

## Directors Report

On behalf of the Directors, I am pleased to present the Annual Consolidated Financial Statements and the Auditors Report for the year ended December 31<sup>st</sup>, 2009.

### 2009: Review

2009 has been a challenging year: the global economy was still dealing with the ramifications of the Global Financial Crisis. Pakistan was impacted not only by the economic crisis which arose from a slowdown in exports but also had to face serious security concerns, an energy crisis and sustained inflation levels. As a result the GDP growth rate was restricted to 2.5%.

In a challenging operating environment HBL registered a steady performance, whilst maintaining its market positioning as the largest retail bank in Pakistan in terms of branches and deposits. HBL is committed to providing its more than five million customers with products that improve their quality of life. It is with this intention that the bank focuses on product development and improving service quality across its network. HBL adopted a prudent approach for its portfolio management in 2009 in light of the slowdown in demand in private sector credit and thus HBL's lending was directed primarily towards funding the Government's commodity requirements.

The HBL Group has closed 2009 with a Profit before Tax of Rs. 21.4 billion, which is 26.3% higher than its 2008 closing (Rs. 16.9 billion). This result has been achieved by controlling the cost of funds as well as effective operating cost management. The Group's net worth grew by 27.2 % to Rs.84 billion; in 2008 this was at Rs. 66 billion. Overall deposits grew by 14.3% to Rs. 683 billion (2008: Rs 597 billion); thus HBL has increased its market share from 13.35% in 2008 to 13.44% in 2009.

HBL's associate in Nigeria – Bank PHB came under scrutiny in 2009 by Central Bank of Nigeria (CBN) as part of their overall investigation into the banking sector. Subsequent actions by the CBN and the new management have resulted in huge provisions leading to negative equity; as a result HBL has fully written down the holding value of its investments to Nil in the balance sheet as at December 31, 2009, through adjusting its prior year results. Details are given in note 8.5.1 of the financial statements. Due to the ongoing investigation in Bank PHB, the external auditors are unable to confirm the period specific effects and have mentioned this fact in their report.

HBL will continue its strong focus on retail banking operations whilst continuing to upgrade its networks: today HBL's global operations are run on a single database banking system. HBL's product development is targeted towards the individual account holder, small and medium business owners as well as the large corporate. With more than 1400 branches in Pakistan, HBL is looking at developing its Islamic Banking services and also looking at developing SME related and micro finance products. The bank is also looking into further enhancing its alternate delivery channels for increasing outreach and servicing people who do not have access to financial services in Pakistan.

We consider HBL to be the global representative of Pakistani banks; we are continuing to expand our operations in South Asia, UAE, and the Gulf and the UK where there is a large South Asian Diaspora. HBL also has outreach in Africa and Central Asia through its shareholdings in regional banks such as Diamond Trust Bank, Kenya and Kyrgyz Investment and Credit Bank, Kyrgyz Republic. The Far East operations continue to focus on the trade finance business.

We are pleased to inform our shareholders that HBL has been awarded Best Bank, Best Trade Finance Provider and Best Foreign Exchange Provider in Pakistan by Global Finance for 2009, as well as the best bank in Pakistan by The Banker.

### Corporate Reporting Framework

The Board is committed to ensure that requirements of the Code of Corporate Governance set by the Securities and Exchange Commission of Pakistan and Listing Regulations are fully met. The Bank has adopted corporate governance practices and the Directors are pleased to inform the Members that:

- The financial statements prepared by the management of the Bank present a true and fair view of the state of its affairs, operational results, cash flows and changes in equity.
- Proper books of accounts of the bank have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements. Policies adopted during the year have been separately disclosed in this report.
- The company has followed international accounting standards (as applicable to Banks in Pakistan) in the preparation of accounts and there is no departure from the said standards.
- As a continuous process, efforts have been made to effectively implement the internal control system. HBL is in the process of adopting an internationally accepted COSO Internal Control – Integrated Framework as per SBP Guidelines and is set to achieve external auditors' certification on internal controls over financial reporting by 2010.
- There are no doubts about the Banks' ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance as detailed in the regulations.
- Key operating and financial data for the last ten years is presented in the financial statements under the section "Progress since 1999 to 2009 – Consolidated".
- The Directors, CEO, CFO and Company Secretary has confirmed that neither they nor their spouses are engaged in the business of stock brokerage.
- Risk Management, Human Resource and Audit Committees constituted by the Board are functioning efficiently in accordance with their Terms of Reference. The Board has met regularly and held seven meetings in the year.

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

### Corporate Social Responsibility

HBL is committed to fulfilling its role as a responsible corporate citizen, and in that connection has formed the HBL Foundation, which has been mandated to promote development and advance the welfare and well being of the people of Pakistan and of other countries of the world with the object of improving their quality of life.

### Change in Accounting Policies

The Group has changed its accounting policies effective from January 01, 2009 in the following areas:

- Customer Loyalty Programmes
- Ijarah under IFAS 2
- Determination and Presentation of Operating Segments
- Presentation of Financial Statements

Detailed disclosure of the change in accounting policies has been given in note 2.3 of the financial statements.

**Dividend**

The Directors approved payment of Cash Dividend of 55% (Rs. 5.50 per share) and 20% bonus shares (20 shares for every 100 shares held) to Shareholders entitled at close of business on March 13, 2009.

The directors proposed a cash dividend of 60% (Rs. 6 per share) and 10% bonus shares (10 shares for every 100 shares held) to Shareholders entitled at close of business on March 12, 2010 subject to approval of the Shareholders at the Annual General Meeting. As per current IAS, this will be accounted for as of the date of approval in AGM.

