | 4,379,553 | - | 4,379,553 |
| Unlisted equity | | 2,364,594 | - | 2,364,594 | 4,195,268 | - | 4,195,268 |
| Fixed assets | | 20,506,074 | - | 20,506,074 | 16,829,795 | - | 16,829,795 |
| Other assets | | 11,388,132 | - | 11,388,134 | 12,278,541 | - | 12,278,541 |
| | | 1,215,186,495 | 295,863,263 | 919,323,234 | 944,385,867 | 126,178,759 | 818,207,108 |

38.5 Capital management

The Bank's lead regulator SBP sets and monitors capital requirements for the Bank as a whole. In addition the Bank's branches outside Pakistan are also required to follow capital requirements applicable in respective countries.

In implementing current capital requirements, SBP requires the Bank to maintain a prescribed ratio of 10% total capital to total risk-weighted assets. The Bank calculates requirements for market risk in its trading portfolios based upon the methodology provided by SBP which takes account of specific and general market risk, capital charge for interest rate risk and equity price risk using the maturity method.

The Bank's regulatory capital is analysed into three tiers:

- Tier I capital, which includes ordinary share capital, capital and other reserves except exchange translation reserve, minority interest, and retained profit.
- Tier II capital includes revaluation surplus, exchange translation reserve, subordinated debt and impairment allowances not kept against identified debts. The revaluation surplus is allowable as tier II capital upto 45% of the reserve. Subordinated debt is limited to 50% of Tier I capital.
- Tier III supplementary capital consists of short term subordinated debt solely for the purpose of meeting a proportion of the Capital requirements for market risks. The Bank currently does not have any Tier III capital.

Total of Tier II and III capital is limited to Tier I capital.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

On and off-balance sheet assets in the banking book are broken down to various asset classes for calculation of credit risk. Ratings for assets are applied using various ECAI's and aligned with appropriate risk buckets. Collaterals if any, are used as an outflow adjustment. Risk weights notified, are applied at net adjusted exposure. Collaterals used include: Government of Pakistan guarantees for advances and investments in PSE / GoP, deposits / margins, lien on deposits, saving certificates and lending of securities (repo & reverse repo).

39. CURRENCY RISK

| | 2012 | | | |
|----------------------|------------------------------|----------------------|-------------------------|-----------------------|
| | Assets | Liabilities | Off-balance sheet items | Net currency exposure |
| | ----- (Rupees in '000) ----- | | | |
| Pakistan Rupee | 1,222,119,730 | 1,131,298,108 | (16,616,633) | 74,204,989 |
| United States Dollar | 150,655,776 | 140,560,267 | 2,806,423 | 12,901,932 |
| Great Britain Pound | 7,384,978 | 10,863,091 | 5,569,069 | 2,090,956 |
| UAE Dirham | 38,251,685 | 32,277,341 | 2,132,838 | 8,107,182 |
| Japanese Yen | 106,131 | 1,949 | (98,030) | 6,152 |
| Euro | 11,471,065 | 14,845,234 | 6,543,361 | 3,169,192 |
| Other Currencies | 87,850,800 | 65,385,523 | (337,028) | 22,128,249 |
| | <u>1,517,840,165</u> | <u>1,395,231,513</u> | <u>-</u> | <u>122,608,652</u> |
| | 2011 | | | |
| | Assets | Liabilities | Off-balance sheet items | Net currency exposure |
| | ----- (Rupees in '000) ----- | | | |
| Pakistan Rupee | 835,712,127 | 759,279,311 | (12,457,927) | 63,974,889 |
| United States Dollar | 94,068,108 | 94,413,216 | 5,358,116 | 5,013,008 |
| Great Britain Pound | 8,461,781 | 10,015,894 | 3,718,889 | 2,164,776 |
| UAE Dirham | 31,118,683 | 26,630,772 | 3,901,969 | 8,389,880 |
| Japanese Yen | 132,229 | 1,055 | (121,716) | 9,458 |
| Euro | 15,898,121 | 12,984,618 | (230,545) | 2,682,958 |
| Other Currencies | 78,462,599 | 59,074,192 | (168,786) | 19,219,621 |
| | <u>1,063,853,648</u> | <u>962,399,058</u> | <u>-</u> | <u>101,454,590</u> |

40. MATURITIES OF ASSETS AND LIABILITIES

40.1 In accordance with BSD Circular Letter No.03 of 2011, issued by SBP, the Bank is required to report assets and liabilities with stated maturities as per their remaining maturities, whereas, assets and liabilities which do not have any contractual maturities should be reported as per their 'expected maturities' calculated on the basis of an objective and systematic behavioural study approved by ALCO committee.

| | 2012 | | | | | | | | | |
|---|----------------------|--------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|------------------------|----------------------|
| | Total | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | Over five to ten years | Over ten years |
| ----- Rupees in '000 ----- | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and balances with treasury banks | 152,324,425 | 62,844,370 | 12,528,160 | 13,842,674 | 7,082,095 | 1,230,227 | 1,243,842 | 1,947,969 | 25,938,624 | 25,666,464 |
| Balances with other banks | 23,907,534 | 16,300,314 | 4,200,885 | 3,406,335 | - | - | - | - | - | - |
| Lendings to financial institutions | 24,828,255 | 23,928,255 | 900,000 | - | - | - | - | - | - | - |
| Investments | 777,185,323 | 427,689,022 | 22,873,553 | 25,869,314 | 46,388,609 | 24,743,470 | 40,836,571 | 69,133,860 | 49,896,739 | 69,754,185 |
| Advances | 460,070,634 | 41,935,297 | 43,152,517 | 52,340,942 | 32,667,160 | 20,594,773 | 10,926,788 | 215,558,205 | 38,349,871 | 4,545,081 |
| Operating fixed assets | 21,185,101 | - | - | - | - | - | - | - | - | 21,185,101 |
| Deferred tax asset | 5,743,464 | 44,461 | - | - | - | 1,254,595 | 1,254,595 | 2,121,368 | 1,068,445 | - |
| Other assets | 52,595,429 | 12,794,664 | 10,066,321 | 7,796,005 | 4,817,396 | - | - | - | - | 17,121,043 |
| | <u>1,517,840,165</u> | <u>585,536,383</u> | <u>93,721,436</u> | <u>103,255,270</u> | <u>90,955,260</u> | <u>47,823,065</u> | <u>54,261,796</u> | <u>288,761,402</u> | <u>115,253,679</u> | <u>138,271,874</u> |
| Liabilities | | | | | | | | | | |
| Bills payable | 18,878,652 | 3,950,241 | 6,121,182 | 8,807,229 | - | - | - | - | - | - |
| Borrowings from financial institutions | 192,108,597 | 171,176,046 | 8,049,078 | 11,024,749 | 69,444 | 168,158 | 179,672 | 420,057 | 1,021,393 | - |
| Deposits and other accounts - note 40.2 | 1,141,164,975 | 117,503,614 | 117,375,878 | 115,552,395 | 155,843,428 | 24,956,487 | 24,663,381 | 38,565,298 | 276,417,841 | 270,286,653 |
| Sub-ordinated loans | 4,857,485 | - | - | - | - | 4,857,485 | - | - | - | - |
| Other liabilities | 38,221,804 | 37,500,754 | 378,287 | 161,722 | 35,482 | 18,209 | 18,209 | 109,141 | - | - |
| | <u>1,395,231,513</u> | <u>330,130,655</u> | <u>131,924,425</u> | <u>135,546,095</u> | <u>155,948,354</u> | <u>30,000,339</u> | <u>24,861,262</u> | <u>39,094,496</u> | <u>277,439,234</u> | <u>270,286,653</u> |
| Net gap | <u>122,608,652</u> | <u>255,405,728</u> | <u>(38,202,989)</u> | <u>(32,290,825)</u> | <u>(64,993,094)</u> | <u>17,822,726</u> | <u>29,400,534</u> | <u>249,666,906</u> | <u>(162,185,555)</u> | <u>(132,014,779)</u> |
| Share capital | 12,122,748 | | | | | | | | | |
| Reserves | 36,337,497 | | | | | | | | | |
| Unappropriated profit | 62,128,562 | | | | | | | | | |
| Surplus on revaluation of assets - net of tax | 12,019,845 | | | | | | | | | |
| | <u>122,608,652</u> | | | | | | | | | |

2011

| | Total | Rupees in '000 | | | | | | | | | | |
|---|--------------------|--------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|------------------------|----------------------|-----------|------------|
| | | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | Over five to ten years | Over ten years | | |
| Assets | | | | | | | | | | | | |
| Cash and balances with treasury banks | 103,080,076 | 28,482,198 | 15,102,723 | 19,320,791 | 3,650,924 | 935,434 | 807,311 | 1,141,456 | 16,911,469 | 16,727,770 | - | - |
| Balances with other banks | 34,985,809 | 23,422,698 | 6,296,560 | 3,793,870 | 1,472,681 | - | - | - | - | - | - | - |
| Lendings to financial institutions | 41,581,029 | 3,586,218 | 1,310,351 | 2,630,016 | 34,054,444 | - | - | - | - | - | - | - |
| Investments | 399,939,469 | 167,942,371 | 13,506,013 | 13,800,949 | 22,970,490 | 23,317,400 | 15,876,529 | 52,922,969 | 38,429,570 | 51,173,178 | 3,864,242 | - |
| Advances | 416,261,389 | 30,446,587 | 36,500,284 | 44,604,700 | 18,113,120 | 25,753,524 | 23,627,906 | 180,697,290 | 52,653,736 | - | - | - |
| Deferred tax asset | 6,957,290 | - | - | - | - | 1,391,928 | 1,391,928 | 2,783,856 | 1,389,578 | - | - | - |
| Operating fixed assets | 17,107,263 | - | - | - | - | - | - | - | - | - | - | 17,107,263 |
| Other assets | 43,941,323 | 15,566,612 | 9,531,733 | 7,242,301 | 9,613,509 | - | - | 63,081 | - | - | - | 1,924,087 |
| | 1,063,853,648 | 269,446,683 | 82,247,664 | 91,392,628 | 89,875,168 | 51,398,287 | 41,703,674 | 237,608,652 | 109,384,353 | 90,796,540 | - | - |
| Liabilities | | | | | | | | | | | | |
| Bills payable | 13,894,502 | 4,597,253 | 3,718,899 | 5,578,350 | - | - | - | - | - | - | - | - |
| Borrowings from financial institutions | 33,714,904 | 10,097,432 | 7,607,680 | 9,700,467 | 565,952 | 584,249 | 903,963 | 1,203,145 | 3,052,016 | - | - | - |
| Deposits and other accounts | 875,308,597 | 80,847,137 | 98,766,329 | 71,577,204 | 104,278,864 | 19,820,683 | 21,537,109 | 30,523,819 | 226,428,907 | 221,528,545 | - | - |
| Sub-ordinated loans | 4,497,285 | - | - | - | - | - | 4,497,285 | - | - | - | - | - |
| Other liabilities | 34,983,770 | 17,668,995 | 9,628,009 | 3,352,295 | 702,662 | 519,865 | 519,865 | 2,592,079 | - | - | - | - |
| | 962,399,058 | 113,210,817 | 119,720,917 | 90,208,316 | 105,547,478 | 20,924,797 | 27,458,222 | 34,319,043 | 229,480,923 | 221,528,545 | - | - |
| Net gap | 101,454,590 | 156,235,866 | (37,473,253) | 1,184,312 | (15,672,310) | 30,473,490 | 14,245,452 | 203,289,609 | (120,096,570) | (130,732,005) | - | - |
| Share capital | 11,020,680 | - | - | - | - | - | - | - | - | - | - | - |
| Reserves | 30,203,696 | - | - | - | - | - | - | - | - | - | - | - |
| Unappropriated profit | 52,228,646 | - | - | - | - | - | - | - | - | - | - | - |
| Surplus on revaluation of assets - net of tax | 8,001,568 | - | - | - | - | - | - | - | - | - | - | - |
| | 101,454,590 | - | - | - | - | - | - | - | - | - | - | - |

40.2 Expected maturity dates do not differ significantly from the contract dates except for the maturity of Rs. 722.938 billion (2011: Rs. 577.132 billion) of deposits representing retail deposit accounts considered by the Bank as stable core source of funding of its operations.

40.3 In accordance with BSD Circular Letter No.02 dated January 14, 2013, issued by SBP, the Bank is required to report maturity gaps between of assets and liabilities on contractual basis which are as follows:

2012

| | Total | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | Over five to ten years | Over ten years |
|---|----------------------|----------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|------------------------|-------------------|
| | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and balances with treasury banks | 152,324,425 | 150,342,291 | 1,740,557 | 241,577 | - | - | - | - | - | - |
| Balances with other banks | 23,907,534 | 20,849,621 | 1,988,925 | 559,620 | 509,368 | - | - | - | - | - |
| Lendings to financial institutions | 24,828,255 | 4,890,000 | 590,000 | 19,348,255 | - | - | - | - | - | - |
| Investments | 777,185,323 | 139,349,040 | 126,584,794 | 119,580,190 | 264,443,903 | 17,664,251 | 26,637,169 | 58,732,062 | 3,794,999 | 20,398,915 |
| Advances | 460,070,634 | 176,259,221 | 56,281,451 | 61,971,239 | 21,337,121 | 18,561,768 | 11,153,894 | 64,155,471 | 43,489,380 | 6,861,089 |
| Operating fixed assets | 21,185,101 | 108,385 | 216,770 | 325,155 | 650,310 | 1,300,620 | 1,300,761 | 1,662,192 | 941,341 | 14,679,567 |
| Deferred tax asset | 5,743,464 | 5,743,464 | - | - | - | - | - | - | - | - |
| Other assets | 52,595,429 | 40,349,291 | 2,294,508 | 3,441,762 | 6,509,868 | - | - | - | - | - |
| | <u>1,517,840,165</u> | <u>537,891,313</u> | <u>189,697,005</u> | <u>205,467,798</u> | <u>293,450,570</u> | <u>37,526,639</u> | <u>39,091,824</u> | <u>124,549,725</u> | <u>48,225,720</u> | <u>41,939,571</u> |
| Liabilities | | | | | | | | | | |
| Bills payable | 18,878,652 | 18,878,652 | - | - | - | - | - | - | - | - |
| Borrowings from financial institutions | 192,108,597 | 10,383,925 | 174,872,386 | - | 237,218 | 183,231 | 280,804 | 450,219 | 2,970,723 | 1,959,729 |
| Deposits and other accounts | 1,141,164,975 | 820,026,718 | 87,306,699 | 87,306,699 | 99,353,522 | 10,368,710 | 10,075,604 | 9,389,746 | 6,043,738 | 54,828 |
| Sub-ordinated loans | 4,857,485 | - | 1,214,371 | 1,214,371 | 1,214,371 | 2,428,743 | - | - | - | - |
| Other liabilities | 38,221,804 | 37,883,210 | - | - | 338,594 | - | - | - | - | - |
| | <u>1,395,231,513</u> | <u>887,172,505</u> | <u>99,315,772</u> | <u>263,393,456</u> | <u>101,143,705</u> | <u>12,980,684</u> | <u>10,356,408</u> | <u>9,839,965</u> | <u>9,014,461</u> | <u>2,014,557</u> |
| Net gap | <u>122,608,652</u> | <u>(349,281,192)</u> | <u>90,381,233</u> | <u>(57,925,658)</u> | <u>192,306,865</u> | <u>24,545,955</u> | <u>28,735,416</u> | <u>114,709,760</u> | <u>39,211,259</u> | <u>39,925,014</u> |
| Share capital | 12,122,748 | | | | | | | | | |
| Reserves | 36,337,497 | | | | | | | | | |
| Unappropriated profit | 62,128,562 | | | | | | | | | |
| Surplus on revaluation of assets - net of tax | 12,019,845 | | | | | | | | | |
| | <u>122,608,652</u> | | | | | | | | | |

2011

| | Total | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | Over five to ten years | Over ten years |
|---|----------------------|----------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|------------------------|-------------------|
| ----- Rupees in '000 ----- | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and balances with treasury banks | 103,080,076 | 96,971,080 | 4,493,511 | 1,398,767 | - | 216,718 | - | - | - | - |
| Balances with other banks | 34,985,809 | 27,395,734 | 6,008,129 | 109,265 | 1,472,681 | - | - | - | - | - |
| Lendings to financial institutions | 41,581,029 | 40,239,605 | 1,341,424 | - | - | - | - | - | - | - |
| Investments | 399,939,469 | 15,866,871 | 23,679,415 | 103,644,374 | 142,699,067 | 20,827,937 | 12,772,091 | 49,095,266 | 8,562,188 | 22,792,260 |
| Advances | 416,261,389 | 117,144,159 | 36,926,563 | 44,986,598 | 19,391,958 | 28,311,200 | 26,185,582 | 87,345,260 | 31,839,449 | 24,130,620 |
| Deferred tax asset | 6,957,290 | 6,957,290 | - | - | - | - | - | - | - | - |
| Operating fixed assets | 17,107,263 | 73,655 | 147,310 | 220,966 | 441,931 | 883,863 | 883,962 | 1,113,199 | 685,825 | 12,656,552 |
| Other assets | 43,941,323 | 31,213,196 | 1,984,909 | 2,977,363 | 7,765,855 | - | - | - | - | - |
| | <u>1,063,853,648</u> | <u>335,861,590</u> | <u>74,581,261</u> | <u>153,337,333</u> | <u>171,771,492</u> | <u>50,239,718</u> | <u>39,841,635</u> | <u>137,553,725</u> | <u>41,087,462</u> | <u>59,579,432</u> |
| Liabilities | | | | | | | | | | |
| Bills payable | 13,894,502 | 13,894,502 | - | - | - | - | - | - | - | - |
| Borrowings from financial institutions | 33,714,904 | 10,097,432 | 7,607,680 | 9,700,467 | 565,952 | 584,249 | 903,963 | 1,203,145 | 3,052,016 | - |
| Deposits and other accounts | 875,308,597 | 645,285,419 | 86,060,339 | 50,436,425 | 61,137,468 | 8,630,783 | 10,438,337 | 7,839,583 | 5,284,777 | 195,466 |
| Sub-ordinated loans | 4,497,285 | - | - | - | - | - | 4,497,285 | - | - | - |
| Other liabilities | 34,983,770 | 34,629,253 | - | - | 354,517 | - | - | - | - | - |
| | <u>962,399,058</u> | <u>703,906,606</u> | <u>93,668,019</u> | <u>60,136,892</u> | <u>62,057,937</u> | <u>9,215,032</u> | <u>15,839,585</u> | <u>9,042,728</u> | <u>8,336,793</u> | <u>195,466</u> |
| Net gap | <u>101,454,590</u> | <u>(368,045,016)</u> | <u>(19,086,758)</u> | <u>93,200,441</u> | <u>109,713,555</u> | <u>41,024,686</u> | <u>24,002,050</u> | <u>128,510,997</u> | <u>32,750,669</u> | <u>59,383,966</u> |
| Share capital | 11,020,680 | | | | | | | | | |
| Reserves | 30,203,696 | | | | | | | | | |
| Unappropriated profit | 52,228,646 | | | | | | | | | |
| Surplus on revaluation of assets - net of tax | 8,001,568 | | | | | | | | | |
| | <u>101,454,590</u> | | | | | | | | | |

40.4 The Bank has assets and liabilities that have contractual or non-contractual maturities. The Bank conducts empirical and statistical studies to assess the expected maturity of assets and liabilities with non-contractual maturities. The behavioral maturities of Demand deposits are determined on the basis of an empirical study conducted by the Bank, based on the past five years of data. The attrition rate of deposits is determined based on historically observed monthly data of all Current and Saving Deposit accounts. The parameters used to determine the stickiness of deposits in the study are accounts with balances above a minimum level and monthly change in account balances.

