



# **Consolidated Financial Statements**

Bank AL Habib Limited

and

Subsidiary Companies



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

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

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

### Pattern of Shareholding

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

On behalf of the Board of Directors

Karachi: February 17, 2011

ALI RAZA D. HABIB  
*Chairman*



## Auditors' Report to the Members

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

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

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

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

Karachi: February 17, 2011

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



## Consolidated Statement of Financial Position As at 31 December 2010

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

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

ALI RAZA D. HABIB  
*Chairman*

ABBAS D. HABIB  
*Chief Executive and  
Managing Director*

SYED MAZHAR ABBAS  
*Director*

ANWAR HAJI KARIM  
*Director*



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

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

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

ALI RAZA D. HABIB  
*Chairman*

ABBAS D. HABIB  
*Chief Executive and  
Managing Director*

SYED MAZHAR ABBAS  
*Director*

ANWAR HAJI KARIM  
*Director*



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

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

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

ALI RAZA D. HABIB  
*Chairman*

ABBAS D. HABIB  
*Chief Executive and  
Managing Director*

SYED MAZHAR ABBAS  
*Director*

ANWAR HAJI KARIM  
*Director*



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

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

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

ALI RAZA D. HABIB  
*Chairman*

ABBAS D. HABIB  
*Chief Executive and  
Managing Director*

SYED MAZHAR ABBAS  
*Director*

ANWAR HAJI KARIM  
*Director*



## Consolidated Cash Flow Statement For the year ended 31 December 2010

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





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

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

ALI RAZA D. HABIB  
*Chairman*

ABBAS D. HABIB  
*Chief Executive and  
Managing Director*

SYED MAZHAR ABBAS  
*Director*

ANWAR HAJI KARIM  
*Director*



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

### 1. STATUS AND NATURE OF BUSINESS

1.1 The Group comprises of:

#### **Holding company**

- Bank AL Habib Limited (the Bank)

#### **Subsidiary companies**

- AL Habib Capital Markets (Private) Limited
- AL Habib Financial Services Limited (also see note 1.4)

1.2 Bank AL Habib Limited (the Bank) was incorporated in Pakistan on 15 October 1991 as a public limited company under the Companies Ordinance, 1984 having its registered office at 126-C, Old Bahawalpur Road, Multan with principal place of business in Karachi. Its shares are listed on all the Stock Exchanges in Pakistan. It is a scheduled bank principally engaged in the business of commercial banking with a network of 277 branches (2009: 255 branches), 25 sub-branches (2009: NIL) and one representative office (2009: NIL). The branch network of the Bank includes a wholesale branch in the Kingdom of Bahrain (2009:01), a branch in Karachi Export Processing Zone (2009:01) and 08 Islamic Banking branches (2009: 06).

1.3 The Bank has invested in 66.67% shares of AL Habib Capital Markets (Private) Limited. The company was incorporated in Pakistan on 23 August 2005 as a private limited company under the Companies Ordinance, 1984. The company is a corporate member of the Karachi Stock Exchange (Guarantee) Limited and is engaged in equity, money market and foreign exchange brokerage services, equity research, corporate financial advisory and consultancy services.

1.4 During the year, the Bank has completed the process of closure of AL Habib Financial Services Limited (the subsidiary) and consequently, the subsidiary ceased to exist as a legal entity effective 28 December 2010. The income and expenses of AL Habib Financial Services Limited are consolidated till the date of the closure as mentioned above (also see note 31.1).

### 2. BASIS OF PRESENTATION

2.1 These consolidated financial statements have been prepared in conformity with the format of financial statements prescribed by the State Bank of Pakistan (SBP) vide BSD Circular No. 04, dated 17 February 2006. Further, with effect from the current year, "Balance Sheet" has been renamed as "Statement of financial position" keeping in view the requirement of BSD Circular letter No. 7 of 2010 dated April 20, 2010 issued by the SBP.