Overdraft facilities are a part of the loan portfolio that roll-over periodically and are constantly a part of the balance sheet. The core or stable part of this asset category can be considered to have a behavioral maturity of a longer tenor. Although, contractually such facilities are short-term, they are generally rolled over periodically; such as working capital financing for commercial borrowers. Hence these assets need to be analyzed as having a core portion which is stable and constantly appears on the balance sheet and a non-core portion that is relatively volatile. Statistical analysis is used to ascertain the change in maturity profiling over time based on the cyclical changes in the outstanding amount against Overdraft facilities.

41. YIELD / INTEREST RATE RISK

41.1 Interest rate risk management

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. In accordance with BSD circular letter no. 03 of 2011, issued by SBP, the Bank is required to report interest rate sensitivity gap of assets and liabilities on the basis of an objective and systematic behavioral study approved by ALCO committee.

| | Effective yield / Interest rate | Total | Exposed to yield / interest risk | | | | | | Not exposed to yield / interest risk |
|---|---------------------------------|---------------|----------------------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------------------|
| | | | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | |
| Rupees in '000 | | | | | | | | | |
| On-balance sheet assets | | | | | | | | | |
| Financial Assets | | | | | | | | | |
| Cash and balances with treasury banks | 1.37% | 152,324,425 | 31,691,239 | 1,740,557 | 241,577 | - | - | - | 118,651,052 |
| Balances with other banks | 9.19% | 23,907,534 | 11,364,021 | 2,995,257 | 2,135,992 | - | - | - | 7,412,264 |
| Lending to financial institutions | 10.04% | 777,185,323 | 115,836,696 | 135,879,567 | 127,847,162 | 267,194,110 | 13,257,448 | 28,604,141 | 10,287,594 |
| Advances | 11.69% | 460,070,634 | 33,880,662 | 205,747,624 | 155,631,392 | 20,899,578 | 8,490,446 | 7,590,094 | 9,616,997 |
| Other assets | | 40,226,790 | - | - | - | - | - | - | 40,226,790 |
| | | 1,478,542,961 | 216,700,873 | 347,263,005 | 285,856,123 | 288,093,688 | 21,747,894 | 36,194,235 | 14,867,102 |
| Financial Liabilities | | | | | | | | | |
| Bills payable | | 18,878,652 | - | - | - | - | - | - | 18,878,652 |
| Borrowings from financial institutions | 8.61% | 192,108,597 | 168,672,315 | 8,049,078 | 11,024,749 | 69,444 | 168,158 | 179,672 | 2,503,731 |
| Deposits and other accounts | 5.24% | 1,141,164,975 | 77,511,718 | 108,703,857 | 541,150,040 | 90,042,729 | 10,240,069 | 10,043,352 | 287,984,897 |
| Sub-ordinated loans | 2.42% | 4,857,485 | - | - | 4,857,485 | - | - | - | 54,828 |
| Other liabilities | | 36,370,853 | - | - | - | - | - | - | - |
| | | 1,393,380,562 | 246,184,033 | 116,752,935 | 557,032,274 | 90,112,173 | 10,408,227 | 10,223,024 | 54,828 |
| On-balance sheet gap | | 85,162,399 | (29,483,160) | 230,510,070 | (71,176,151) | 197,981,515 | 11,339,667 | 25,971,211 | 14,812,274 |
| Non - financial net assets | | 37,446,253 | - | - | - | - | - | - | 36,370,853 |
| Total Net assets | | 122,608,652 | - | - | - | - | - | - | 159,543,436 |
| Off-balance sheet financial instruments | | | | | | | | | |
| Foreign and local currency forward purchases | | 161,434,192 | 79,968,168 | 52,945,085 | 6,548,990 | 21,971,950 | - | - | - |
| Foreign and local currency forward sales | | (161,344,507) | (90,563,751) | (54,119,845) | (1,988,109) | (14,672,802) | - | - | - |
| Foreign Currency Options Purchases | | 1,317,949 | 20,466 | 446,463 | 851,020 | - | - | - | - |
| Foreign Currency Options Sales | | (1,317,949) | (20,466) | (446,463) | (851,020) | - | - | - | - |
| Cross Currency Swaps- Long Position | | 3,659,009 | - | 498,872 | 340,811 | 2,240,634 | 578,692 | - | - |
| Cross Currency Swaps- Short Position | | (3,659,009) | - | (498,872) | (340,811) | (2,240,634) | (578,692) | - | - |
| Interest rate swaps - long position | | 444,199 | - | - | 152,750 | - | - | - | 291,449 |
| Interest rate swaps - short position | | (291,449) | - | - | - | - | - | - | (291,449) |
| Off-balance sheet gap | | 242,435 | (10,595,583) | (1,174,760) | 4,713,631 | 7,299,148 | - | - | - |
| Total yield / interest risk sensitivity Gap | | (40,078,743) | 229,335,310 | (266,462,521) | 205,280,663 | 11,339,667 | 25,971,211 | 62,959,435 | 1,790,974 |
| Cumulative Yield / Interest Risk Sensitivity Gap | | (40,078,743) | 189,256,567 | (77,205,954) | 128,074,709 | 139,414,376 | 165,385,587 | 228,345,022 | 230,135,996 |
| | | | | | | | | | 244,948,270 |
| | | | | | | | | | 85,404,834 |

41.2 In accordance with BSD Circular Letter No.02 dated January 14, 2013, issued by SBP, the Group is required to report interest rate sensitivity gap of assets and liabilities which are as follows:

| Effective Yield / Interest rate | Total | Exposed to yield / interest risk | | | | | | | Not exposed to yield / interest risk | | |
|--|---|----------------------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|--------------------------------------|------------------------|----------------------|
| | | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | | Over five to ten years | |
| | | | | | | | | | | | Rupees in '000 |
| On-balance sheet assets | | | | | | | | | | | |
| Financial Assets | | | | | | | | | | | |
| | Cash and balances with treasury | | | | | | | | | 118,651,052 | |
| 1.37% | 152,324,425 | 31,691,239 | 1,740,557 | 241,577 | - | - | - | - | - | 7,412,264 | |
| | Balances with other banks | 23,907,534 | 11,364,021 | 2,995,257 | - | - | - | - | - | - | |
| 9.19% | 24,828,255 | 23,928,255 | 900,000 | - | - | - | - | - | - | - | |
| 10.04% | 777,185,323 | 115,836,696 | 135,879,567 | 127,847,162 | 267,194,110 | 13,257,448 | 28,604,141 | 62,145,099 | 2,528,890 | 13,604,616 | |
| 11.69% | 460,070,634 | 33,880,662 | 205,747,624 | 155,631,392 | 20,899,578 | 8,490,446 | 7,590,094 | 10,624,140 | 6,327,215 | 1,262,486 | |
| | Other assets | 40,226,790 | - | - | - | - | - | - | - | - | 40,226,790 |
| | 1,478,542,961 | 216,700,873 | 347,263,005 | 285,856,123 | 288,093,688 | 21,747,894 | 36,194,235 | 72,769,239 | 8,856,105 | 14,867,102 | 186,194,697 |
| Financial Liabilities | | | | | | | | | | | |
| | Bills payable | 18,878,652 | - | - | - | - | - | - | - | - | 18,878,652 |
| | Borrowings from financial institutions | 192,108,597 | 168,672,315 | 11,024,749 | 69,444 | 168,158 | 179,672 | 420,057 | 1,021,393 | - | 2,503,731 |
| 8.61% | 1,141,164,975 | 71,373,995 | 96,592,196 | 88,735,113 | 90,042,729 | 480,822,479 | 10,043,352 | 9,389,747 | 6,043,753 | 54,828 | 288,066,783 |
| 5.24% | 4,857,485 | - | - | 4,857,485 | - | - | - | - | - | - | - |
| 2.42% | 36,370,853 | - | - | - | - | - | - | - | - | - | 36,370,853 |
| | 1,393,380,562 | 240,046,310 | 104,641,274 | 104,617,347 | 90,112,173 | 480,990,637 | 10,223,024 | 9,809,804 | 7,065,146 | 54,828 | 345,820,019 |
| | 85,162,399 | (23,345,437) | 242,621,731 | 181,238,776 | 197,981,515 | (459,242,743) | 25,971,211 | 62,959,435 | 1,790,959 | 14,812,274 | (159,625,322) |
| | 37,446,253 | | | | | | | | | | |
| | 122,608,652 | | | | | | | | | | |
| Off-balance sheet financial instruments | | | | | | | | | | | |
| | Foreign and local currency forward purchases | 161,434,192 | 79,968,168 | 6,548,990 | 21,971,950 | - | - | - | - | - | - |
| | Foreign and local currency forward sales | (161,344,507) | (90,563,751) | (1,988,109) | (14,672,802) | - | - | - | - | - | - |
| | Foreign Currency Options Purchases | 1,317,949 | 20,466 | 446,463 | 851,020 | - | - | - | - | - | - |
| | Foreign Currency Options Sales | (1,317,949) | (20,466) | (446,463) | (851,020) | - | - | - | - | - | - |
| | Cross Currency Swaps- Long Position | 3,659,009 | 498,872 | 340,811 | 2,240,634 | 578,692 | - | - | - | - | - |
| | Cross Currency Swaps- Short Position | (3,659,009) | (498,872) | (340,811) | (2,240,634) | (578,692) | - | - | - | - | - |
| | Interest rate swaps - long position | 444,199 | - | 152,750 | - | - | - | 291,449 | - | - | - |
| | Interest rate swaps - short position | (291,449) | - | - | - | - | - | (291,449) | - | - | - |
| | Off-balance sheet gap | 242,435 | (10,595,583) | (1,174,760) | 4,713,631 | 7,299,148 | - | - | - | - | - |
| | Total yield / interest risk sensitivity Gap | (33,941,020) | 241,446,971 | 185,952,406 | 205,280,663 | (459,242,743) | 25,971,211 | 62,959,435 | 1,790,959 | 14,812,274 | (159,625,322) |
| | Cumulative Yield / Interest Risk Sensitivity Gap | (33,941,020) | 207,505,951 | 393,458,357 | 598,739,020 | 139,496,277 | 165,467,488 | 228,426,923 | 230,217,882 | 245,030,156 | 85,404,834 |

2011

| Effective yield / interest rate | Total | Exposed to yield / interest risk | | | | | | Not exposed to yield / interest risk | | | |
|---------------------------------|--|----------------------------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------------------|------------------------|----------------|-------------|
| | | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | Over five to ten years | Over ten years | |
| Rupees in '000 | | | | | | | | | | | |
| On-balance sheet assets | | | | | | | | | | | |
| Financial Assets | | | | | | | | | | | |
| | Cash and balances with treasury banks | | 1,714,244 | 1,398,767 | - | 216,718 | - | - | - | - | 79,224,143 |
| 2.28% | Balances with other banks | 20,526,204 | 4,577,021 | 3,925,009 | 1,472,681 | - | - | - | - | - | 3,124,131 |
| | Lending to financial institutions | 21,886,967 | 1,310,351 | 2,630,016 | 34,054,444 | - | - | - | - | - | - |
| 11.78% | Investments | 41,581,029 | 28,828,811 | 116,072,569 | 138,883,344 | 14,600,939 | 3,628,942 | 48,343,892 | 7,480,942 | 15,325,589 | 9,098,262 |
| 11.66% | Advances | 399,939,469 | 17,676,179 | 189,443,847 | 26,826,531 | 12,659,309 | 8,037,780 | 8,063,160 | 5,746,064 | 1,875,809 | 5,939,528 |
| 13.14% | Other assets | 416,261,389 | 29,816,615 | 127,852,746 | 201,237,000 | 27,476,966 | 11,666,722 | 56,407,052 | 13,227,006 | 17,201,398 | 32,098,948 |
| | | 32,098,948 | 225,874,274 | 251,879,108 | 201,237,000 | 27,476,966 | 11,666,722 | 56,407,052 | 13,227,006 | 17,201,398 | 129,485,012 |
| | | 1,027,946,720 | 93,492,183 | 961,233,980 | 56,456,043 | 89,468,195 | 136,406,079 | 186,956,461 | 37,036,140 | 34,741,850 | 101,454,590 |
| | | 13,894,502 | 10,097,432 | 7,607,680 | 565,952 | 584,249 | 903,963 | 1,203,145 | 3,052,016 | - | 13,894,502 |
| 8.65% | Borrowings from financial institutions | 33,714,904 | 81,860,515 | 50,724,894 | 70,362,558 | 398,738,035 | 14,389,506 | 16,228,613 | 49,794,045 | 44,893,683 | 101,958,137 |
| 5.08% | Deposits and other accounts | 875,308,597 | - | 4,497,285 | - | - | - | - | - | - | - |
| 2.40% | Sub-ordinated loans | 4,497,285 | - | - | - | - | - | - | - | - | - |
| | Other liabilities | 33,818,692 | - | - | - | - | - | - | - | - | 33,818,692 |
| | | 961,233,980 | 56,456,043 | 64,922,646 | 70,928,510 | 399,322,284 | 15,293,469 | 17,431,758 | 52,846,061 | 44,893,683 | 149,671,331 |
| | | 66,712,740 | 136,406,079 | 186,956,461 | 130,308,490 | 371,845,318 | 3,626,747 | 38,975,294 | 39,619,055 | 27,692,285 | 20,186,319 |
| | | 34,741,850 | | | | | | | | | |
| | | 101,454,590 | | | | | | | | | |
| | | 130,739,964 | 48,061,498 | 46,908,970 | 6,572,217 | - | - | - | - | - | - |
| | Foreign and local currency forward purchases | (130,737,820) | (48,056,815) | (46,885,070) | (6,505,099) | - | - | - | - | - | - |
| | Foreign and local currency forward sales | 336,655 | 31,619 | 29,290,836 | (29,290,836) | - | - | - | - | - | - |
| | Foreign Currency Options Purchases | (336,655) | (31,619) | 279,825 | 25,211 | - | - | - | - | - | - |
| | Foreign Currency Options Sales | 2,868,771 | (279,825) | (25,211) | - | 2,868,771 | - | - | - | - | - |
| | Cross Currency Swaps- Long Position | (2,868,771) | - | - | - | (2,868,771) | - | - | - | - | - |
| | Cross Currency Swaps- Short Position | 482,551 | - | - | - | 152,750 | - | 329,801 | - | - | - |
| | Interest rate swaps - long position | (329,801) | - | - | - | - | - | (329,801) | - | - | - |
| | Interest rate swaps - short position | 154,894 | 4,683 | (93,557) | 67,118 | 152,750 | - | - | - | - | - |
| | | 37,040,823 | 136,429,979 | 186,862,904 | 130,375,608 | 371,692,568 | 3,626,747 | 38,975,294 | 39,619,055 | 27,692,285 | 20,186,319 |
| | | 37,040,823 | 173,470,802 | 360,333,706 | 490,709,314 | 119,016,746 | 115,389,999 | 154,365,293 | 114,746,238 | 87,053,953 | 66,867,634 |

Off-balance sheet financial instruments

Total yield / interest risk sensitivity Gap

Cumulative Yield / Interest Risk Sensitivity Gap

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments are based on quoted market prices and unquoted investments including investments in subsidiaries, joint venture and associates are estimated using the best available market based information. Fair value of these investments has been disclosed in note 8.

Fair value of fixed term loans, other assets and other liabilities cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 4.4.

The maturity and repricing profile and effective rates are stated in notes 40 and 41 respectively.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently repriced.

43. CONCENTRATION OF CREDIT AND DEPOSITS

43.1 Concentration of credit risk

Out of the total financial assets of Rs. 1,478,542.961 million, financial assets which were subject to credit risk amounted to Rs. 1,454,542.468 million. The Bank's major credit risk is concentrated in the textile sector.

The following financial assets are guaranteed by the Federal / overseas Governments or SBP / other Central Banks and enterprises owned / controlled by the Government:

Guaranteed by the Government of Pakistan (GOP)

| | 2012 (Rupees in '000) |
|--------------------------------------|--------------------------|
| Investments | 719,372,586 |
| Advances | 17,495,635 |
| Financial assets receivable from GOP | 250,144 |
| Mark-up receivable | <u>5,035,382</u> |
| | 742,153,747 |

Financial assets receivable from enterprises owned / controlled by Government

| | |
|--|-------------|
| Advances | 90,131,333 |
| Financial assets receivable from State Bank of Pakistan | 55,512,539 |
| Financial assets receivable from National Bank of Pakistan | 15,691,749 |
| Mark-up receivable | 1,328,427 |
| | 162,664,048 |

| | |
|--|--------------------|
| Guaranteed by Overseas Governments | 15,029,607 |
| Financial assets receivable from other central banks | <u>59,117,338</u> |
| | <u>978,964,740</u> |

43.2 Segment by class of business

| | 2012 | | | | | |
|---|--------------------|---------------|----------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Chemical and pharmaceuticals | 19,344,760 | 3.86 | 3,107,859 | 0.27 | 9,384,070 | 4.49 |
| Agribusiness | 30,587,210 | 6.10 | 8,440,157 | 0.74 | 1,177,448 | 0.56 |
| Textile | 62,540,933 | 12.46 | 4,238,836 | 0.37 | 10,001,514 | 4.79 |
| Cement | 7,246,217 | 1.44 | 528,574 | 0.05 | 1,867,508 | 0.89 |
| Sugar | 4,496,961 | 0.90 | 985,057 | 0.09 | 228,854 | 0.11 |
| Shoes and leather garments | 1,991,243 | 0.40 | 1,412,628 | 0.12 | 438,351 | 0.21 |
| Automobile and transportation equipment | 11,152,649 | 2.22 | 2,271,381 | 0.20 | 2,917,869 | 1.40 |
| Financial | 23,919,702 | 4.77 | 10,444,256 | 0.92 | 25,737,058 | 12.31 |
| Hotel & Tourism | 694,152 | 0.14 | 1,509,521 | 0.13 | - | - |
| Research & Development | - | - | 2,590,386 | 0.23 | - | - |
| Insurance | 7,920 | - | 6,397,374 | 0.56 | 2,798 | - |
| Electronics and electrical appliances | 15,044,966 | 3.00 | 534,143 | 0.05 | 9,027,838 | 4.32 |
| Oil and Gas | 15,408,200 | 3.07 | 20,406,572 | 1.79 | 9,351,427 | 4.47 |
| Power and energy | 36,130,566 | 7.20 | 2,081,579 | 0.18 | 7,203,956 | 3.45 |
| Education & Medical | 1,707,995 | 0.34 | 5,209,530 | 0.46 | 688,827 | 0.33 |
| Telecommunication | 11,062,237 | 2.20 | 5,497,887 | 0.48 | 5,636,432 | 2.70 |
| Printing & publishing | 2,242,204 | 0.45 | 561,451 | 0.05 | 584,433 | 0.28 |
| Construction | 1,580,885 | 0.32 | 2,769,333 | 0.24 | 905,536 | 0.43 |
| Mining & quarrying | 336,696 | 0.07 | 71,838 | 0.01 | 6,353 | - |
| Food, tobacco and beverages | 8,229,468 | 1.64 | 1,616,074 | 0.14 | 6,307,186 | 3.02 |
| Public / Government - note 43.2.1 | 107,626,968 | 21.45 | 223,196,603 | 19.56 | 75,137,622 | 35.95 |
| Whole sale & retail trade | 51,345,680 | 10.23 | 64,771,103 | 5.68 | 7,586,970 | 3.63 |
| Metal and allied | 6,614,309 | 1.32 | 893,627 | 0.08 | 1,817,383 | 0.87 |
| Individual | 33,098,458 | 6.60 | 580,619,768 | 50.88 | 434,950 | 0.21 |
| Farming, cattle and dairy | 1,390,679 | 0.28 | 833,252 | 0.07 | 892,901 | 0.43 |
| Trust funds and non profit organization | 2,633,761 | 0.52 | 36,945,855 | 3.24 | 216,748 | 0.10 |
| Others | 45,326,975 | 9.02 | 153,230,331 | 13.42 | 31,451,282 | 15.05 |
| | 501,761,794 | 100.00 | 1,141,164,975 | 100.00 | 209,005,314 | 100.00 |

| | 2011 | | | | | |
|---|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Chemical and pharmaceuticals | 20,924,482 | 4.55 | 3,315,296 | 0.38 | 9,593,622 | 5.57 |
| Agribusiness | 30,348,721 | 6.60 | 7,350,958 | 0.84 | 1,292,469 | 0.75 |
| Textile | 71,248,680 | 15.49 | 4,537,365 | 0.52 | 13,205,044 | 7.67 |
| Cement | 10,130,466 | 2.20 | 451,916 | 0.05 | 2,283,061 | 1.33 |
| Sugar | 4,490,155 | 0.98 | 701,248 | 0.08 | 313,444 | 0.18 |
| Shoes and leather garments | 1,916,323 | 0.42 | 911,012 | 0.10 | 389,755 | 0.23 |
| Automobile and transportation equipment | 9,762,079 | 2.12 | 4,426,899 | 0.51 | 3,002,694 | 1.74 |
| Financial | 15,068,154 | 3.28 | 8,888,562 | 1.02 | 25,572,894 | 14.85 |
| Hotel and tourism | 1,189,467 | 0.26 | 1,243,362 | 0.14 | - | - |
| Research and development | - | - | 185,383 | 0.02 | - | - |
| Insurance | 340,194 | 0.07 | 3,080,894 | 0.35 | 3,397 | - |
| Electronics and electrical appliances | 15,885,664 | 3.45 | 491,028 | 0.06 | 2,696,180 | 1.57 |
| Oil and Gas | 13,456,078 | 2.93 | 15,627,064 | 1.79 | 7,266,085 | 4.22 |
| Power and energy | 39,398,621 | 8.57 | 5,182,815 | 0.59 | 10,148,442 | 5.89 |
| Education & Medical | 1,854,452 | 0.40 | 3,776,187 | 0.43 | 434,529 | 0.25 |
| Telecommunication | 12,983,403 | 2.82 | 2,963,121 | 0.34 | 1,221,297 | 0.71 |
| Printing & publishing | 2,866,891 | 0.62 | 279,403 | 0.03 | 674,086 | 0.39 |
| Construction | 2,634,577 | 0.57 | 2,430,194 | 0.28 | 1,109,401 | 0.64 |
| Mining & quarrying | 322,946 | 0.07 | 37,565 | - | 6,353 | - |
| Food, tobacco and beverages | 8,245,482 | 1.79 | 1,367,879 | 0.16 | 2,841,426 | 1.65 |
| Public / Government - note 43.2.1 | 73,370,040 | 15.95 | 142,319,232 | 16.26 | 56,247,564 | 32.65 |
| Whole sale & retail trade | 47,979,688 | 10.43 | 48,840,891 | 5.58 | 7,559,099 | 4.39 |
| Metal and allied | 7,069,126 | 1.54 | 863,523 | 0.10 | 2,242,329 | 1.30 |
| Individual | 25,305,598 | 5.50 | 530,561,008 | 60.61 | 989,938 | 0.57 |
| Farming, cattle and dairy | 1,569,502 | 0.34 | 475,372 | 0.05 | 1,010,665 | 0.59 |
| Trust funds and non profit organization | 1,663,051 | 0.36 | 20,896,184 | 2.39 | 15,200 | 0.01 |
| Others | 39,939,977 | 8.69 | 64,104,236 | 7.32 | 22,134,631 | 12.85 |
| | 459,963,817 | 100.00 | 875,308,597 | 100.00 | 172,253,605 | 100.00 |

43.2.1 Public / Government sector

| | 2012 | | | | | |
|---|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Chemical and pharmaceuticals | - | - | 796,775 | 0.36 | - | - |
| Agribusiness | 53,203,715 | 49.43 | 2,015,387 | 0.90 | - | - |
| Automobile and transportation equipment | 9,376,200 | 8.71 | 1,802,571 | 0.81 | 778,000 | 1.04 |
| Financial | 166,360 | 0.15 | 10,482,294 | 4.70 | 5,214,493 | 6.94 |
| Insurance | 28,671 | 0.03 | 11,083,639 | 4.97 | 39,204 | 0.05 |
| Oil and Gas | 6,488,699 | 6.03 | 58,806,784 | 26.35 | 15,448,245 | 20.56 |
| Power and energy | 32,254,161 | 29.97 | 11,786,817 | 5.28 | 13,640,879 | 18.15 |
| Education & medical | 77,032 | 0.07 | 34,019,358 | 15.24 | 54,896 | 0.07 |
| Telecommunication | 219,000 | 0.20 | 3,911,077 | 1.75 | 603,743 | 0.80 |
| Printing & publishing | - | - | 59,062 | 0.03 | - | - |
| Construction | - | - | 43,304 | 0.02 | - | - |
| Foods, tobacco & beverages | 178,520 | 0.17 | - | - | - | - |
| Metal and allied | 1,065,738 | 0.99 | 2,588,793 | 1.16 | - | - |
| Defence | 2,751,521 | 2.56 | 6,540,664 | 2.93 | 38,150,530 | 50.77 |
| Ports and shipping | - | - | 18,414,971 | 8.25 | 56,928 | 0.08 |
| Others | 1,817,351 | 1.69 | 60,845,107 | 27.25 | 1,150,704 | 1.54 |
| | 107,626,968 | 100.00 | 223,196,603 | 100.00 | 75,137,622 | 100.00 |

| | 2011 | | | | | |
|---|-------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Chemical and pharmaceuticals | - | - | 243,888 | 0.17 | - | - |
| Agribusiness | 51,392,146 | 70.05 | 1,675,356 | 1.18 | - | - |
| Automobile and transportation equipment | 7,968,675 | 10.86 | 2,896,057 | 2.03 | 940,243 | 1.67 |
| Financial | 792,036 | 1.08 | 2,536,633 | 1.78 | - | - |
| Insurance | - | - | 7,436,816 | 5.23 | 39,204 | 0.07 |
| Oil and Gas | 4,354,553 | 5.94 | 33,217,949 | 27.83 | 12,556,355 | 22.32 |
| Power and energy | 2,926,718 | 3.99 | 6,394,069 | 4.49 | 1,859,535 | 3.31 |
| Education & medical | 143,559 | 0.20 | 29,114,716 | 20.46 | 232,962 | 0.41 |
| Telecommunication | 251,578 | 0.34 | 1,075,933 | 0.76 | 546,110 | 0.97 |
| Printing & publishing | - | - | 18,454 | 0.01 | - | - |
| Construction | - | - | 36,112 | 0.03 | - | - |
| Foods, tobacco & beverages | 149,651 | 0.20 | 182 | - | - | - |
| Metal and allied | 1,136,591 | 1.55 | 1,521,734 | 1.07 | - | - |
| Defence | 3,148,732 | 4.29 | 5,833,653 | 4.10 | 37,156,412 | 66.06 |
| Ports and shipping | - | - | 6,223,668 | 4.37 | 149,880 | 0.27 |
| Others | 1,105,801 | 1.51 | 44,094,012 | 30.98 | 2,766,863 | 4.92 |
| | 73,370,040 | 100.00 | 142,319,232 | 100.00 | 56,247,564 | 100.00 |

43.2.2 Segment by sector

| | 2012 | | | | | |
|---------------------|--------------------|---------------|----------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Public / Government | 107,626,968 | 21.45 | 223,196,603 | 19.56 | 75,137,622 | 35.95 |
| Private | 394,134,826 | 78.55 | 917,968,372 | 80.44 | 133,867,691 | 64.05 |
| | 501,761,794 | 100.00 | 1,141,164,975 | 100.00 | 209,005,313 | 100.00 |

| | 2011 | | | | | |
|---------------------|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
| | Advances | | Deposits | | Contingencies and commitments | |
| | (Rupees in '000) | Percent | (Rupees in '000) | Percent | (Rupees in '000) | Percent |
| Public / Government | 73,370,040 | 15.95 | 142,319,232 | 16.26 | 56,247,564 | 32.65 |
| Private | 386,593,777 | 84.05 | 732,989,365 | 83.74 | 116,006,041 | 67.35 |
| | 459,963,817 | 100.00 | 875,308,597 | 100.00 | 172,253,605 | 100.00 |

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

| | 2012 | | 2011 | |
|---|---------------------|--------------------------|---------------------|--------------------------|
| | Classified advances | Specific provisions held | Classified advances | Specific provisions held |
| ----- (Rupees in '000) ----- | | | | |
| Chemical and Pharmaceuticals | 698,212 | 657,978 | 588,937 | 565,147 |
| Agribusiness | 3,528,254 | 2,124,467 | 3,504,294 | 1,742,441 |
| Textile | 16,749,928 | 13,588,115 | 20,233,500 | 17,355,176 |
| Cement | 1,987,083 | 1,021,996 | 2,264,266 | 1,091,291 |
| Sugar | 415,058 | 335,353 | 359,686 | 323,847 |
| Shoes and leather garments | 171,650 | 156,665 | 173,363 | 149,052 |
| Automobile and transportation equipment | 1,863,621 | 1,833,807 | 1,904,943 | 1,547,418 |
| Financial | 40,000 | 40,000 | 797,896 | 484,315 |
| Hotel and tourism | 226,913 | 226,913 | 226,913 | 211,913 |
| Electronics and electrical appliances | 2,881,516 | 2,708,716 | 2,800,712 | 2,646,244 |
| Oil and Gas | 2,185,183 | 798,374 | 332,454 | 331,141 |
| Power and energy | 1,710,239 | 1,709,227 | 1,718,991 | 1,717,832 |
| Education & medical | 529,511 | 524,968 | - | - |
| Telecommunication | 35,845 | 35,845 | 261,359 | 261,359 |
| Printing & publishing | 217,892 | 205,392 | 204,199 | 199,266 |
| Construction | 316,007 | 310,160 | 1,386,804 | 997,980 |
| Mining & quarrying | 65,462 | 999 | 527,214 | 435,858 |
| Food, tobacco and beverages | 337,130 | 294,722 | 527,828 | 480,587 |
| Whole sale & retail trade | 6,439,657 | 5,283,529 | 5,640,597 | 5,178,179 |
| Metal and allied | 1,058,915 | 952,066 | 912,416 | 894,518 |
| Individual | 1,038,473 | 950,929 | 946,563 | 893,919 |
| Farming, cattle and dairy | 295,167 | 124,512 | 308,288 | 101,700 |
| Trust funds and non profit organization | 2,500 | 2,500 | 2,500 | 2,500 |
| Others | 7,872,836 | 6,631,802 | 5,689,787 | 4,507,135 |
| | <u>50,667,052</u> | <u>40,519,035</u> | <u>51,313,510</u> | <u>42,118,818</u> |

43.3.1 Segment by sector

| | | | | |
|---------------------|-------------------|-------------------|-------------------|-------------------|
| Private | 49,892,679 | 39,744,662 | 50,064,661 | 41,243,979 |
| Public / Government | 774,373 | 774,373 | 1,248,849 | 874,839 |
| | <u>50,667,052</u> | <u>40,519,035</u> | <u>51,313,510</u> | <u>42,118,818</u> |

44. SEGMENT DETAIL WITH RESPECT TO BUSINESS ACTIVITIES

| | 2012 | | | | | Total |
|---|-------------------------------|--------------------------------|----------|-----------------------------|--------------------------------|-----------|
| | Retail banking | Corporate / commercial banking | Treasury | International banking group | Head office / support services | |
| | ----- Rupees in million ----- | | | | | |
| Net interest income - External | (32,293) | 31,245 | 52,174 | 5,154 | (204) | 56,076 |
| Inter segment revenue - net | 66,479 | (24,462) | (49,679) | - | 7,662 | - |
| Non-funded income | 5,327 | 2,528 | 2,897 | 2,144 | (506) | 12,390 |
| Net interest and non-mark-up income | 39,513 | 9,311 | 5,392 | 7,298 | 6,952 | 68,466 |
| Total expenses including provision (excluding impairment) | 14,896 | 4,953 | 201 | 5,831 | 9,167 | 35,048 |
| Impairment against investments | - | 130 | (224) | - | (114) | (208) |
| Inter segment administrative cost | 6,153 | 1,231 | 177 | 678 | (8,239) | - |
| Total expenses including provision | 21,049 | 6,314 | 154 | 6,509 | 814 | 34,840 |
| Profit / (loss) before tax | 18,464 | 2,997 | 5,238 | 789 | 6,138 | 33,626 |
| Segment assets (gross) | 140,414 | 359,738 | 772,075 | 189,586 | 99,723 | 1,561,536 |
| Segment non-performing loans | 8,884 | 31,660 | - | 10,049 | 74 | 50,667 |
| Segment provision required including general provision | 7,971 | 25,444 | 348 | 8,597 | 1,336 | 43,696 |
| Segment liabilities including equity | 892,734 | 140,299 | 170,051 | 112,555 | 202,201 | 1,517,840 |
| Segment return on net liability / asset (%) | 10.79% | 11.57% | 10.36% | 5.00% | 4.41% | - |
| Segment cost of funds (%) | 5.71% | 8.99% | 9.44% | 1.77% | 0.99% | - |
| | ----- Rupees in million ----- | | | | | |
| | 2011 | | | | | Total |
| | Retail banking | Corporate / commercial banking | Treasury | International banking group | Head office / support services | |
| | ----- Rupees in million ----- | | | | | |
| Net interest income - External | (21,560) | 43,749 | 28,791 | 4,054 | (150) | 54,884 |
| Inter segment revenue - net | 60,121 | (35,697) | (28,095) | - | 3,671 | - |
| Non-funded income | 4,689 | 2,533 | 1,735 | 2,104 | 1,027 | 12,088 |
| Net interest and non-mark-up income | 43,250 | 10,585 | 2,431 | 6,158 | 4,548 | 66,972 |
| Total expenses including provision (excluding impairment) | 12,874 | 6,534 | 132 | 4,719 | 9,805 | 34,064 |
| Impairment against investments | - | (38) | 69 | 822 | 24 | 877 |
| Inter segment administrative cost | 7,409 | 1,482 | 213 | 816 | (9,920) | - |
| Total expenses including provision | 20,283 | 7,978 | 414 | 6,357 | (91) | 34,941 |
| Net income before tax | 22,967 | 2,607 | 2,017 | (199) | 4,639 | 32,032 |
| Segment assets (gross) | 122,897 | 343,647 | 420,349 | 140,831 | 82,113 | 1,109,837 |
| Segment non-performing loans | 3,803 | 27,288 | - | 10,317 | 9,906 | 51,314 |
| Segment provision required including general provision | 6,802 | 27,080 | 410 | 9,881 | 1,810 | 45,983 |
| Segment liabilities including equity | 698,638 | 105,430 | 6,549 | 81,057 | 172,180 | 1,063,854 |
| Segment return on net liability / asset (%) | 12.45% | 13.01% | 10.76% | 4.09% | 5.69% | - |
| Segment cost of funds (%) | 5.40% | 10.40% | 9.94% | 0.81% | 0.89% | - |

45. TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities. However, Habib Bank Limited acts as security agent for arrangement and distribution of the term finance certificates and also engages in investment portfolio services as custodian on behalf of its customers.

46. GEOGRAPHICAL SEGMENT ANALYSIS

| | 2012 | | | |
|-------------------------------------|------------------------------|-----------------------|---------------------|-------------------------------|
| | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| | ----- (Rupees in '000) ----- | | | |
| Pakistan | 31,065,278 | 1,326,974,656 | 74,367,220 | 164,574,331 |
| Asia Pacific (including South Asia) | 250,925 | 54,284,193 | 15,446,505 | 7,688,393 |
| Europe | 51,332 | 11,090,555 | 8,179,332 | 10,505,110 |
| North America | 183,715 | 32,425,638 | 2,107,370 | 1,030,673 |
| Middle East | 1,486,890 | 77,214,497 | 18,007,412 | 24,516,405 |
| Others | 587,931 | 15,850,626 | 4,500,813 | 690,399 |
| | <u>33,626,071</u> | <u>1,517,840,165</u> | <u>122,608,652</u> | <u>209,005,311</u> |
| | 2011 | | | |
| | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| | ----- (Rupees in '000) ----- | | | |
| Pakistan | 31,310,298 | 921,095,008 | 63,701,906 | 146,297,924 |
| Asia Pacific (including South Asia) | 487,128 | 51,791,966 | 12,793,722 | 5,624,505 |
| Europe | 55,122 | 10,125,051 | 6,914,593 | 5,224,485 |
| North America | 34,449 | 4,387,510 | 1,782,304 | 869,506 |
| Middle East | 498,454 | 63,479,119 | 12,812,120 | 12,745,782 |
| Others | 318,690 | 12,974,994 | 3,449,945 | 1,491,403 |
| Impairment loss on Bank PHB | (672,580) | - | - | - |
| | <u>32,031,561</u> | <u>1,063,853,648</u> | <u>101,454,590</u> | <u>172,253,605</u> |

47. ISLAMIC BANKING BUSINESS (IBB)

In order to meet the guidelines for Shariah Compliance in Islamic Banking Institutions (IBI), statement of financial position and profit and loss account of IBB as at December 31, 2012 is given in annexure V. Further, detailed disclosures are also given in the said annexure to comply instructions issued by SBP to improve transparency and standardization in IBIs profit and loss distribution policies and practices dated November 19, 2012 and BSD circular letter No. 3 dated January 22, 2013.