2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing includes purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchase and resale arising under these arrangements are not reflected in these consolidated financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon. However, murabaha financing arrangements undertaken by the Islamic Banking branches are accounted for as a purchase and sale transaction of the underlying goods in these consolidated financial statements in accordance with the accounting policies of the Group.



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

### **3. STATEMENT OF COMPLIANCE**

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

### **4. BASIS OF MEASUREMENT**

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

### **5. SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

IFRS 3 - Business Combinations (Revised)

IAS 27 - Consolidated and Separate Financial Statements (Amendment)

IFRIC 17 - Distributions of Non-cash Assets to Owners

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

#### **Issued in May 2008**

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



### **Issued in April 2009**

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

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

### **5.2 Basis of consolidation**

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

### **5.3 Cash and cash equivalents**

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

### **5.4 Repurchase / resale agreements**

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

#### **Sale under repurchase obligation**

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

#### **Purchase under resale obligation**

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

### **5.5 Investments**

Investments (other than associates) are classified as follows:



### **Held for trading**

These are investments acquired principally for the purpose of generating profits from short-term fluctuations in price or dealer's margin or are securities included in a portfolio in which a pattern of short-term trading exists.

### **Held to maturity**

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

### **Available for sale**

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

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

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

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

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

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

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

### **Investment in associates**

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

## **5.6 Advances**

### **Loans and advances**

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



### **Finance lease receivables**

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

### **Ijarah finance**

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

### **Murabaha**

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

## **5.7 Operating fixed assets**

### **Tangible operating assets - owned**

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

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

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

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



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

#### **Tangible operating assets - leased**

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

#### **Intangible assets**

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

#### **Capital work in progress**

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

#### **Impairment**

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

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

### **5.8 Employees' benefits**

#### **Defined benefit plan**

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

#### **Defined contribution plan**

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

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





### **Compensated absences**

Employees' entitlement to annual leave is recognised when they accrue to employees. A provision is made for estimated liability for annual leave as a result of services rendered by the employee against un-availed leaves upto the reporting date.

#### **5.9 Provisions against liabilities**

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

#### **5.10 Provisions against off-balance sheet obligations**

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

#### **5.11 Revenue recognition**

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

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

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

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

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

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

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

#### **5.12 Taxation**

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





### **Current**

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

### **Deferred**

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

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

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

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

## **5.13 Foreign currencies**

### **Functional and presentation currency**

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

### **Foreign currencies transactions**

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

### **Foreign operations**

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

## **5.14 Financial instruments**

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



#### 5.15 **Derivative financial instruments**

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

#### 5.16 **Off-setting**

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

#### 5.17 **Dividends and appropriations to reserves**

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

#### 5.18 **Segment reporting**

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

##### **Business segments**

##### **Retail banking**

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

##### **Commercial banking**

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

##### **Retail brokerage**

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

##### **Geographical segments**

The Group operates in two geographic regions, being:

- Pakistan
- Middle East



## 5.19 Earnings per share

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

## 6. ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which forms the basis of making judgment about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in period of revision and future periods if the revision affects both current and future periods. The estimates and judgments that have a significant effect on the financial statements are in respect of the following:

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

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

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

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



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

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

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

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

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

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

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



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

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

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

## 10. LENDINGS TO FINANCIAL INSTITUTIONS

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

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

### 10.2 Securities held as collateral against lendings to financial institutions

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

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

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



## 11. INVESTMENTS

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

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



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

#### 11.4 Particular of provision for diminution in the value of investments

Available for sale investments:

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



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

**11.4.1 Particulars of provision in respect of type and segment**

Available for sale investments:

Listed companies and closed end mutual funds	<b>909</b>	85,004	
Unlisted companies	<b>5,700</b>	5,700	
	<b>6,609</b>	90,704	