48. DATE OF AUTHORISATION FOR ISSUE

These unconsolidated financial statements were authorised for issue in the Board of Directors meeting held on February 12, 2013.

49. GENERAL

49.1 These unconsolidated financial statements have been prepared in accordance with the revised format for financial statements of Banks issued by the SBP through BSD Circulars No. 4 and 7 dated February 17, 2006 and April 20, 2010 respectively and related clarifications / modifications.

49.2 The comparative figures have been re-arranged and re-classified for comparison purposes, however, there are no material re-classification to report.

Nauman K. Dar
President and Chief Executive Officer

Sikandar Mustafa Khan
Director

Ahmed Jawad
Director

Moez Ahamed Jamal
Director

Detail of Domestic Investments Unconsolidated

For the year ended December 31, 2012

ANNEXURE-I

1. Particulars of investments held in listed companies

1.1 Ordinary shares

| | Number of shares held | Paid-up value per share (Rupees) | Total paid-up value | Cost | Market value | Credit Ratings Short Term |
|---------------------------------------|-----------------------|----------------------------------|------------------------------|------------------|------------------|---------------------------|
| | | | ----- (Rupees in '000) ----- | | | |
| Attock Petroleum Limited | 300,000 | 10 | 3,000 | 147,510 | 153,597 | A1+ |
| D G Khan Cement Limited | 1,300,000 | 10 | 13,000 | 70,036 | 70,954 | N/A |
| ENGRO Corporation | 575,100 | 10 | 5,751 | 55,947 | 52,932 | A1 |
| Fauji Fertilizer Limited | 3,900,000 | 10 | 39,000 | 455,102 | 456,846 | N/A |
| Hub Power Company Limited | 13,254,500 | 10 | 132,545 | 597,664 | 599,634 | A1+ |
| Bank Al Falah Limited | 6,950,000 | 10 | 69,500 | 120,096 | 116,899 | A1+ |
| National Refinery Limited | 1,083,400 | 10 | 10,834 | 299,254 | 229,356 | A1+ |
| Pakistan State Oil Company Limited | 1,600,084 | 10 | 16,001 | 386,219 | 348,315 | A1+ |
| TRG Pakistan Limited | 16,017,000 | 10 | 160,170 | 160,170 | 89,535 | N/A |
| Pak Petroleum Limited | 1,200,000 | 10 | 12,000 | 213,096 | 212,148 | N/A |
| Kot Addu Power Company Limited | 4,900,000 | 10 | 49,000 | 222,057 | 242,011 | A1+ |
| Lucky Cement Limited | 2,600,000 | 10 | 26,000 | 366,741 | 394,004 | N/A |
| Nishat Chunnian Limited | 300,000 | 10 | 3,000 | 7,657 | 10,512 | A2 |
| Nishat Mills Limited | 1,700,000 | 10 | 17,000 | 104,145 | 108,545 | A1+ |
| Pak Oilfields Limited | 950,000 | 10 | 9,500 | 408,858 | 415,663 | N/A |
| Fauji Fertilizer Bin Qasim Limited | 7,555,500 | 10 | 75,555 | 297,019 | 291,567 | N/A |
| Agri Tech Limited | 5,562,428 | 10 | 55,624 | 194,691 | 64,914 | N/A |
| Oil & Gas Development Company Limited | 270,000 | 10 | 2,700 | 51,064 | 52,005 | A1+ |
| Fatima Fertilizer Company Limited | 3,935,000 | 10 | 39,350 | 102,239 | 103,884 | A1 |
| Askari Commercial Bank Limited | 200,000 | 10 | 2,000 | 3,509 | 3,444 | A1+ |
| Mari Gas Company Limited | 10,000 | 10 | 100 | 1,007 | 984 | N/A |
| | | | | <u>4,264,081</u> | <u>4,017,747</u> | |

1.2 Units

| | Number of units held | Paid-up value per unit (Rupees) | Total paid-up value | Cost | Market value | Credit Ratings Short Term |
|---------------------------|----------------------|---------------------------------|------------------------------|----------------|----------------|---------------------------|
| | | | ----- (Rupees in '000) ----- | | | |
| Mutual Funds | | | | | | |
| PICIC Investment Fund | 11,104,508 | 10 | 111,045 | 133,994 | 78,509 | N/A |
| JS - Growth Fund | 11,000,000 | 10 | 110,000 | 87,200 | 96,030 | N/A |
| PICIC Growth Fund | 214,453 | 10 | 2,145 | 6,412 | 3,517 | N/A |
| National Investment Trust | 673,546 | 10 | 6,735 | 11,113 | 22,395 | N/A |
| | | | | <u>238,719</u> | <u>200,451</u> | |

1.3 Term Finance Certificates

| | Number of Certificates held | Paid-up value per certificate (Rupees) | Total paid-up value | Cost | Market value | Credit Ratings Medium to Long Term |
|-----------------------|-----------------------------|--|------------------------------|----------------|----------------|------------------------------------|
| | | | ----- (Rupees in '000) ----- | | | |
| United Bank Limited | 41,525 | 5,000 | 207,625 | 207,251 | 211,817 | AA+ |
| Bank Al Habib Limited | 60,000 | 5,000 | 300,000 | 299,160 | 335,299 | AA+ |
| NIB Bank Limited | 34,950 | 5,000 | 174,750 | 174,373 | 174,810 | AA- |
| Faysal Bank Limited | 50,000 | 5,000 | 250,000 | 249,800 | 255,811 | AA |
| | | | | <u>930,584</u> | <u>977,737</u> | |

2. Particulars of investment held in unlisted companies

2.1 Ordinary shares

| | Percentage of holding | Number of Shares | Paid-up value per share (Rupees) | Break-up value | Based on accounts as at ------(Rupees in '000)----- | Name of Chief Executive | Credit Ratings Short Term |
|--|-----------------------|------------------|----------------------------------|------------------|--|-----------------------------|---------------------------|
| Khushhali Bank Limited | 17.60% | 30,000,000 | 10 | 416,266 | 31 December, 2011 | Mr. Muhammad Ghalib Nishtar | N/A |
| First Woman Bank Limited | 15.46% | 23,095,324 | 10 | 367,708 | 31 December, 2011 | Mrs. Shafqat Sultana | N/A |
| Central Depository Company Limited | 6.35% | 4,124,901 | 10 | 106,635 | 30 June, 2012 | Mr. Muhammad Hanif Jakhura | N/A |
| National Institutional Facilitation Technologies (Pvt) Limited | 9.07% | 1,478,228 | 10 | 75,890 | 30 June, 2011 | Mr. M. M. Khan | N/A |
| SME Bank Limited | 0.83% | 1,987,501 | 10 | 15,504 | 31 December, 2011 | Mr. Ihsan ul Haq Khan | N/A |
| National Investment Trust Limited | 8.33% | 79,200 | 100 | 276,274 | 30 June, 2012 | Mr. Wazir Ali Khoja | N/A |
| Saif Power Limited | 8.35% | 32,268,354 | 10 | 443,049 | 31 December, 2011 | Mr. Omar Saifullah Khan | A1 |
| | | | | 1,727,348 | | | |

2.2 Preference shares

| | Number of shares held | Paid-up value per share (Rupees) | Total paid-up value ------(Rupees in '000)----- | Cost | Credit Ratings Short Term |
|------------------------------|-----------------------|----------------------------------|--|----------------|---------------------------|
| Masood Textile Mills Limited | 10,000,000 | 10 | 100,000 | <u>100,000</u> | N/A |

2.3 Term Finance Certificates

| | Number of certificates held | Paid-up value per certificate (Rupees) | Total paid-up value ------(Rupees in '000)----- | Cost | Market value | Credit Ratings Short Term |
|--------------------------------|-----------------------------|--|--|------------------|--------------|---------------------------|
| Bank Al Habib Limited | 28,000 | 5,000 | 140,000 | 139,782 | 149,333 | N/A |
| Bank Al Falah Limited | 40,000 | 5,000 | 200,000 | 199,760 | 209,085 | N/A |
| Allied Bank Limited | 14,277 | 5,000 | 71,385 | 71,214 | 72,496 | N/A |
| Faysal Bank Limited | 15,000 | 5,000 | 75,000 | 74,850 | 76,010 | N/A |
| Pakistan International Airline | 594,976 | 5,000 | 2,974,880 | 2,972,500 | - | N/A |
| Askari Commercial Bank Limited | 16,990 | 5,000 | 84,950 | 84,712 | 85,488 | N/A |
| Worldcall Telecom Limited | 96,000 | 5,000 | 480,000 | 205,591 | - | N/A |
| Azgard Nine Limited | 9,233 | 5,000 | 46,165 | 46,165 | - | N/A |
| Pakarab Fertilizers Limited | 565,080 | 5,000 | 2,825,400 | 1,247,620 | 1,270,934 | N/A |
| | | | 5,042,194 | 1,863,346 | | |

3. Particulars of investments held in bonds

| | Terms of Redemption | | Rate of Interest / Profit | Book value (Rupees in '000) |
|---|-------------------------------|-------------------|---------------------------|-----------------------------|
| | Principal | Interest / Profit | | |
| 3.1 Bonds (Guaranteed by Government) | | | | |
| Pakistan International Airline | Repayable in full on maturity | Semi - Annual | 6-Month Kibor + 79 BPS | 425,000 |
| | | | | <u>425,000</u> |
| 3.2 Bonds | | | | |
| Quetta Textile | Repayable in full on maturity | Semi - Annual | 6-Month Kibor + 150 BPS | 80,000 |
| GOP Ijarah Sukuk | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 5,999,902 |
| | | | | <u>6,079,902</u> |



| | Terms of Redemption | | Rate of Interest / Profit | Book value (Rupees in '000) |
|---|-------------------------------|-------------------|---------------------------|-----------------------------------|
| | Principal | Interest / Profit | | |
| 3.3 Foreign Currency notes and bonds | | | | |
| Gazprom | Repayable in full on maturity | Annual | 8.125% | 287,181 |
| Hana Bank | Repayable in full on maturity | Semi - Annual | 4.000% | 200,808 |
| Woori Bank | Repayable in full on maturity | Semi - Annual | 4.750% | 307,625 |
| Kookmin Bank | Repayable in full on maturity | Semi - Annual | 7.250% | 208,794 |
| Export Import Bank | Repayable in full on maturity | Annual | 5.250% | 150,373 |
| Korea Development Bank | Repayable in full on maturity | Semi - Annual | 8.000% | 514,116 |
| Standard Chartered PLC | Repayable in full on maturity | Semi - Annual | 3.850% | 437,466 |
| Sberbank | Repayable in full on maturity | Semi - Annual | 5.499% | 305,584 |
| Eurasian Development Bank | Repayable in full on maturity | Semi - Annual | 7.375% | 287,090 |
| CNPC HK Overseas Capital Limited | Repayable in full on maturity | Semi - Annual | 3.125% | 499,787 |
| GE Capital Sukuk Limited | Repayable in full on maturity | Semi - Annual | 3.875% | 502,604 |
| 1Malaysia Sukuk | Repayable in full on maturity | Semi - Annual | 3.928% | 508,773 |
| Deutsche Telekom International Finance | Repayable in full on maturity | Annual | 3.125% | 512,222 |
| HSBC Middle East | Repayable in full on maturity | Semi - Annual | 3.000% | 478,607 |
| VTB Bank | Repayable in full on maturity | Semi - Annual | 6.465% | 207,550 |
| Gazprom | Repayable in full on maturity | Semi - Annual | 5.092% | 518,853 |
| Perusahaan | Repayable in full on maturity | Semi - Annual | 8.800% | 319,842 |
| Vodafone Group PLC | Repayable in full on maturity | Annual | 4.625% | 413,871 |
| E.ON International Finance BV | Repayable in full on maturity | Annual | 5.125% | 327,924 |
| France Telecom | Repayable in full on maturity | Annual | 5.000% | 692,767 |
| SABIC Capital BV | Repayable in full on maturity | Semi - Annual | 3.00% | 302,816 |
| HSBC Bank Brasil SA | Repayable in full on maturity | Semi - Annual | 4.00% | 510,036 |
| Corp Andina de Fomento | Repayable in full on maturity | Semi - Annual | 3.75% | 205,336 |
| Orix Corp | Repayable in full on maturity | Semi - Annual | 4.71% | 433,718 |
| Korea National Oil Corp | Repayable in full on maturity | Semi - Annual | 4.00% | 559,592 |
| Banco Do Brasil | Repayable in full on maturity | Semi - Annual | 4.50% | 512,163 |
| | | | | 10,205,498 |

3.4 Investment by Islamic Banking Branch

| | | | | |
|-------------------------------------|-------------------------------|---------------|-------------------------|-------------------|
| GOP IJARA SUKUK V | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 1,200,000 |
| GOP IJARA SUKUK VI | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 3,850,717 |
| GOP IJARA SUKUK VII | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 2,220,152 |
| GOP IJARA SUKUK VIII | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 4,860,000 |
| GOP IJARA SUKUK IX | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 1,701,305 |
| GOP IJARA SUKUK XI | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 1,000,783 |
| GOP IJARA SUKUK XIII | Repayable in full on maturity | Semi - Annual | 6 Month TBILLS | 6,681,689 |
| Sitara Energy Limited | Repayable in full on maturity | Semi - Annual | 6 Month Kibor + 115 BPS | 17,623 |
| Engro Fertilizer Limited | Repayable in full on maturity | Semi - Annual | 6 Month Kibor + 150 BPS | 143,398 |
| Century Paper & Board Mills Limited | Repayable in full on maturity | Semi - Annual | 6 Month Kibor + 135BPS | 160,000 |
| Ghani Glass Limited | Repayable in full on maturity | Semi - Annual | 3 Month Kibor + 180 BPS | 300,000 |
| HSBC Sukuk | Repayable in full on maturity | Semi - Annual | 3.57% | 202,873 |
| | | | | 22,338,540 |



| S. No. | Name & Address of the Borrower | Name of Individuals / Proprietors / Partners / Directors (with CNIC/NIC No.) | Father's /Husband Name | Outstanding Liabilities at beginning of the year | | | Principal Write-off | Mark-up & Other Charges Write-off | Other Financial Relief Provided | | Total |
|---------------------------------|--|---|--|--|---------|---------------|---------------------|-----------------------------------|---------------------------------|----------|--------|
| | | | | Principal | Mark-up | Other charges | | | Un-Debited | Reversal | |
| ----- (Rupees in Million) ----- | | | | | | | | | | | |
| 10 | S.M.ZAMAN FLAT. NO.6,FIRST FLOOR KARIM TARACE,BLOCK-7, F.B.AREA, KARACHI. | 42101-1205336-5 | WAHEED-UZ-ZAMAN | 0.814 | - | - | 0.814 | 0.814 | - | - | 0.814 |
| 11 | MEHMOOD INDUSTRIES PLOT.NO.11,SECTOR-12-B,NORTH KARACHI INDUSTRIAL AREA, KARACHI. | AIJAZ MAHMOOD 42201-9084691-3 | MAHMOOD ALAM | 24.678 | 0.756 | - | 25.434 | 7.677 | 11.898 | 0.756 | 20.331 |
| 12 | GALAXY CORPORATION PLOT.NO.11,SECTOR-12-B,NORTH KARACHI INDUSTRIAL AREA, KARACHI. | AIJAZ MAHMOOD 42201-9084691-3 | MAHMOOD ALAM | 6.000 | 0.520 | - | 6.520 | - | 2.321 | 0.520 | 2.841 |
| 13 | BANTVA TRADING CORPORATION M.R.7/3 ADAMJEE DAWOOD ROAD, KARACHI. | NASEEM GUL 42201-2566259-0 | GUL MUHAMMAD | 0.870 | - | - | 0.870 | 0.870 | 1.217 | - | 2.087 |
| 14 | ZUCHINI INDUSTRIES PAKISTAN(PVT)LTD. 23-K.M.NEAR BUBHTIAN CHOWK (1-KM OFF)RAI WIND ROAD,LAHORE. | KHALIQ MIRZA 420003-765964-7 NASREEN MIRZA 420007-642435-2 | MIRZA MUHAMMAD SHAFI KHALIQ MIRZA | 66.800 | - | - | 66.800 | 0.454 | 79.434 | - | 79.888 |
| 15 | MIAN ISRAR AHMED CONTRACTOR VILLAGE SHAHABAD,PO.GANDIGAR, DISTT.UPPER DIR. | MIAN ISRAR AHMED 15701-1176172-5 | MIAN MUHAMMAD ARIF | 0.654 | - | - | 0.654 | 0.654 | 0.195 | - | 0.849 |
| 16 | GHULAM SALEH CLOTH & CEMENT MERCHANT VILLAGE & PO.SHRINGAL,DISTT. UPPER DIR. | GHULAM SALEH 15701-1238859-7 | KHAIR MUHAMMAD KHAN | 0.767 | - | - | 0.767 | 0.767 | 0.213 | - | 0.980 |
| 17 | USMAN FILLING STATION RAHIMABAD,PO.SAMAR BAGH, DIR LOWER. | SUBHAN ALI 15301-1958583-7 | MUHAMMAD ALI | 1.989 | - | - | 1.989 | 0.497 | 0.144 | - | 0.641 |
| 18 | GRAN BADSHAH PETROLEUM VILLAGE GULABAD,PO.CHAKDARA, DISTT. LOWER DIR. | MAHMOOD BADSHAH 42301-2111563-1 SULTAN BADSHAH 42301-4990942-9 | GRAN BADSHAH GRAN BADSHAH | 1.422 | - | - | 1.422 | 1.422 | 0.633 | - | 2.055 |
| 19 | CE PAK CONSTRUCTORS (PVT) LIMITED GUL PLAZA MAIN ROAD CHAKDARA, DISTT. LOWER DIR. | HAMAYUN KHAN 15302-1006610-5 MUHAMMAD IQBAL 15302-0895799-7 NISAR HAYAT KHAN 15302-0949337-9 | AMIR BADSHAH AMIR BADSHAH AMIR BADSHAH | 1.908 | - | - | 1.908 | 1.908 | 0.753 | - | 2.661 |

| S. No. | Name & Address of the Borrower | Name of Individuals / Proprietors / Partners / Directors (with CNIC/NIC No.) | Father's /Husband Name | Outstanding Liabilities at beginning of the year | | | Principal Write-off | Mark-up & Other Charges Write-off | Other Financial Relief Provided | | Total |
|--------|---|--|--|--|---------|---------------|---------------------|-----------------------------------|---------------------------------|----------|-------|
| | | | | Principal | Mark-up | Other charges | | | Un-Debited | Reversal | |
| 20 | WAQAS DIESEL AGENCY HOSPITAL ROAD BARAWAL BANDI, DISTT. UPPER DIR. | KIFAYAT ULLAH 15702-2520290-3 | KACH JAMADAR | 1.392 | - | - | 1.392 | 1.392 | 0.413 | - | 1.805 |
| 21 | BANGASH TRADERS CHOWK FAWARA, JINNAH ROAD, RAWALPINDI. | SHAHNAWAZ KHAN BANGASH 211-62-213456 | GHULAM HUSSAIN KHAN | 0.128 | - | - | 0.128 | 0.128 | 0.600 | - | 0.728 |
| 22 | RAJPUT ASSOCIATES TANDO HYDER, HYDERABAD | ZAHOOR AHMED KHAN 502-37-166705 | YAQOOB ALI | 0.400 | 0.658 | - | 1.058 | - | - | 0.509 | 0.509 |
| 23 | MUHAMMAD AZAM ZIA HOUSE NO.2161, BLOCK 35, SAMANABAD, FAISALABAD. | 33100-6878801-5 | MUHAMMAD ANWAR ZIA | 0.474 | 0.095 | - | 0.569 | 0.474 | 0.062 | 0.095 | 0.631 |
| 24 | ANILINE TRADERS R-301, DECENT HOUSE, GULISTAN-E- JAUHAR, KARACHI. | MASROOR AHMED ANSARI 42201-0772098-7 | ABU ZAHID ANSARI | 1.629 | - | - | 1.629 | 0.901 | 1.500 | - | 2.401 |
| 25 | MUSHTAQUE AHMED A-1/75, DRIGH COLONY, KARACHI. | 518-85-386923 | ABDUL MAJEED KHAN | 0.305 | 0.023 | - | 0.328 | 0.305 | 0.933 | 0.023 | 1.261 |
| 26 | FIRESTOP AIDS (PVT) LTD 6-B, FIRST FLOOR, DINAR CHAMBERS , WEST WHARF ROAD, KARACHI. | MIRZA ALEEM AGHA 42301-7637681-1 NAIMA ALEEM AGHA 42301-3803528-8 SALMAN AGHA 42301-4521127-9 | MIRZA AHMED AGHA MIRZA ALEEM AGHA MIRZA SHAHNAWAZ AGHA | - | 1.433 | - | 1.433 | - | - | 1.063 | 1.063 |
| 27 | IDREES TEXTILE MILLS LTD (ITM) ISMAIL CENTRE, 1ST FLOOR, 6-C, CENTRAL COMMERCIAL AREA, BAHADURABAD, KARACHI. | S.M.IDREES ALLAH WALA 42201-0504412-7 MANSOOR IDREES ALLAH WALA 42201-0406508-7 IMRAN IDREES ALLAH WALA 42201-0518458-5 KAMRAN IDREES ALLAH WALA 42201-0726239-1 NAEEM IDREES ALLAH WALA 42201-0617389-9 SABA KAMRAN 42201-0617261-0 MUHAMMAD ISRAIL 42201-9182297-9 | MUHAMMAD ISMAIL ALLAH WALA S.M.IDREES ALLAH WALA S.M.IDREES ALLAH WALA S.M.IDREES ALLAH WALA S.M.IDREES ALLAH WALA KAMRAN IDREES ALLAH WALA LATE SHAHADAT HUSSAIN | - | 9.000 | - | 9.000 | - | 2.350 | - | 2.350 |

| S. No. | Name & Address of the Borrower | Name of individuals / Proprietors / Partners / Directors (with CNIC/NIC No.) | Father's /Husband Name | Outstanding Liabilities at beginning of the year | | | Principal Write-off | Mark-up & Other Charges Write-off | Other Financial Relief Provided | | Total |
|---------------------------------|---|---|--|--|---------|---------------|---------------------|-----------------------------------|---------------------------------|----------|---------|
| | | | | Principal | Mark-up | Other charges | | | Un-Debited | Reversal | |
| ----- (Rupees in Million) ----- | | | | | | | | | | | |
| 28 | GRAF KNITS & WOVEN PLOT NO.42,SECTOR-15,KORANGI INDUSTRIAL AREA,KARACHI. | EJAZ HANIF 42301-7223192-7 | MUHAMMAD HANIF | 0.395 | - | - | 0.395 | - | 0.150 | - | 0.545 |
| 29 | ALI HAMID TRAVELS 1-2 LAKSON SQUARE BUILDING.NO. 2,SARWAR SHAHEED ROAD,KARACHI. | HAMID HUSSAIN 42101-4987925-9 RIAZ HUSSAIN KHAN 42101-2628509-5 ARSHAD HUSSAIN KHAN 42101-2537154-5 | AHMED HUSSAIN KHAN AHMED HUSSAIN KHAN AHMED HUSSAIN KHAN | 13.675 | 2.696 | - | 16.371 | - | 6.300 | - | 6.300 |
| 30 | AL-SADIQ INDUSTRIES (PVT) LTD FIRST FLOOR 26 NAZ CHAMBERS, SHAHRAH-E-LIAQUAT,KARACHI. | S.JAWED IQBAL 502-45-362140 S.TEHSIN JAWED 502-69-362142 S.PERVEZ IQBAL 502-46-038937 S.SHAHID PERVEZ 451-53-250508 YASMIN PERVEZ | MIAN MUHAMMAD SADIQ | 7.185 | 1.474 | - | 8.659 | - | 18.671 | - | 18.671 |
| 31 | RESEARCH COLLECTION SERVICES (PVT) LTD HOUSE-1/2,STREET.23,PH-V,KH-E-TANZEEM,DHA,KARACHI. | IKRAM-UL-MAJEED SEHGAL 42301-9383149-7 SHAHNAZ SEHGAL 42301-8800153-0 G.N.QADRI SAADULLAH ABDUL HAMID QADRI BADRUDDIN NIZAMI | | 56.447 | - | - | 56.447 | - | 85.789 | - | 142.236 |
| 32 | UNITED ENTERPRISES 7-NIZAMI MARKET, M. A. JINNAH ROAD, KARACHI. | ABDUL SATTAR | KADER BUX | 0.278 | - | - | 0.278 | - | 1.143 | - | 1.421 |
| 33 | ZAHID GUL MORTGAGE PROPERTY :FLAT # A-5-805, 8TH FLOOR SEA CASTLE, PLOT NO COM-7 BLOCK 04, KDA SCHEME # 5 KEHKASHAN CLIFTON, KARACHI. | 42101-1763286-7 | DAVID MASIH | 4.894 | 3.560 | 0.230 | 8.684 | 2.224 | 3.790 | - | 6.014 |
| 34 | FAIZ RASOOL KHEWAT # 483 KHATOONI # 1072, KHASRA # 2347 /1 SITUATED AT MOUZA MIAN MEER TEHSIL CANTT LAHORE. | 31301-3141281-3 | MUHAMMAD RASOOL | 6.529 | 3.000 | 0.307 | 9.836 | 1.718 | 3.307 | - | 5.025 |

| S. No. | Name & Address of the Borrower | Name of Individuals / Proprietors / Partners / Directors (with CNIC/NIC No.) | Father's /Husband Name | Outstanding Liabilities at beginning of the year | | | Mark-up & Other Charges Write-off: | Other Financial Relief Provided | | Total |
|---------------------------------|---|--|-------------------------------|--|---------|---------------|------------------------------------|---------------------------------|----------|-------|
| | | | | Principal | Mark-up | Other charges | | Un-Debited | Reversal | |
| | | | | 6.479 | 2.882 | 0.446 | 9.807 | 1.296 | 3.328 | 4.624 |
| ----- (Rupees in Million) ----- | | | | | | | | | | |
| 35 | NAILA JABEEN 327, BLOCK-H, MA JOHAR TOWN LAHORE. | 35202-2745162-6 | MUHAMMAD IBRAHIM | 6.479 | 2.882 | 0.446 | 9.807 | 1.296 | 3.328 | 4.624 |
| 36 | ISMAT AMIR HOUSE NO. N-74 MOLLAHA SHERMAN KHEL TEHSIL & DISTT. MIANWALI | 38302-1131426-2 | JAVED IQBAL KHAN | 2.001 | 1.433 | - | 3.433 | 2.001 | 1.433 | 3.434 |
| 37 | MUHAMMAD HUSSAIN CHAK OLD BHADAL P/O. HAVELI LAKHA TEHSIL DEPALPUR DISTT. OKARA | 35301-1920219-3 | HAJI SAID MUHAMMAD | 1.500 | 0.731 | - | 2.231 | 1.500 | 0.731 | 2.231 |
| 38 | A. SATTAR MOZA GARH TEHSIL TANDLIANWALA DISTT. FAISALABAD | 33106-4496124-9 | AMIR U DIN | 1.000 | 0.471 | - | 1.471 | 1.000 | 0.471 | 1.471 |
| 39 | GHULAM MUSTAFA MOZA ADHIAN TEHSIL MURIDKAY DISTRICT SHEIKHPURA | 35202-4264392-7 | JALAL DIN | 0.899 | 0.534 | - | 1.434 | 0.899 | 0.534 | 1.433 |
| 40 | REHMAN CHAK NO.425/E.B TEHSIL BUREWALA DISTT.VEHARI | 36601-4719357-5 | CH. SAKANDAR | 0.787 | 0.406 | - | 1.193 | 0.787 | 0.406 | 1.193 |
| 41 | RIAZ AHMAD MOUZA KALLASAN HAMEED P/O. BASIRPUR TEHSIL DEPALPUR DISTT. OKARA | 35301-2008558-9 | GHULAM HAMID | 0.655 | 0.504 | - | 1.159 | 0.655 | 0.504 | 1.159 |
| 42 | MUHAMMAD MUZAFAR ALI GARH MAHARAJA CITY | 33203-13462440-3 | MUHAMMAD NAWAZISH ALI KHAN | 0.635 | 0.506 | - | 1.141 | 0.635 | 0.506 | 1.141 |
| 43 | MUHAMMAD ILYAS CHAK NO.217/E.B TEHSIL BUREWALA DISTT.VEHARI | 36601-6031394-3 | PEHLWAN | 0.700 | 0.317 | - | 1.017 | 0.700 | 0.317 | 1.017 |
| 44 | M. RAFIQUE CHAK NO.66 DINA NATH P/O. SAME TEHSIL PATTOKI DISTT. KASUR | 35103-1324395-7 | SHER MUHAMMAD | 0.500 | 0.483 | - | 0.983 | 0.500 | 0.483 | 0.983 |
| 45 | ABDUL GHANI CHAK NO.88/6-R P/O. SAME TEHSIL & DISTT. SAHIWAL | 36502-1373125-9 | GHULAM QADAR | 0.628 | 0.279 | - | 0.907 | 0.628 | 0.279 | 0.907 |
| 46 | M. ASLAM CHAK NO 234 JB TEHSIL CHINIOT DISTT. CHINIOT | 33201-1711225-7 | MOHNEY KHAN | 0.590 | 0.312 | - | 0.902 | 0.590 | 0.312 | 0.902 |

| S. No. | Name & Address of the Borrower | Name of Individuals / Proprietors / Partners / Directors (with CNIC/NIC No.) | Father's /Husband Name | Outstanding Liabilities at beginning of the year | | | Principal Write-off | Mark-up & Other Write-off. | Other Financial Relief Provided | | Total | |
|---------------------------------|---|--|------------------------|--|---------------|---------------|---------------------|----------------------------|---------------------------------|----------------|-------|----------------|
| | | | | Principal | Mark-up | Other charges | | | Un-Debited | Reversal | | |
| ----- (Rupees in Million) ----- | | | | | | | | | | | | |
| 47 | M.SIDDIQUE CHAK # 137/10-R TEHSIL JAHANIA DISTT. KHANEWAL | 36101-1612842-1 | NAWAB DIN | 0.500 | 0.395 | - | 0.895 | 0.500 | - | 0.395 | - | 0.895 |
| 48 | M. MALIK CHAK NO 339 JB TEHSIL GOJRA DISTT. TOBA TAK SINGH | 33301-9457019-9 | FAZAL DIN | 0.500 | 0.329 | - | 0.829 | 0.500 | - | 0.329 | - | 0.829 |
| 49 | M. ASHRAF VILL. & P.O. BARA GUA, TEHSIL SOHAWA, DISTT. JHELUM | 37303-0552289-1 | ATTA MUHAMMAD | 0.554 | 0.247 | - | 0.801 | 0.554 | - | 0.247 | - | 0.801 |
| 50 | FAQEER MUHAMMAD CHAK NO 48 CB MALOOVAL TEHSIL SAMMUNDRI DISTT FAISALABAD | 33105-7797805-1 | SARDAR MUHAMMAD | 0.500 | 0.270 | - | 0.770 | 0.500 | - | 0.270 | - | 0.770 |
| 51 | MIAN MUHAMMAD ASHRAF CHAK HUSSAIN SHAH, TEHSIL MINCHINABAD, DISTT. BAHAWAL NAGAR | 31105-6482337-1 | MIAN SHAH MUHAMMAD | 0.673 | 0.070 | - | 0.744 | 0.673 | - | 0.070 | - | 0.743 |
| 52 | ABDUL MALIK CHAH MANGAT WALA MOUZA BOOTAY WALA P/O GULZARPUR TEHSIL & DISTT MULTAN | 36302-6903367-9 | M.SIDDIQUE | 0.544 | 0.169 | - | 0.713 | 0.544 | - | 0.169 | - | 0.713 |
| 53 | MUHAMMAD NAWAZ VILLAGE BAREN P/O FAROOQA TEHSIL SAHIWAL DISTT. SARGODHA | 38402-5733048-5 | PATHANA | 0.617 | 0.005 | - | 0.622 | 0.617 | - | 0.005 | - | 0.622 |
| | | | | 385.618 | 41.409 | 1.150 | 428.177 | 115.275 | - | 269.342 | - | 387.822 |

Detail of Disposal of Operating Fixed Assets Unconsolidated

For the year ended December 31, 2012

ANNEXURE-III

| Description | Original cost | Accumulated depreciation | Book value | Sale proceeds | Mode of disposal | Particulars of buyer |
|--|----------------|--------------------------|----------------|----------------|------------------|--------------------------------|
| ----- Amount in 000----- | | | | | | |
| FURNITURE & FIXTURES | | | | | | |
| | 1,713 | 1,713 | - | 125 | Sale | } CNS Engg. |
| | 2,268 | 2,268 | - | 125 | Sale | |
| | 2,268 | 2,268 | - | 125 | Sale | |
| | 1,713 | 1,713 | - | 125 | Sale | |
| | 7,962 | 7,962 | - | 500 | | |
| LAND & BUILDING | | | | | | |
| | 119,858 | - | 119,858 | 62,500 | Sale | M/S Royal Retailer |
| | 41,948 | 184 | 41,764 | 38,500 | Sale | Mount Fuji Textile Pvt Limited |
| | 161,806 | 184 | 161,622 | 101,000 | | |
| MOTOR VEHICLES | | | | | | |
| | 1,080 | 899 | 181 | 815 | Auction | Muhammad Haroon Masood |
| | 1,080 | 899 | 181 | 840 | Auction | Alwat Khan |
| | 1,080 | 899 | 181 | 830 | Auction | Ziauddin |
| | 1,080 | 899 | 181 | 845 | Auction | Muhammad Rizwan |
| | 1,080 | 916 | 164 | 780 | Auction | Muhammad Imran |
| | 1,080 | 899 | 181 | 895 | Auction | Syed Pervez Ali Shah |
| | 1,079 | 1,079 | - | 770 | Auction | Muhammad Ibraheem |
| | 1,080 | 899 | 181 | 845 | Auction | Nazir Ahmed Khan |
| | 1,080 | 899 | 181 | 850 | Auction | Muhammad Rizwan |
| | 1,017 | 1,017 | - | 535 | Auction | S.Muhammad Saeed |
| | 1,799 | 1,439 | 360 | 360 | On retirement | R.Zakir Mahmood (Ex-Employee) |
| | 4,950 | 4,950 | - | - | On retirement | R.Zakir Mahmood (Ex-Employee) |
| | 1,384 | 277 | 1,107 | 1,246 | Insurance Claim | } Jubilee General Insurance |
| | 1,239 | 578 | 661 | 1,004 | Insurance Claim | |
| | 1,117 | 1,117 | - | 484 | Auction | Ahmed Faraz |
| | 1,376 | 1,376 | - | 529 | Auction | Mumtaz Hussain |
| | 1,227 | 1,227 | - | 301 | Auction | Abdul Mateen |
| | 23,828 | 20,269 | 3,559 | 11,929 | | |
| Assets having cost of less than Rs. 1 million and book value of less than Rs.250,000 | 298,832 | 295,378 | 3,454 | 26,062 | | |
| | 492,428 | 323,793 | 168,635 | 139,491 | | |

Detail of Donations in excess of Rs. 100,000

For the year ended December 31, 2012

ANNEXURE-IV

| | 2012 (Rupees in `000) | 2011 |
|---|--------------------------|---------|
| HBL Foundation | 217,623 | 225,251 |
| R-CHITECT | 5,600 | - |
| Badar Expo Solutions | 4,262 | - |
| HBL Officers Welfare Association | 4,200 | - |
| Sports Enterprise | 4,000 | - |
| University of Sindh Jamshoro | 1,600 | - |
| Management Association of Pakistan | 1,250 | - |
| Sindh High Court Bar Association | 1,000 | - |
| The Patients' Behbud Society for Aga Khan University Hospital | 1,000 | - |
| Subh-e-Nau | 1,000 | 1,000 |
| Karachi Boat Club | 750 | - |
| Omni Racing Team Pakistan | 600 | 400 |
| Pakistan Business Council | 525 | - |
| Eyecue Production | 500 | - |
| Memon Professional Forum | 500 | 500 |
| School of Leadership (Pvt) Limited | 425 | 250 |
| Marketing Association of Pakistan | 400 | - |
| Lahore University of Management Sciences | 400 | - |
| Centre Stage Productions | 395 | - |
| Center for Islamic Economics | 350 | - |
| Mandivalla Entertainment | 305 | - |
| SMART Society for Music & Repertory Theatre | 300 | - |
| Taimur Ali Malik - Sufi Polo Cup 2012 | 300 | - |
| PAF Golf Culb, Islamabad | 300 | - |
| The Citizen's Foundation | 300 | - |
| M.A Group | 300 | - |
| The Kidney Centre | 300 | - |
| Publicity Channel | 250 | - |
| Waheed Mirza Benefit Cricket Festival Tournament | 250 | - |
| St. Joseph's College For Women | 236 | - |
| Karwan-e-Hayat - welfare organization | 220 | 200 |
| Pakistan Air Force | 200 | 200 |
| Institute of Business Administration | 200 | - |
| Karachi Chamber of Commerce | 200 | - |
| Pak Army MZU Multan | 200 | - |
| Balochistan University | 200 | - |
| Pakistan Association of Photo Journalist | 200 | - |
| Bahauddin Zakariya University, Multan | 200 | - |
| LUSH | 160 | - |
| Ripah International University | 150 | - |
| Nixor College | 150 | - |
| The Mama Parsi Girls Secondary School | 150 | - |
| Sargodha Spirit Trust Public School-Rashidabad | 150 | - |
| The Ambassador of Argentina Republic, Islamabad | 135 | - |

| | 2012 | 2011 |
|--|------------------|----------------|
| | (Rupees in `000) | |
| Indus Valley School of Arts and Architecture | - | 10,721 |
| National Database and Registration Authority (NADRA) | - | 1,200 |
| District Municipal Corporation, Karachi-Central | - | 1,000 |
| Aga Khan Cultural Service Pakistan | - | 870 |
| Salamat School System (Pvt) Ltd. | - | 750 |
| Institute of Chartered Accountants of Pakistan | - | 700 |
| Aga Khan Youth & Sports Board for Pakistan | - | 672 |
| Pakistan Advertisers Society (PAS) | - | 564 |
| Pakistan Hockey Federation | - | 500 |
| FireBolt 63 Private Limited | - | 484 |
| Petroleum Institute of Pakistan | - | 400 |
| Publicans Alumni Trust | - | 300 |
| Century Publications (Pvt.) Ltd | - | 250 |
| Institutes Fund AHQ Islamabad | - | 250 |
| Layton Rahmatulla Benevolent trust (LRBT) | - | 240 |
| MindShare | - | 222 |
| All Pakistan Music Conference | - | 200 |
| BLINCK - Training, Mentoring & Consultancy | - | 200 |
| Karachi Polo Team | - | 200 |
| Millennium Media | - | 200 |
| Network of Organization working for People with Disabilities | - | 200 |
| Rite Printers | - | 200 |
| Sketch Printers | - | 200 |
| Special Olympics Pakistan | - | 200 |
| Thalassaemia Society of Pakistan | - | 200 |
| The Weldon BBS | - | 200 |
| Aga Khan Hospital & Medical College Foundation | - | 200 |
| Electroline | - | 175 |
| Pakistan welfare Association | - | 150 |
| Sada Welfare Foundation | - | 150 |
| Blue Chip Magazine | - | 143 |
| Atlas | - | 134 |
| Ziauddin University | - | 125 |
| The Citizens Foundation | - | 120 |
| Entertainment 360 | - | 106 |
| | <u>251,736</u> | <u>250,227</u> |

Donations were not made to any donee in which HBL, Directors or their spouses had any personal interest at the time of donation.