**11.5 Quality of available for sale securities**

<u>Name of security</u>	Face value	2010	2009	2010	2009	2010	2009			
	Rs. / USD	Rating		Cost		Carrying value				
		(Rupees in '000)								
11.5.1 Market Treasury Bills	-	Unrated	Unrated	34,756,687	82,789,500	34,702,084	82,884,748			
11.5.2 Pakistan Investment Bonds	-	Unrated	Unrated	12,027,781	10,528,090	11,404,535	10,497,953			
11.5.3 Foreign Currency Bonds										
Government of Pakistan Bonds	USD 100	B-	-	297,203	-	310,005	-			
Government of Pakistan Bonds	USD 100	B-	-	154,335	-	156,809	-			
Government of Sri Lanka Bonds	USD 100	B+	B	340,709	334,161	370,207	355,381			
				792,247	334,161	837,021	355,381			
11.5.4 Sukuks										
	<u>2010</u>	<u>2009</u>	<u>Name of security</u>							
	No. of certificates									
			Dar Al Arkan International Sukuk							
	20,000	20,000	Company	USD 100	A -	A -	171,273	168,483	146,439	147,423
	170,000	170,000	Engro Foods Limited	Rs.5,000	A -	A-	850,000	850,000	850,000	850,000
	1,000	1,000	Government of Pakistan Ijarah Sukuk	Rs.100,000	Unrated	Unrated	100,000	100,000	101,620	100,992
	30,000	30,000	Government of Pakistan Ijarah Sukuk	Rs.100,000	Unrated	Unrated	3,000,000	3,000,000	3,058,200	3,000,000
	-	36,990	Government of Pakistan Sukuk	USD 100	-	CCC+	-	308,355	-	309,392
	1,013,706	513,261	Liberty Power Tech Limited	Rs.1,000	AA -	AA-	1,013,706	513,261	1,013,706	513,261
	40,000	40,000	Sui Southern Gas Company Limited	Rs.5,000	AA	AA-	160,000	200,000	160,000	194,274
	150,000	150,000	WAPDA Second Sukuk Company Limited	Rs.5,000	Unrated	Unrated	750,000	750,000	750,000	706,199
							6,044,979	5,890,099	6,079,965	5,821,541





11.5.5 Ordinary shares of listed companies and closed end mutual funds

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

11.5.6 Ordinary shares of unlisted companies

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

11.5.7 Listed term finance certificates

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

11.5.8 Unlisted term finance certificates

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



#### 11.5.9 Open ended mutual funds

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

#### 11.6 Market Treasury Bills

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

#### 11.7 Pakistan Investment Bonds

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

#### 11.8 Sukuks

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



11.8.1 Sukuks are redeemable semi-annually.

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

#### 11.9 Term Finance Certificates

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



\*These Term Finance Certificates are subordinated.

11.9.1 Term Finance Certificates are redeemable semi-annually.

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

11.10 Foreign Currency Bonds

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

11.10.1 Foreign Currency Bonds are redeemable semi-annually.

11.11 Ordinary shares of unlisted companies

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



## 11.12 Associates

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

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

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

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



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



12.2 Net investment in finance lease / Ijarah financing

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

12.3 Ijarah financing under IFAS 2

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

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

12.3.1 Future Ijarah payments receivable

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

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



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

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

12.6 Particulars of provision against non-performing loans and advances

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





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

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

12.6.3 Particulars of provision against non-performing loans and advances

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

12.7 Particulars of write-offs:

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

12.7.3 In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended 31 December 2010 is given in Annexure 1.



12.8 Particulars of Loans and Advances to Directors, Associated Companies etc.	Note	2010	2009
		(Rupees in '000)	
(i) Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons			
Balance at beginning of the year		875,735	644,017
Loans granted during the year		524,584	480,676
Repayments		(275,810)	(248,958)
Balance at end of the year		<u>1,124,509</u>	<u>875,735</u>
(ii) Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members			
Balance at beginning of the year		399,584	369,000
Loans granted during the year		742,345	542,438
Repayments		(772,121)	(511,854)
Balance at end of the year		<u>369,808</u>	<u>399,584</u>
<b>13. OPERATING FIXED ASSETS</b>			
Capital work-in-progress	13.1	204,634	316,182
Property and equipment	13.2	9,992,707	9,238,363
Intangible assets	13.3	66,969	65,603
		<u>10,264,310</u>	<u>9,620,148</u>
<b>13.1 Capital work-in-progress</b>			
Civil works		188,002	213,466
Advance payment towards property		7,953	94,082
Consultants' fee and other charges		8,679	8,634
		<u>204,634</u>	<u>316,182</u>