Islamic Banking Business

Shariah Advisors Report

ANNEXURE-V

“All Praises for ALLAH SUBHANAHO WATA’ALA, Who is the creator & Lord of All Worlds. May Allah reveal all blessing and prayers on His Messenger Hazarat Muhammad Sal’ Lalah-o-Alaihl Wasalam, his companions and all Muslims.”

It is the responsibility of the Bank's management to ensure that the all Islamic Banking operations are work in accordance with the rulings and principles of Islamic Shariah. Our responsibility is to express an independent opinion based on our review.

We have carried out a review to check the compliance of the operations of Islamic banking of HBL for the year ended 31 December 2012. In the process, we have reviewed transactions and processes at the branches to assure that they are compatible to the principles of Islamic Shariah and also fatwas, specific guidelines issued by the Bank's Shariah Advisor and by State Bank of Pakistan (SBP). Our review included examination of the branches' transactions i.e. Murabaha, Ijarah, Diminishing Musharaka & Istisna documentation and procedures on a test basis. We also reviewed the operations of depository products, the allocation of funds, determination of weightages, profit ratio and distribution of profit. We planned and carried out our review in order to obtain all information and explanations deemed necessary by us for the purpose of obtaining reasonable assurance that the operations are in compliance to rulings and principles of Islamic Shariah.

We believe that our review provides a reasonable basis of our opinion.

In our opinion:

1. The operations during the year 2012 were in compliance with the principles of Shariah guidelines issued by Shariah Advisor and the State Bank of Pakistan.
2. The distribution of profit and loss to the investment accounts is in compliance with the principles of Shariah guidelines issued by Shariah Advisor and instructions for Profit and Loss distribution and Pool management issued by State Bank of Pakistan.

Charity:

During the year, charity amounting to Rs. 1,775,256 was credited to the charity account.

May Allah guide us and make us successful in this world and hereafter.

Muhammad Yahya Asim

Shariah Advisor

HBL Islamic Banking

Karachi: February 12, 2013.

1. FINANCIAL POSITION OF ISLAMIC BANKING BUSINESS

1.1 The Statement of the financial position of the Bank's Islamic Banking Business as at December 31, 2012 are as follows:

| | Note | 2012 (Rupees in '000) | 2011 |
|--|------|--------------------------|-------------------|
| ASSETS | | | |
| Cash and balances with treasury banks | | 1,710,844 | 607,317 |
| Balances with other banks | | 402,282 | - |
| Due from Financial Institution | | 5,480,000 | 1,000,000 |
| Investments - net | | 22,223,692 | 12,434,310 |
| Islamic financing and related assets | 1.2 | 2,447,323 | 632,173 |
| Deferred tax assets | | 34,036 | 32,107 |
| Other assets | | 745,727 | 228,930 |
| | | <u>33,043,904</u> | <u>14,934,837</u> |
| LIABILITIES | | | |
| Bills payable | | 457 | 43 |
| Due to financial institutions | | 576,000 | 2,000,000 |
| Deposit and other accounts | | | |
| - Current Accounts | | 2,697,055 | 1,115,939 |
| - Saving Accounts | | 11,417,392 | 2,802,915 |
| - Term Deposits | | 7,087,919 | 2,161,298 |
| - Deposits from financial institutions - remunerative | | 9,825,657 | 5,861,255 |
| - Deposits from financial institutions - non -remunerative | | 8,360 | 3,187 |
| Due to Head Office | | 240,544 | 243,557 |
| Other liabilities | | 544,192 | 245,694 |
| | | <u>32,397,576</u> | <u>14,433,888</u> |
| NET ASSETS | | | |
| | | <u>646,328</u> | <u>500,948</u> |
| REPRESENTED BY | | | |
| Islamic Banking Fund | | 250,000 | 250,000 |
| Reserves | | 310,438 | 136,552 |
| Profit Equalization reserve | 1.5 | - | 137 |
| Unappropriated profit | | 149,099 | 173,886 |
| | | <u>709,537</u> | <u>560,575</u> |
| Deficit on revaluation of investments | | <u>(63,209)</u> | <u>(59,627)</u> |
| | | <u>646,328</u> | <u>500,948</u> |

The commitment in respect of letters of credit of Islamic Banking business of Habib Bank Limited amounted to Rs. 143.332 million (2011: Rs. 69.376 million).

1.2 Islamic financing and related assets

| | | | |
|----------------------|-----|------------------|----------------|
| Murabaha | 1.3 | 383,099 | 100,826 |
| Ijarah | 1.4 | 329,832 | 276,179 |
| Musharaka | | 1,038,307 | 19,167 |
| Advance for Murabaha | | 38,577 | 196,894 |
| Advance for Ijarah | | 3,859 | 39,107 |
| Istisna | | 326,000 | - |
| Assets/Inventories | | 327,649 | - |
| | | <u>2,447,323</u> | <u>632,173</u> |

- 1.3 This represents assets sold under Murabaha agreement.
- 1.4 This represents fixed assets given to customers under Ijarah agreement.
- 1.5 This represents 50% of Profit Equalization Reserve.

| | 2012 (Rupees in '000) | 2011 |
|---|--------------------------|-----------------------|
| 2. PROFIT AND LOSS ACCOUNT OF ISLAMIC BANKING BUSINESS | | |
| Profit earned | 2,278,531 | 1,802,411 |
| Profit expensed | 1,668,901 | 1,214,450 |
| Net profit earned | <u>609,630</u> | <u>587,961</u> |
| Depreciation on assets given on Ijarah | 55,546 | 42,467 |
| Impairment of assets given on Ijarah | 83,744 | 91,043 |
| (Reversal) / Charge against diminution in value of investments -net | (3,513) | 21,136 |
| | <u>135,777</u> | <u>154,646</u> |
| Net profit after depreciation and provisions | <u>473,853</u> | <u>433,315</u> |
| Other income | | |
| Fee, commission and brokerage income | 22,143 | 12,468 |
| Rent on lockers | 4,301 | 4,056 |
| Income from dealing in foreign currencies | 12,320 | 5,848 |
| Net gain on sale of securities | 13,000 | 425 |
| Others | 14,853 | 8,387 |
| Total other income | <u>66,617</u> | <u>31,184</u> |
| | <u>540,470</u> | <u>464,499</u> |
| Other expenses | | |
| Administrative expenses | 311,088 | 196,982 |
| | <u>229,382</u> | <u>267,517</u> |
| Net profit for the year | | |
| | <u><u>229,382</u></u> | <u><u>267,517</u></u> |
| 3. CHARITY FUND | | |
| Opening balance | 69 | 23 |
| Additions during the year | 1,775 | 69 |
| Payments / Utilization | - | (23) |
| Closing balance | <u>1,844</u> | <u>69</u> |
| 4. Remuneration to Shariah Advisor / Board | | |
| | <u>1,440</u> | <u>1,440</u> |

5. Mudarib's share in profit is 30% (2011: 30%) and amounts to Rs. 426.936 million (2011: Rs. 449.646) after netting of Hiba to depositors from Mudarib's share amounting to Rs. 155.507 million (2011: Nil)
6. Following are the types and nature of pools maintained by Islamic Banking Business alongwith their key features :

General Pool(s) (Mudaraba)

Generally the deposits parked in general pool are not based on special weightages. The risk of loss is minimal due to the less risky assets parked in General Pool.

Special Pool(s) PKR (Mudaraba)

Separate pool(s) are created where the customers desire to invest in a special class of assets. These pool(s) rates are higher / lower than the general pool depending on the special class of assets. In case of loss in special pool the loss will be born by the Special pool members.

FCY Pool(s) (Mudaraba)

All FCY deposits and Investments are parked in special FCY pool(s) to share the return among the FCY deposit holders. The weightages are also declared separately.

IERS Pool PKR (Musharaka)

IERS pool is required by SBP to facilitate the Islamic Export Refinance under Musharaka Scheme.

7. The following parameters are used for profit distribution in pool :
- Administrative and operating expenses are paid by the Mudarib and not charged to pool.
 - From January 2012 to November 2012: It was the practice of the bank that the Bank first charge the Mudarib fee and then distribute the profit among equity and depositors.
 - From December 2012, as per instructions issued by SBP circular no. IBD-03/2012 to improve transparency and standardization in IBIs profit and loss distribution policies and practices dated November 19, 2012, it is the practice of the bank that the Bank first charge the profit on equity allocated to the pool and then charge the Mudarib fee before distribution of profit among depositors.
 - 10% Profit Equalization Reserve charged in first 11 months and 2% for last month
8. Average profit rates earned on the earning assets of Islamic Banking Business during the year is 11.61% (2011: 13.58%) as compared to profit of 8.22% (2011: 9.82%) distributed to the depositors.

9. **Segmentation of economic sectors where Mudaraba based deposits are deployed**

| | Note | 2012 (Rupees in '000) | 2011 |
|------------------------------|------|--------------------------|-------------------|
| Chemical and pharmaceuticals | | 56,659 | 23,891 |
| Textile | | 10,152 | 21,605 |
| Financial – Islamic Modes | | 4,941,923 | 160,935 |
| Food & beverages | | 5,409 | 12,953 |
| Cement | | 150,387 | - |
| Information Technology | | 162,760 | 143,734 |
| Printing & publishing | | 2,545 | 3,291 |
| Glass Manufacturing | | 57,878 | - |
| Public / Government | 9.1 | 20,592,158 | 8,022,505 |
| Others | | 537,253 | 2,004,402 |
| | | <u>26,517,124</u> | <u>10,393,316</u> |

- 9.1 This represents investments in Government of Pakistan (GoP) Sukuk, balance maintained with National Bank of Pakistan and financing against Ijarah assets.

Pattern of Shareholding

As at December 31, 2012

| No. of Shareholders | Shareholding | | Shares held | Percentage |
|---------------------|--------------|-------------|----------------------|----------------|
| | From | To | | |
| 17,329 | 1 | 100 | 382,200 | 0.0315 |
| 83,305 | 101 | 500 | 15,247,691 | 1.2578 |
| 3,759 | 501 | 1,000 | 2,558,239 | 0.2110 |
| 1,869 | 1,001 | 5,000 | 3,486,267 | 0.2876 |
| 187 | 5,001 | 10,000 | 1,311,394 | 0.1082 |
| 51 | 10,001 | 15,000 | 612,953 | 0.0506 |
| 42 | 15,001 | 20,000 | 713,849 | 0.0589 |
| 19 | 20,001 | 25,000 | 420,008 | 0.0346 |
| 11 | 25,001 | 30,000 | 306,668 | 0.0253 |
| 7 | 30,001 | 35,000 | 229,682 | 0.0189 |
| 9 | 35,001 | 40,000 | 344,613 | 0.0284 |
| 5 | 40,001 | 45,000 | 214,039 | 0.0177 |
| 6 | 45,001 | 50,000 | 285,003 | 0.0235 |
| 6 | 50,001 | 55,000 | 321,105 | 0.0265 |
| 6 | 60,001 | 65,000 | 376,379 | 0.0310 |
| 1 | 65,001 | 70,000 | 70,000 | 0.0058 |
| 3 | 70,001 | 75,000 | 213,638 | 0.0176 |
| 1 | 75,001 | 80,000 | 77,791 | 0.0064 |
| 5 | 80,001 | 85,000 | 409,841 | 0.0338 |
| 5 | 85,001 | 90,000 | 434,745 | 0.0359 |
| 1 | 90,001 | 95,000 | 91,845 | 0.0076 |
| 1 | 95,001 | 100,000 | 100,000 | 0.0082 |
| 1 | 100,001 | 105,000 | 100,030 | 0.0083 |
| 1 | 105,001 | 110,000 | 105,610 | 0.0087 |
| 1 | 110,001 | 115,000 | 111,937 | 0.0092 |
| 1 | 115,001 | 120,000 | 120,000 | 0.0099 |
| 2 | 130,001 | 135,000 | 263,106 | 0.0217 |
| 3 | 135,001 | 140,000 | 413,341 | 0.0341 |
| 1 | 140,001 | 145,000 | 142,400 | 0.0117 |
| 1 | 155,001 | 160,000 | 155,932 | 0.0129 |
| 2 | 160,001 | 165,000 | 322,493 | 0.0266 |
| 1 | 165,001 | 170,000 | 167,528 | 0.0138 |
| 1 | 170,001 | 175,000 | 171,620 | 0.0142 |
| 2 | 175,001 | 180,000 | 354,011 | 0.0292 |
| 1 | 180,001 | 185,000 | 182,623 | 0.0151 |
| 2 | 190,001 | 195,000 | 386,166 | 0.0319 |
| 1 | 210,001 | 215,000 | 211,400 | 0.0174 |
| 2 | 215,001 | 220,000 | 438,000 | 0.0361 |
| 1 | 285,001 | 290,000 | 285,128 | 0.0235 |
| 2 | 295,001 | 300,000 | 595,383 | 0.0491 |
| 1 | 300,001 | 305,000 | 300,958 | 0.0248 |
| 1 | 305,001 | 310,000 | 308,834 | 0.0255 |
| 1 | 315,001 | 320,000 | 319,500 | 0.0264 |
| 2 | 320,001 | 325,000 | 647,628 | 0.0534 |
| 1 | 335,001 | 340,000 | 335,836 | 0.0277 |
| 1 | 360,001 | 365,000 | 362,303 | 0.0299 |
| 1 | 365,001 | 370,000 | 366,459 | 0.0302 |
| 1 | 380,001 | 385,000 | 382,849 | 0.0316 |
| 1 | 400,001 | 405,000 | 400,264 | 0.0330 |
| 1 | 460,001 | 465,000 | 462,825 | 0.0382 |
| 1 | 525,001 | 530,000 | 525,204 | 0.0433 |
| 1 | 550,001 | 555,000 | 551,206 | 0.0455 |
| 1 | 620,001 | 625,000 | 621,093 | 0.0512 |
| 1 | 795,001 | 800,000 | 799,892 | 0.0660 |
| 1 | 890,001 | 895,000 | 891,390 | 0.0735 |
| 1 | 945,001 | 950,000 | 950,000 | 0.0784 |
| 1 | 1,020,001 | 1,025,000 | 1,021,703 | 0.0843 |
| 1 | 1,045,001 | 1,050,000 | 1,047,957 | 0.0864 |
| 1 | 1,095,001 | 1,100,000 | 1,100,000 | 0.0907 |
| 1 | 1,150,001 | 1,155,000 | 1,153,816 | 0.0952 |
| 1 | 1,370,001 | 1,375,000 | 1,371,620 | 0.1131 |
| 1 | 1,690,001 | 1,695,000 | 1,690,997 | 0.1395 |
| 2 | 1,950,001 | 1,955,000 | 3,902,177 | 0.3219 |
| 1 | 2,695,001 | 2,700,000 | 2,698,149 | 0.2226 |
| 1 | 2,780,001 | 2,785,000 | 2,784,071 | 0.2297 |
| 1 | 5,420,001 | 5,425,000 | 5,420,551 | 0.4471 |
| 1 | 11,360,001 | 11,365,000 | 11,364,084 | 0.9374 |
| 1 | 27,955,001 | 27,960,000 | 27,958,090 | 2.3062 |
| 1 | 491,540,001 | 491,545,000 | 491,540,538 | 40.5470 |
| 1 | 618,260,001 | 618,265,000 | 618,260,148 | 51.0000 |
| 106,686 | | | 1,212,274,800 | 100.000 |

Category of Shareholding

As at December 31, 2012

| Particulars | Share Holders | Share Holding | Percentage | |
|--|----------------|----------------------|-----------------|--------|
| Associated Companies, Undertakings & Related Parties | | | | |
| HBL Stock Fund | 1 | 1,047,957 | 0.0864 | |
| HBL Multi - Asset Fund | 1 | 137,144 | 0.0113 | |
| Jubilee General Insurance Company Limited | 1 | 1,153,816 | 0.0952 | |
| Jubilee Life Insurance Company Limited | 1 | 1,021,703 | 0.0843 | |
| National Investment Trust | 1 | 1,951,238 | 0.1610 | |
| Directors, Chief Executive Officer and their Spouse and minor Children | | | | |
| Nauman K. Dar | C.E.O | 1 | 71,504* | 0.0059 |
| R. Zakir Mahmood | Director | 1 | 285,302** | 0.0235 |
| Executives / Employees | 1,676 | 875,978 | 0.0723 | |
| Public Sector Companies & Corporations | 1 | 174 | 0.0000 | |
| Banks, DFI & NBFIs | 11 | 9,426,439 | 0.7776 | |
| Insurance Companies | 14 | 2,119,553 | 0.1748 | |
| Modarabas & Mutual Funds | 11 | 6,905,250 | 0.5696 | |
| General Public | | | | |
| Local | 104,067 | 27,353,640 | 2.2563 | |
| Foreign | 726 | 804,985 | 0.0664 | |
| Others | 148 | 31,790,969 | 2.6224 | |
| Government of Pakistan | 3 | 11,367,394 | 0.9377 | |
| Foreign Companies | 20 | 5,497,807 | 0.4535 | |
| Holding 10% and Above | | | | |
| State Bank of Pakistan | 1 | 492,203,799 | 40.6017 | |
| Aga Khan Fund for Economic Development | 1 | 618,260,148 | 51.0000 | |
| | 106,686 | 1,212,274,800 | 100.0000 | |

* 71,330 shares issued under Staff Retention Incentive Scheme

** 285,128 shares issued under Staff Retention Incentive Scheme

Notice of Annual General Meeting

Notice is hereby given that 71st Annual General Meeting of Habib Bank Limited will be held on Friday, March 22, 2013 at 9.00 a.m. at Serena Hotel, Islamabad to transact the following business:

Ordinary Business:

1. To receive, consider and adopt the Audited Accounts (consolidated and unconsolidated) of the Bank for the year ended December 31, 2012, together with the Reports of the Directors and Auditors thereon.
2. To appoint Auditors for the term ending at the conclusion of the next Annual General Meeting and to fix their remuneration with increase of 7.5% of remuneration paid for year 2012. The retiring Auditors Ernst & Young, Ford Rhodes Sidat Hyder, Chartered Accountants, being eligible, have offered themselves for re-appointment.
3. To approve payment of a Final Cash Dividend of Rs. 4/- per share, i.e. 40%, to those who are Shareholders as at close of business on March 15, 2013, in addition to the 35% Interim Cash Dividend (i.e. Rs. 3.5 per share) already paid, as recommended by the Directors.