13.2 Property and equipment

2010

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



2009

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



13.2.1 Details of disposal of fixed assets during the year:

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

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

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

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



### 13.3 Intangible assets

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

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

### 14. OTHER ASSETS

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

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



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



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





### 18.3 Term Finance Certificates - III (Unquoted)

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

### 19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2010			2009		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
Not later than one year	381	23	358	1,222	96	1,126
Later than one year and not later than five years	29	1	28	399	17	382
	<u>410</u>	<u>24</u>	<u>386</u>	<u>1,621</u>	<u>113</u>	<u>1,508</u>

(Rupees in '000)

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

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



## 20.1 Reconciliation of deferred tax

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

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



## 22. SHARE CAPITAL

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

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

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



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

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

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

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

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

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

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



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



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



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



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

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





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

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

**35. CASH AND CASH EQUIVALENTS**

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

(Numbers)

**36. STAFF STRENGTH**

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

**37. DEFINED BENEFIT PLAN**

**37.1 General description**

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

**Number of years of eligible service completed:**

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

**Amount of gratuity payable:**

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

**37.2 Principal actuarial assumptions**

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

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

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

**37.3 Movement in defined benefit plan**

Charge for the year	<b>79,009</b>	67,684
Contribution to the fund	<b>(79,009)</b>	(67,684)
Closing balance	<b>-</b>	-



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



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

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

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

### 38. DEFINED CONTRIBUTION PLAN

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

### 39. COMPENSATION OF DIRECTORS AND EXECUTIVES

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

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

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

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



#### 40. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities. The provision for impairment of loans and advances and debt securities has been calculated in accordance with the Bank's accounting policies as stated in note 5.5 and 5.6.



#### 41. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

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

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

#### 42. TRUST ACTIVITIES

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



#### 43. RELATED PARTY TRANSACTIONS

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

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

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

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



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



#### 44. CAPITAL ASSESSMENT AND ADEQUACY - BASEL II SPECIFIC

##### 44.1 Scope of application

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

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

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

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

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

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

##### 44.2 Capital adequacy

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

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

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

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

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

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

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





#### 44.3 Capital structure

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

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

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

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

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



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

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

#### 45. RISK MANAGEMENT

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

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

##### 45.1 Credit risk

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

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



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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

#### Credit exposures subject to Standardised Approach

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

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

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



45.1.3 Segment by class of business

2010

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



2009

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



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

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

#### 45.1.5 Segment by sector

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



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

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

#### 45.1.7 GEOGRAPHICAL SEGMENT ANALYSIS

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

#### 45.2 Market risk

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

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

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





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

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

#### 45.2.1 Interest rate / yield risk

Interest rate risk is the risk of loss from adverse movements in interest rates. The ALCO monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Bank arising from fluctuation in the market interest rates and mismatching or gaps in the amount of financial assets and financial liabilities in different maturity time bands.

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

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

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

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

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

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



#### 45.2.2 Mismatch of interest rate sensitive assets and liabilities

2010

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



2009

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



### 45.2.3 Foreign exchange risk

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

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

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



### 45.3 Liquidity risk

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

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

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

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



#### 45.3.1 MATURITIES OF ASSETS AND LIABILITIES

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

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



2009

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



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

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

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

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

##### **Equity position risk**

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

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

#### 45.5 **Operational risk**

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

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

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

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

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

##### **Operational risk disclosures – Basel II Specific**

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





## 46. ISLAMIC BANKING BUSINESS

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

### 46.1.1 STATEMENT OF FINANCIAL POSITION

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



#### 46.1.2 PROFIT AND LOSS ACCOUNT

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

#### 47. SUBSEQUENT EVENT

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

#### 48. GENERAL

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

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

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

#### 49. DATE OF AUTHORISATION

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

ALI RAZA D. HABIB  
*Chairman*

ABBAS D. HABIB  
*Chief Executive and  
Managing Director*

SYED MAZHAR ABBAS  
*Director*

ANWAR HAJI KARIM  
*Director*



Annexure-1

**Statement showing written-off loans or any other financial relief  
of five hundred thousand rupees or above provided  
during the year ended 31, December 2010**