Special Business:

4. That the following Resolution be passed by the Shareholders at the Annual General Meeting as a Special Resolution as required under Section 208 of the Companies Ordinance, 1984, with or without modification in respect of investment in Subsidiaries and Associates:

"Having reviewed the information and update provided by the Company the Shareholders reconfirm and approve the investments to be made by Habib Bank Limited as follows:

- (i) to acquire additional shareholding of 14.32% in Diamond Trust Bank Kenya Limited at or around the prevailing market price or issue price as the case may be, as a result of which the total shareholding of Habib Bank Limited in Diamond Trust Bank Kenya Limited shall stand increased upto 26%.
- (ii) to acquire additional shareholding of 8% in Kyrgyz Investment and Credit Bank Limited at a maximum cost of upto US\$ 5 million, as a result of which the total shareholding of Habib Bank Limited in Kyrgyz Investment and Credit Bank Limited shall stand increased upto 26%.
- (iii) to invest upto GBP 50 million to enhance the capital of Habib Allied International Bank Plc., UK enabling it to strengthen and grow its franchise in the international markets.
- (iv) to acquire additional shareholding of 8.26% in Jubilee General Insurance Company Limited at or around the prevailing market price or issue price as the case may be, as a result of which the total shareholding of Habib Bank Limited in Jubilee General Insurance Company Limited shall stand increased upto 24.5%.
- (v) to acquire additional shareholding of 6.55% in Jubilee Life Insurance Company Limited at or around the prevailing market price or issue price as the case may be, as a result of which the total shareholding of Habib Bank Limited in Jubilee Life Insurance Company Limited shall stand increased upto 24.5%.

All investments will be subject to approval of the State Bank of Pakistan and other regulatory approvals being taken as required in Pakistan and overseas.

5. To authorise the issuance of Bonus Shares in proportion of 10 shares for every 100 shares held, that is at the rate of 10%, to those Shareholders whose names appear in the Register of Members at close of business on March 15, 2013 and to approve the disposal of fractional shares created out of the issuance of bonus shares.

Accordingly, it is proposed to consider and pass the following Resolution as an Ordinary Resolution:

RESOLVED THAT:

- (i) Ordinary Shares of Rs. 10 each be issued as Bonus Shares and that the said shares be allotted as fully paid Ordinary Shares to the Members of the Bank whose names appear on the Register of Members as at the close of the business on March 15, 2013 in the proportion of 10 Bonus Shares for every 100 Shares held, that is, at the rate of 10%, and that such Bonus Shares shall rank pari passu as regards dividends and in all other respects with the existing Ordinary Shares of the Bank.
- (ii) In the event of any Member becoming entitled to a fraction of a share, the Directors be and are hereby authorised to consolidate all such fractions and sell the shares so constituted on the Stock Market and to pay the proceeds thereof to the Members entitled to the fraction in proportion to their respective entitlements and to add the value of such fractional entitlements to the dividend amount payable to each such Member.
- (iii) For the purpose of giving effect to the foregoing, the Directors be and are hereby authorised to do and cause to be done all acts, deeds and things that may be necessary and to settle any question or difficulties that may arise in regard to the allotment and the distribution of the said Bonus Shares and in regard to fractional entitlements and the sale of the consolidated shares and the distribution of the sale proceeds of the consolidated shares to those entitled to fractional entitlements, as they think fit.

A Statement of Material Fact under Section 160(1)(b) of the Companies Ordinance, 1984 relating to the aforesaid Special Business to be transacted at the said Annual General Meeting is attached.

Copies of the Minutes of the AGM dated March 24, 2012 are available for the inspection of Shareholders as required under Section 173 of the Companies Ordinance, 1984.

Any Other Business:

To consider any other business with the permission of the Chair.

By the Order of the Board

February 25, 2013
Karachi

Nausheen Ahmad
Company Secretary

Notes:

1. The Register of Members and the Share Transfer Books will be closed from March 16, 2013 to March 22, 2013 (both days inclusive) for the purposes of the Annual General Meeting.
2. Only those persons whose names appear in the Register of Members of the Company as at March 15, 2013 are entitled to attend and participate in and vote at the Annual General Meeting.
3. A Member entitled to attend and vote at the Meeting may appoint another Member as per his/her proxy to attend and vote for him/her provided that a corporation may appoint as its proxy a person who is not a Member but is duly authorised by the corporation. Proxies must be received at the Registered Office of the Company not less than 48 hours before the time of the holding of the Meeting.
4. Members are requested to notify immediately changes if any in their registered address to our Shares Registrar, M/s. THK Associates (Pvt) Limited, Ground Floor, State Life Building No.3, Dr. Ziauddin Ahmed Road, Karachi-75530.
5. CDC Account Holders will further have to follow the under mentioned guidelines as laid down in Circular 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

A. For Attending the Meeting:

- (i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his identity by showing his original Computerized National Identity Card (CNIC) or original passport at the time of attending the Meeting.
- (ii) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

B. For Appointing Proxies:

- (i) In case of individuals, the account holder or sub-account holder and /or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.
- (ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
- (iii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- (iv) The proxy shall produce his original CNIC or original passport at the time of the Meeting.
- (v) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

Statement of Material Facts

Under Section 160(1)(b) of the Companies Ordinance, 1984

Agenda Item - 4 - Investment in Subsidiaries and Associates:

With a view to expand its services, diversify income stream and to reach critical mass in areas and locations with growth potential, HBL as a strategy has been diversifying and expanding its presence in the financial sector in the domestic and international markets through investment in various Associates and Subsidiaries. Approvals for equity investment in Associates and Subsidiaries were earlier obtained through Special Resolutions during the period 2007 to 2011 and an update of the same is provided in Part A.

The Bank intends to continue to consolidate its strategic investments in various Associates and Subsidiaries. In this connection the Bank seeks renewed approval for investment in certain Associates and Subsidiaries as per the requirement of law and also seeks approval for some fresh investments. The details in respect of renewals and fresh investments are mentioned in Part B:

A. Update on investments approved by the Shareholders as required under Companies (Investment in Associated Companies or Associated Undertakings) Regulations 2012:

(i) Urumqi City Commercial Bank, China

| | | |
|---|---|--|
| 1 | Total Investment approved | Approved by the Shareholders (in EOGM dated December 26, 2007) to invest up to 20% shareholding. |
| 2 | Amount of investment made to date | Nil |
| 3 | Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and | Viable commercial arrangement could not materialise. |
| 4 | Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company. | Not Applicable. |

(ii) Diamond Trust Bank Kenya Limited (DTBK)

| | | |
|---|---|--|
| 1 | Total Investment approved | Approved by the Shareholders (in EOGM dated December 26, 2007) to invest up to 26% shareholding. |
| 2 | Amount of investment made to date | US\$ 21,693,503 (equivalent Kshs 1.54 billion) representing 11.68% shareholding in DTBK. |
| 3 | Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and | This is a listed entity and investment is dependant on availability of shares at a reasonable price. |
| 4 | Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company. | Financial position of the company is given in table below. |



US\$ million

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------------------------------|--------|--------|--------|--------|----------|
| Revenue | 36.95 | 46.92 | 66.82 | 96.36 | 112.67 |
| Operating expense | 19.03 | 23.67 | 36.41 | 45.60 | 53.95 |
| Operating profit | 16.89 | 20.79 | 26.57 | 43.83 | 51.78 |
| Customer deposits | 456.88 | 575.74 | 696.56 | 822.32 | 1,012.20 |
| Customer loans and advances | 363.92 | 435.59 | 547.37 | 636.77 | 839.29 |
| Investments / balances with banks | 33.99 | 00.04 | 19.09 | 265.96 | 281.02 |
| Equity | 79.31 | 75.51 | 92.26 | 111.04 | 136.47 |

(iii) Diamond Trust Bank Tanzania Limited (DTBT)

| | | |
|---|---|--|
| 1 | Total Investment approved | Approved by the Shareholders (in EOGM dated December 26, 2007) to invest up to 26% shareholding. |
| 2 | Amount of investment made to date | Nil |
| 3 | Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and | Shares did not become available at a reasonable price. |
| 4 | Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company. | Not Applicable |

(iv) Diamond Trust Bank Uganda Limited (DTBU)

| | | |
|---|---|--|
| 1 | Total Investment approved | Approved by the Shareholders (in EOGM dated December 26, 2007) to invest up to 26% shareholding. |
| 2 | Amount of investment made to date | Nil |
| 3 | Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and | Shares did not become available at a reasonable price. |
| 4 | Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company. | Not Applicable |

(v) Kyrgyz Investment and Credit Bank Limited (KICB)

| | | |
|---|--|--|
| 1 | Total Investment approved | Approved by the Shareholders (in EOGM dated December 26, 2007) to invest up to 26% shareholding. |
| 2 | Amount of investment made to date | US\$ 3.65 million representing 18% shareholding in KICB. |
| 3 | Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and | Shares did not become available at a reasonable price. |

| | | |
|---|---|--|
| 4 | Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company. | Financial position of the company is given in table below. |
|---|---|--|

US\$ in million

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------------------------------|--------|--------|--------|--------|--------|
| Revenue | 6.321 | 8.949 | 9.608 | 10.481 | 14.291 |
| Operating expense | 2.993 | 5.306 | 5.609 | 6.338 | 7.717 |
| Operating profit | 3.345 | 3.616 | 3.553 | 2.060 | 6.678 |
| Customer deposits | 29.026 | 40.992 | 46.828 | 71.312 | 99.474 |
| Customer loans and advances | 48.989 | 56.905 | 57.963 | 64.240 | 88.229 |
| Investments / balances with banks | 0.606 | 5.144 | 0.156 | 3.046 | 12.903 |
| Equity | 15.961 | 19.202 | 22.378 | 24.214 | 37.375 |

(vi) Habib Allied International Bank, Plc, UK (HBL-UK)

| | | |
|---|---|---|
| 1 | Total Investment approved: | Up to GBP 20 million approved in EOGM dated December 26, 2007 |
| 2 | Amount of investment made to date | GBP 2.8 million in pipeline subject to regulatory consent for remittance. |
| 3 | Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and | HBL-UK's capital raising plan was delayed against the earlier expectation. HBL-UK is currently in process of capital raising for growth following acquisition of Habibsons, UK. |
| 4 | Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company. | Financial position of the company is given in table below. |

GBP in million

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------------------------------|-------|-------|-------|-------|-------|
| Revenue | 10.2 | 12.5 | 15.0 | 10.9 | 14.5 |
| Operating expenses | 6.3 | 7.0 | 7.4 | 7.4 | 11.9 |
| Operating profit | 3.9 | 5.5 | 7.4 | 3.5 | 2.6 |
| Customer deposits | 167.0 | 208.9 | 197.0 | 193.6 | 422.4 |
| Customer loans and advances | 108.5 | 117.2 | 125.1 | 122.0 | 199.4 |
| Investments / balances with banks | 192.1 | 235.6 | 240.4 | 257.4 | 413.0 |
| Equity | 38.8 | 41.3 | 44.9 | 49.2 | 49.4 |

(vii) Jubilee General Insurance Company Limited (JGIC)
(formerly New Jubilee Insurance Company Limited)

| | | |
|---|---|---|
| 1 | Total Investment approved | 24.50% |
| 2 | Amount of investment made to date | Rs. 1,540,738,840 representing 16.42% shareholding in JGIC. |
| 3 | Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and | Due to unavailability of sizeable lots of shares in the Stock Market. |
| 4 | Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company. | Financial position of the Company is given in table below. |

Rs. in million

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|
| Revenue | 2,608.718 | 1,918.728 | 2,976.099 | 3,081.131 | 3,534.106 |
| Operating expense | 2,033.677 | 2,097.881 | 2,204.201 | 2,534.449 | 2,641.195 |
| Operating profit | 575.041 | (179.153) | 771.898 | 546.682 | 892.911 |
| Investments / balances with banks | 3,712.714 | 3,224.194 | 3,930.943 | 4,830.384 | 6,049.439 |
| Equity | 2,411.663 | 2,061.314 | 2,621.006 | 2,903.875 | 3,542.869 |

(viii) Jubilee Life Insurance Company Limited (JLIC)
(formerly New Jubilee Life Insurance Company Limited)

| | | |
|---|---|---|
| 1 | Total Investment approved | 24.50% |
| 2 | Amount of investment made to date | Rs. 468,404,000 representing 17.95% shareholding in JLIC. |
| 3 | Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and | Due to unavailability of sizeable lots of shares in the Stock Market. |
| 4 | Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company. | Financial position of the Company is given in table below. |

Rs. in million

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------------------------------|-----------|-----------|-----------|------------|------------|
| Revenue | 50.452 | 34.311 | 5.741 | 34.328 | 97.619 |
| Operating expense | 6.424 | 150.916 | (55.003) | 17.060 | 45.263 |
| Operating profit | 44.028 | (116.605) | 60.744 | 17.268 | 52.356 |
| Investments / balances with banks | 5,590.132 | 5,289.509 | 7,702.591 | 10,757.779 | 15,230.351 |
| Equity | 481.228 | 416.562 | 546.505 | 1,149.873 | 1,430.398 |

(ix) HBL Asset Management Limited (Funds)

| | | |
|---|---|---|
| 1 | Total Investment approved | Rs. 2,250 million |
| 2 | Amount of investment made to date | Rs. 1,130 million |
| 3 | Reasons for not having made complete investment so far where resolution required it to be implemented in specified time; and | The approval pertains to the Bank's investment in new Funds, to be launched by HBL AML, as sponsor, to fulfil the requirement of Seed Capital. The management plans to launch more Funds in the year 2013 and onwards subject to market conditions and demand. |
| 4 | Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company. | The annualised rate of return of Funds launched by the Company is given in the table below: |

Table of Annualised rate of return:

Fund Return

For the period From 2009 to 2012

| Year Ended June 30, | HBL Income Fund | | HBL Stock Fund | | HBL Multi Asset Fund | | HBL Money Market Fund | | HBL Islamic Money Market Fund | | HBL Islamic Stock Fund | |
|---|-----------------|----------|----------------|----------|----------------------|---------|-----------------------|----------|-------------------------------|----------|------------------------|----------|
| | Return | NAV | Return | NAV | Return | NAV | Return | NAV | Return | NAV | Return | NAV |
| 2009 | 4.03% | 96.4553 | -17.80% | 76.1799 | -13.22% | 80.9415 | N/A | N/A | N/A | N/A | N/A | N/A |
| 2010 | 13.28% | 100.9384 | 19.52% | 91.0462 | 19.17% | 96.4616 | N/A | N/A | N/A | N/A | N/A | N/A |
| 2011 | 12.90% | 101.7643 | 28.19% | 103.9008 | 23.55% | 99.4110 | 11.54% | 103.0504 | 10.46% | 101.4612 | 2.50% | 102.5007 |
| 2012 | 12.29% | 103.3148 | 11.00% | 104.0655 | 12.67% | 94.8236 | 11.50% | 102.8926 | 10.31% | 103.0235 | 16.52% | 117.6287 |
| Half year ended December 31, 2012 | 7.64% | 102.1500 | 16.63% | 109.7115 | 15.69% | 98.131 | 10.04% | 101.2091 | 9.23% | 100.9583 | 16.81% | 125.7089 |

| Year Ended June 30, | HBL Pension Fund | | | | | | HBL Islamic Pension Fund | | | | | |
|---|------------------|----------|--------|----------|--------------|----------|--------------------------|----------|--------|----------|--------------|----------|
| | Equity | | Debt | | Money Market | | Equity | | Debt | | Money Market | |
| | Return | NAV | Return | NAV | Return | NAV | Return | NAV | Return | NAV | Return | NAV |
| 2009 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 2010 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 2011 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 2012 | 35.17% | 122.4358 | 9.77% | 104.7196 | 9.29% | 104.9036 | 32.43% | 119.9318 | 9.38% | 104.0739 | 8.80% | 104.635 |
| Half year ended December 31, 2012 | 16.75% | 142.9446 | 10.53% | 110.2809 | 8.47% | 109.3848 | 20.58% | 144.6113 | 9.79% | 109.2107 | 8.34% | 109.0361 |

B. The Bank provides the information required under the Companies (Investment in Associated Companies or Associated Undertakings) Regulations 2012.

Special Resolution:

- (i) to acquire additional shareholding of 14.32% in Diamond Trust Bank Kenya Limited at or around the prevailing market price or issue price as the case may be, as a result of which the total shareholding of Habib Bank Limited in Diamond Trust Bank Kenya Limited shall stand increased upto 26%.
- (ii) to acquire additional shareholding of 8% in Kyrgyz Investment and Credit Bank Limited at a maximum cost of upto US\$ 5 million, as a result of which the total shareholding of Habib Bank Limited in Kyrgyz Investment and Credit Bank Limited shall stand increased upto 26%.
- (iii) to invest upto GBP 50 million to enhance the capital of Habib Allied International Bank Plc., UK enabling it to strengthen and grow its franchise in the international markets.
- (iv) to acquire additional shareholding of 8.26% in Jubilee General Insurance Company Limited at or around the prevailing market price or issue price as the case may be, as a result of which the total shareholding of Habib Bank Limited in Jubilee General Insurance Company Limited shall stand increased upto 24.5%.
- (v) to acquire additional shareholding of 6.55% in Jubilee Life Insurance Company Limited at or around the prevailing market price or issue price as the case may be, as a result of which the total shareholding of Habib Bank Limited in Jubilee Life Insurance Company Limited shall stand increased upto 24.5%.