(Rupees in '000)

S. No.	Name and address of the borrowers	Name of individuals/ partners/ directors (with CNIC No.)	Father's/ Husband's Name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Others	Total				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1.	Knitworks (Pvt) Ltd Plot No. 184, Sector 23 K.I.A. Karachi.	Hasnain Nazim (CNIC No. 42301-4255059-7)	Nazim Muhammad Ali	21,242	-	-	21,242	17,242	-	-	17,242
		Altaf Nazim (CNIC No. 42000-0476991-7)	Nazim Muhammad Ali								
2.	Mustafa Industries 55, Luxmi Building M.A. Jinnah Road Karachi	Nisar Ali Bhagat (CNIC No. 42201-0655748-5)	Ahmed Bhagat	4,504	-	-	4,504	4,741	-	-	4,741
		Mohsin Ahmed Bhagat (CNIC No. 42301-0800818-1)	Ahmed Ali Dina								
		Mohammad Ahmed Bhagat (CNIC No. 42201-0302913-1)	Ahmed Bhagat								
3.	Javed Pyar Ali Agrawala House No. 31/1/1 8th Gizri Lane, DHA Phase-IV, Karachi.	Javed Pyar Ali Agrawala (CNIC No. 42301-6809144-5)	Pyar Ali Rajab Ali Agrawala	670	3,314	-	3,984	670	3,314	-	3,984
4.	Ariana Trading Company 78-79 Block-C, Awami Market Jamrud Road, Peshawar.	Abdul Rasheed (CNIC No. 15304-9039904-1)	Bakht Ali Jan	700	434	-	1,134	700	434	-	1,134
5.	Madina Oil Mills Chowk Bypass, Shehbazpur Road Rahimyar Khan	Muhammad Aslam Wariach (CNIC No. 31303-9389287-5)	Ch. Sultan Ahmed Wariach	6,000	1,562	-	7,562	-	786	-	786
		Muhammad Siddiq (CNIC No. 31303-7723923-1)	Sultan Muhammad								
			Total	33,116	5,310	-	38,426	23,353	4,534	-	27,887

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

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



## Report of Shariah Advisor

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

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

Karachi: February 17, 2011

ISMATULLAH  
**Shariah Advisor**  
Islamic Banking Division



## Branch Network

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

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

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

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

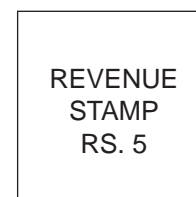
SWIFT CODE : BAHLPKKA website : [www.bankalhabib.com](http://www.bankalhabib.com)



## Form of Proxy

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

I/We \_\_\_\_\_  
of \_\_\_\_\_  
a member(s) of Bank AL Habib Limited and holding \_\_\_\_\_  
ordinary shares, as per Register Folio No./CDC Account and Participant's I.D. No. \_\_\_\_\_  
hereby appoint \_\_\_\_\_ Folio No. \_\_\_\_\_  
of \_\_\_\_\_  
or failing him/her \_\_\_\_\_ Folio No. \_\_\_\_\_  
of \_\_\_\_\_  
another member of the Bank to vote for me/us and on my/our behalf at the Twentieth Annual General Meeting  
of the Bank to be held on Thursday, March 17, 2011 and at any adjournment thereof.  
As witness my/our hand this \_\_\_\_\_ day of \_\_\_\_\_ 2011.



SIGNATURE OF MEMBER (S)

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

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

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

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