All investments will be subject to approval of the State Bank of Pakistan and other regulatory approvals being taken as required in Pakistan and overseas.

(i) Diamond Trust Bank Kenya Limited (DTBK)

| | | |
|---|---|---|
| 1 | Name of associated company or associated undertaking alongwith criteria based on which the associated relationship is established | Common Director / AKFED shareholding of 17.32%. (as of December 31, 2011) and HBL shareholding is 11.68% (as of December 31, 2012). |
| 2 | Purpose, benefits and period of investments | This is a strategic investment which will enable HBL to strengthen its foothold in the emerging markets of Africa. HBL intends to achieve the threshold of 26% in upto 5 years. |
| 3 | Maximum amount of investment | HBL intends to acquire additional shareholding of 14.32%. The estimated cost of acquiring 31,519,004 shares is US\$ 43 million based on average share price of US\$ 1.35. |
| 4 | Maximum price at which securities will be acquired | At or around the prevailing market price or issue price as the case may be. This is a listed company. |
| 5 | Maximum number of securities to be acquired | 31,519,004 shares to be acquired to achieve additional shareholding of 14.32%. If there are any rights or bonus shares issues, this number would change. |

| | | |
|----|--|--|
| 6 | Number of securities and percentage thereof held before and after the proposed investment | <p>Before: Number of securities : 25,708,238 HBL Shareholding : 11.68%</p> <p>After: Number of securities : 57,227,242 HBL Shareholding : 26%</p> <p>If there are any rights or bonus shares issues, this number would change.</p> |
| 7 | In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired. | US\$ 1.35 per share |
| 8 | In case of investment in unlisted securities, fair market value of such securities determined in term of regulation 6 (1) | Not Applicable |
| 9 | Break-up value of securities intended to be acquired on the basis of latest audited financial statements | US\$ 0.79 per share based on Audited Accounts as of December 31, 2011. |
| 10 | Earning per share of the associated company or associated undertaking for the last three years. | <p>Year : US\$ 2009 : 0.07 2010 : 0.14 2011 : 0.16</p> |
| 11 | Source of fund from which securities will be acquired | Bank's own sources. Capital Adequacy Ratio of HBL (Holding Company) as of December 31, 2012 is 15.14% which can support an acquisition of this nature. |
| 12 | Where the securities are intended to be acquired using borrowed funds 1. Justification for investment through borrowings and 2. Detail of guarantees and assets pledged for obtaining such funds | Not Applicable |
| 13 | Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment | Not Applicable |
| 14 | Direct or indirect interest of Directors, Sponsors, Majority Shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration | <p>Common Director as Independent Director. No personal interest of HBL Directors.</p> <p>AKFED has 17.32% shareholding in DTBK.</p> |
| 15 | Any other important details necessary for the members to understand the transaction | Not Applicable |

| | | |
|----|---|----------------|
| 16 | <p>In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information required, namely</p> <p>I. Description of the project and its history since conceptualization;</p> <p>II. Starting and expected date of completion of work;</p> <p>III. Time by which such project shall become commercially operational; and</p> <p>IV. Expected time by which the project shall start paying return on investment</p> | Not Applicable |
|----|---|----------------|

(ii) Kyrgyz Investment and Credit Bank Limited (KICB)

| | | |
|---|---|---|
| 1 | Name of associated company or associated undertaking alongwith criteria based on which the associated relationship is established | HBL shareholding is 18% (as of December 31, 2012) and AKFED shareholding is 21%. (as of December 31, 2011). |
| 2 | Purpose, benefits and period of investments | This is a strategic investment, which will enable HBL to grow in the Central Asian markets. HBL intends to achieve the threshold of 26% in upto 5 years. |
| 3 | Maximum amount of investment | HBL intends to acquire additional shareholding of 8% at a maximum cost of upto US\$ 5 million. |
| 4 | Maximum price at which securities will be acquired | At issue price in case of rights issue or at a negotiated price in other than rights issue. |
| 5 | Maximum number of securities to be acquired | 14,000 shares to be acquired to achieve additional shareholding of 8%. If there are any rights or bonus shares issues, this number would change. |
| 6 | Number of securities and percentage thereof held before and after the proposed investment | <p>Before: Number of securities : 31,500 HBL Shareholding : 18%</p> <p>After: Number of securities : 45,500 HBL Shareholding : 26%</p> <p>If there are any rights or bonus shares issues, this number would change.</p> |
| 7 | In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired. | Not Applicable |
| 8 | In case of investment in unlisted securities, fair market value of such securities determined in term of regulation 6 (1) | As these are right shares to be offered under the Republic of Kyrgyz laws, the fair market value in terms of regulation 6(1) cannot be determined at this stage. |

| | | |
|----|--|---|
| 9 | Break-up value of securities intended to be acquired on the basis of latest audited financial statements | US\$ 213.57 per share based on Audited Accounts as of December 31, 2011. |
| 10 | Earning per share of the associated company or associated undertaking for the last three years. | Year : US\$ 2009 : 31.76 2010 : 18.36 2011 : 34.06 |
| 11 | Source of fund from which securities will be acquired | Bank's own sources. Capital Adequacy Ratio of HBL (Holding Company) as of December 31, 2012 is 15.14 % which can support an acquisition of this nature. |
| 12 | Where the securities are intended to be acquired using borrowed funds 1. Justification for investment through borrowings and 2. Detail of guarantees and assets pledged for obtaining such funds | Not Applicable |
| 13 | Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment | Not Applicable |
| 14 | Direct or indirect interest of Directors, Sponsors, Majority Shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration | No personal interest of HBL Directors. AKFED has 21 % shareholding in KICB. |
| 15 | Any other important details necessary for the members to understand the transaction | Not Applicable |
| 16 | In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information required, namely I. Description of the project and its history since conceptualization; II. Starting and expected date of completion of work; III. Time by which such project shall become commercially operational; and IV. Expected time by which the project shall start paying return on investment | Not Applicable |

(iii) Habib Allied International Bank, Plc, UK (HBL-UK)

| | | |
|---|---|--|
| 1 | Name of associated company or associated undertaking alongwith criteria based on which the associated relationship is established | HBL shareholding is 90.5% (as of December 31, 2012). |
|---|---|--|

| | | |
|----|--|--|
| 2 | Purpose, benefits and period of investments | This investment will provide a platform to HBL - UK to further grow and strengthen operations in the UK and other international markets in which it has a presence or intends to have a presence in the future. The proposed investment will be made over a period of 5 years. |
| 3 | Maximum amount of investment | HBL intends to invest upto GBP 50 million. |
| 4 | Maximum price at which securities will be acquired | As the right shares will be issued from time to time in different tranches as per UK laws, so maximum price at which securities will be acquired cannot be determined at this stage. |
| 5 | Maximum number of securities to be acquired | HBL will invest in right shares offered. The number of shares cannot be determined at this stage. Further HBL intends to acquire unsubscribed right shares or any available owner's shares within the approved limit of GBP 50 million subject to requisite regulatory approval. |
| 6 | Number of securities and percentage thereof held before and after the proposed investment | Before: Number of securities : 22,625,000 HBL Shareholding : 90.5% After: Cannot be determined at this stage in view of the position explained at 5 above. |
| 7 | In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired. | Not Applicable |
| 8 | In case of investment in unlisted securities, fair market value of such securities determined in term of regulation 6 (1) | As these are right shares to be offered under UK Laws, the fair market value in terms of regulation 6(1) cannot be determined at this stage. |
| 9 | Break-up value of securities intended to be acquired on the basis of latest audited financial statements | GBP 1.975 per share based on Audited Accounts as of December 31, 2011. |
| 10 | Earning per share of the associated company or associated undertaking for the last three years. | Year : GBP 2009 : 0.143 2010 : 0.131 2011 : 0.006 |
| 11 | Source of fund from which securities will be acquired | Bank's own sources. Capital Adequacy Ratio of HBL (Holding Company) as of December 31, 2012 is 15.14 % which can support an acquisition of this nature. |
| 12 | Where the securities are intended to be acquired using borrowed funds 1. Justification for investment through borrowings and 2. Detail of guarantees and assets pledged for obtaining such funds | Not Applicable |

| | | |
|----|--|---|
| 13 | Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment | Not Applicable |
| 14 | Direct or indirect interest of Directors, Sponsors, Majority Shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration | Common Director as nominee of HBL. No personal interest of HBL Directors in HBL-UK. |
| 15 | Any other important details necessary for the members to understand the transaction | Not Applicable |
| 16 | In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information required, namely I. Description of the project and its history since conceptualization; II. Starting and expected date of completion of work; III. Time by which such project shall become commercially operational; and IV. Expected time by which the project shall start paying return on investment | Not Applicable |

(iv) Jubilee General Insurance Company Limited (JGIC)
(formerly New Jubilee Insurance Company Limited):

| | | |
|---|---|--|
| 1 | Name of associated company or associated undertaking alongwith criteria based on which the associated relationship is established | Common Director / AKFED shareholding of 14.05% (as of December 31, 2011) and HBL shareholding is 16.24% (as of December 31, 2012). |
| 2 | Purpose, benefits and period of investments | <ul style="list-style-type: none"> to expand services to customers through product offerings. Getting benefit of expansion of insurance business in Pakistan to build bancassurance business. <p>This investment should be completed in 2 to 3 years.</p> |
| 3 | Maximum amount of investment | HBL intends to acquire additional shareholding in JGIC of 8.26%. The estimated cost of acquiring 9,799,161 shares is Rs. 670 million based on average share price of Rs. 68.3. |
| 4 | Maximum price at which securities will be acquired | At or around the prevailing market price or issue price as the case may be. This is a listed company. |
| 5 | Maximum number of securities to be acquired | 9,799,161 shares to be acquired to achieve additional shareholding of 8.26%. If there are any rights or bonus shares issues, this number would change. |

| | | |
|----|--|---|
| 6 | Number of securities and percentage thereof held before and after the proposed investment | <p>Before: Number of securities : 19,266,148 Shareholding : 16.24%</p> <p>After: Number of securities : 29,065,309 Shareholding : 24.50%</p> <p>If there are any rights or bonus shares issues, this number would change.</p> |
| 7 | In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired. | Rs.68.3 per share |
| 8 | In case of investment in unlisted securities, fair market value of such securities determined in term of regulation 6 (1) | Not applicable |
| 9 | Break-up value of securities intended to be acquired on the basis of latest audited financial statements | Rs. 35.82 per share based on Audited Accounts as of December 31, 2011. |
| 10 | Earning per share of the associated company or associated undertaking for the last three years. | <p>Year : Rs. 2009 : Rs. 9.96 2010 : Rs. 4.55 2011 : Rs. 8.06</p> |
| 11 | Source of fund from which securities will be acquired | Bank's own sources. Capital Adequacy Ratio of HBL (Holding Company) as of December 31, 2012 is 15.14 % which can support an acquisition of this nature. |
| 12 | Where the securities are intended to be acquired using borrowed funds 1. Justification for investment through borrowings and 2. Detail of guarantees and assets pledged for obtaining such funds | Not Applicable |
| 13 | Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment | Not Applicable |
| 14 | Direct or indirect interest of Directors, Sponsors, Majority Shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration | <p>Common Director as nominee of HBL. No personal interest of HBL Directors.</p> <p>AKFED has 14.05 % shareholding in JGIC.</p> |
| 15 | Any other important details necessary for the members to understand the transaction. | Not Applicable |

| | | |
|----|---|----------------|
| 16 | <p>In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information required, namely</p> <p>I. Description of the project and its history since conceptualization;</p> <p>II. Starting and expected date of completion of work;</p> <p>III. Time by which such project shall become commercially operational; and</p> <p>IV. Expected time by which the project shall start paying return on investment</p> | Not Applicable |
|----|---|----------------|

(v) **Jubilee Life Insurance Company Limited (JLIC)**
(formerly New Jubilee Insurance Company Limited)

| | | |
|---|---|--|
| 1 | Name of associated company or associated undertaking alongwith criteria based on which the associated relationship is established | Common Director / AKFED shareholding of 57.87% (As of December 31, 2011) and HBL shareholding is 17.95% (as of December 31, 2012). |
| 2 | Purpose, benefits and period of investments | <ul style="list-style-type: none"> To expand services to customers through product offerings. Getting benefit of expansion of life insurance business in Pakistan to build bancassurance business <p>This investment should be completed in 2 to 3 years.</p> |
| 3 | Maximum amount of investment | HBL intends to acquire additional shareholding in JLIC of 6.55%. The estimated cost of acquiring 4,106,978 shares is Rs. 362 million based on the average share price of Rs. 88. |
| 4 | Maximum price at which securities will be acquired | At or around prevailing market price or issue price as the case may be. This is a listed company. |
| 5 | Maximum number of securities to be acquired | 4,106,978 shares to be acquired to achieve additional shareholding of 6.55%. If there are any rights or bonus shares issues, this number would change. |
| 6 | Number of securities and percentage thereof held before and after the proposed investment | <p>Before:</p> <p>Number of securities : 11,255,000 HBL Shareholding : 17.95%</p> <p>After:</p> <p>Number of securities : 15,361,978 HBL Shareholding : 24.50%</p> <p>If there are any rights or bonus shares issues, this number would change.</p> |



| | | |
|----|--|---|
| 7 | In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired. | Rs.88 per share |
| 8 | In case of investment in unlisted securities, fair market value of such securities determined in term of regulation 6 (1) | Not applicable |
| 9 | Break-up value of securities intended to be acquired on the basis of latest audited financial statements | Rs. 22.81 per share based on Audited Accounts as of December 31, 2011. |
| 10 | Earning per share of the associated company or associated undertaking for the last three years. | Year : Rs. 2009 : Rs.2.07 2010 : Rs.2.34 2011 : Rs.5.97 |
| 11 | Source of fund from which securities will be acquired | Bank's own sources. Capital Adequacy Ratio of HBL (Holding Company) as of December 31, 2012 is 15.14 % which can support an acquisition of this nature. |
| 12 | Where the securities are intended to be acquired using borrowed funds 1. Justification for investment through borrowings and 2. Detail of guarantees and assets pledged for obtaining such funds | Not Applicable |
| 13 | Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment | Not Applicable |
| 14 | Direct or indirect interest of Directors, Sponsors, Majority Shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration | Common Director as nominee of HBL. No personal interest of HBL Directors. AKFED has 57.87% shareholding in JLIC. |
| 15 | Any other important details necessary for the members to understand the transaction | Not Applicable |

| | | |
|----|---|----------------|
| 16 | <p>In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information required, namely</p> <p>I. Description of the project and its history since conceptualization;</p> <p>II. Starting and expected date of completion of work;</p> <p>III. Time by which such project shall become commercially operational; and</p> <p>IV. Expected time by which the project shall start paying return on investment</p> | Not Applicable |
|----|---|----------------|

Agenda Item – 5 – Issue of Bonus Shares

In the opinion of the Board of Directors, the Financial results of the Bank justifies the issuance of Bonus Shares in the ratio of 10 ordinary shares for every 100 ordinary shares held, that is, at the rate of 10%, to those Shareholders whose names appear in the Register of Members at the close of business on March 15, 2013. A Certificate of Free Reserves has been issued by the Auditors.

The Directors of the Company are not directly or indirectly, personally interested in this business except to the extent of their shareholding in the Company.

Accordingly, it is proposed to consider and pass the following resolution as an ordinary resolution:

RESOLVED THAT:

1. Ordinary Shares of Rs. 10 each be issued as Bonus Shares and that the said shares be allotted as fully paid Ordinary Shares to the Members of the Bank whose names appear on the Register of Members as at the close of the business on March 15, 2013 in the proportion of 10 Bonus Shares for every 100 Shares held, that is, at the rate of 10%, and that such Bonus Shares shall rank *pari passu* as regards dividends and in all other respects with the existing Ordinary Shares of the Bank.
2. In the event of any Member becoming entitled to a fraction of a share, the Directors be and are hereby authorised to consolidate all such fractions and sell the shares so constituted on the Stock Market and to pay the proceeds thereof to the Members entitled to the fraction in proportion to their respective entitlements and to add the value of such fractional entitlements to the dividend amount payable to each such Member.
3. For the purpose of giving effect to the foregoing, the Directors be and are hereby authorised to do and cause to be done all acts, deeds and things that may be necessary and to settle any question or difficulties that may arise in regard to the allotment and the distribution of the said Bonus Shares and in regard to fractional entitlements and the sale of the consolidated shares and the distribution of the sale proceeds of the consolidated shares to those entitled to fractional entitlements, as they think fit.

The Shareholders are further informed that the aforesaid particulars will be attached to the Shareholder's resolution proposed to be passed at the Annual General Meeting of Habib Bank Limited to be held on Friday, March 22, 2013 at 9:00 am at Serena Hotel, Islamabad.

Admission Slip

The Annual General Meeting of Habib Bank Limited will be held on Friday, March 22, 2013 at 9.00 a.m. at the Serena Hotel, Islamabad.

Kindly bring this slip duly signed by you for attending the Meeting.

Company Secretary

Name _____

Shareholder No. _____

Signature

Note:

- i) The signature of the shareholder must tally with the specimen signature on the Company's record.
- ii) Shareholders are requested to hand over duly completed admission slips at the counter before entering the meeting premises.

CDC Account Holders / Proxies / Corporate Entities:

- a) The CDC Account Holder / Proxy shall authenticate his identity by showing his / her original Computerized National Identity Card (CNIC) or original passport at the time of attending the Meeting.
- b) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of the Meeting (unless it has been provided earlier).

This Admission Slip is Not Transferable.



Form of Proxy

I/We _____
of _____
being member(s) of Habib Bank Limited holding _____
ordinary shares hereby appoint _____
of _____ or failing him/her _____
of _____ who is / are also member(s) of Habib Bank Limited as my / our proxy in my / our absence
to attend and vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held on
Friday, March 22, 2013 and at any adjournment thereof.

As witness my / our hand / seal this _____ day of _____ 2013

Signed by the said _____

In the presence of 1. _____

2. _____

Folio / CDC Account No.

Signature on
Revenue Stamp of
Appropriate Value

This signature should agree with the
specimen registered with the Company.

Important:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Company, 4th Floor, Habib Bank Tower, Jinnah Avenue, Islamabad, not less than 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he himself is a member of the Company, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

For CDC Account Holders / Corporate Entities:

In addition to the above the following requirements have to be met:

- i) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
- ii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- iii) The proxy shall produce his original CNIC or original passport at the time of the meeting.
- iv) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

AFFIX
CORRECT
POSTAGE

Habib Bank Limited
Registered Office
4th Floor, Habib Bank Tower,
Jinnah Avenue, Blue Area,
Islamabad, Pakistan.

111-111-425 | www.hbl.com