**Earnings per Share**

Basic and Diluted earnings per share have been disclosed in note 30 of the financial statements.

**Pattern of Shareholding**

The pattern of shareholding and categories of share holders are attached to the financial statements.

**Meetings of the Board**

Seven board meetings were held during 2009 and were attended by the Directors as follows:

| Name                  | Meetings      |            |
|-----------------------|---------------|------------|
|                       | during tenure | Attendance |
| Mr. Sultan Ali Allana | 7             | 7          |
| Mr. R. Zakir Mahmood  | 7             | 7          |
| Mr. Moez Ahamed Jamal | 7             | 7          |
| Mr. Sajid Zahid       | 7             | 7          |
| Mr. Ahmed Jawad       | 7             | 7          |
| Mr. Mushtaq Malik     | 7             | 7          |
| Mr. Yasin Malik       | 6             | 5          |

**Credit Rating**

You would be pleased to know that JCR-VIS Credit Rating Company Limited has maintained long term rating of "AA+" (Double A Plus) and a short-term rating of "A-1+" (A One Plus) to the Bank. The rating complements the Groups position as a torch bearer both in terms of deposits held by the Group and its far flung branch network, and its over emphasis on customer satisfaction.

**Value of investments in employee retirement benefits fund**

The following is the value of investments of provident, gratuity, pension and benevolent funds maintained by the Group, based on latest audited financial statements as at December 31, 2008.

|  | Amount in '000 |
|--|----------------|
| Employees' Provident Fund                              | 6,333,904      |
| Employees' Pension Fund                                | 10,244,597     |
| Employees' Gratuity Fund                               | 656,087        |
| Employees' Benevolent Fund – Executive and Officers    | 907,900        |
| Employees' Benevolent Fund – Clerical and Non-Clerical | 267,204        |

**Auditors**

The present auditors M/s KPMG Taseer Hadi and Co. Chartered Accountants retire and being eligible, offered themselves for re-appointment in the forthcoming Annual General Meeting. The Board of Directors on the suggestion of the Audit Committee recommends M/s KPMG Taseer Hadi and Co., Chartered Accountants for the appointment of next term.

**Appreciation and Acknowledgement**

In conclusion, I would like to thank all our customers, share holders, and employees for their continued support and trust. We also express our sincere appreciation to the Government of Pakistan, State Bank of Pakistan and Ministry of Finance for their valuable support.

On behalf of the Board

**R. Zakir Mahmood**

President and Chief Executive Officer  
Karachi:



**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Sheikh Sultan Trust Building No. 2  
Beaumont Road  
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847  
Fax + 92 (21) 3568 5095  
Internet [www.kpmg.com.pk](http://www.kpmg.com.pk)

## **Auditors Report to the Members**

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Habib Bank Limited as at December 31, 2009 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. These financial statements include unaudited certified returns from the branches, except for 82 branches, which have been audited by us and 35 branches audited by auditors abroad. The financial statements of subsidiaries HBL Stock Fund, HBL Multi Asset Fund and HBL Income Fund were reviewed in accordance with the International Standard on Review Engagements 2410 by another firm of chartered accountants, whose report has been furnished to us and our opinion in so far as it relates to the amounts included for the subsidiaries, is based solely on the report of other auditor.

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

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

As more fully explained in note 8.5.1, one of the Group's associate, Bank PHB, Nigeria, was subject to central bank action and has taken various write downs on its assets. The associate reported a loss in the unaudited accounts for the quarter ended September 30, 2009. The Group's management believes that the size of the write downs and subsequent action against the previous management, suggest that the earnings in prior years were inflated and the associate should have restated its previous financial statements. The forensic investigation of the associate by the central bank is currently in progress and therefore, the Group's management has decided to account for these as prior period errors to the extent of its investment. Although, we are unable to determine with reasonable accuracy that write downs have been accounted for in the correct period, the investment in PHB has been written down to Nil value in the balance sheet as at December 31, 2009.



KPMG Taseer Hadi & Co.

In our opinion the consolidated financial statements present fairly the financial position of Habib Bank Limited as at December 31, 2009 and except for the effect of the matter reported in the preceding paragraph, relating to identification of periods to which write downs relate, present fairly, 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.

Date: 19 FEB 2010

Karachi

*KPMG Taseer Hadi & Co.*

**KPMG Taseer Hadi & Co.**

**Chartered Accountants**

**Syed Iftikhar Anjum**

## Consolidated Balance Sheet

As at December 31, 2009

| 2009<br>(US \$ in '000)              | 2008<br>(Restated) |   | Note | 2009<br>(Rupees in '000) | 2008<br>(Restated) |
|--------------------------------------|--------------------|---|------|--------------------------|--------------------|
| <b>ASSETS</b>                        |                    |   |      |                          |                    |
| 947,746                              | 671,083            | Cash and balances with treasury banks                       | 5    | 79,839,836               | 56,533,134         |
| 479,178                              | 467,279            | Balances with other banks                                   | 6    | 40,366,687               | 39,364,297         |
| 63,542                               | 73,524             | Lendings to financial institutions                          | 7    | 5,352,873                | 6,193,787          |
| 2,569,604                            | 1,541,203          | Investments   | 8    | 216,467,532              | 129,833,446        |
| 5,397,128                            | 5,417,223          | Advances  | 9    | 454,662,499              | 456,355,507        |
| 488,079                              | 410,586            | Other assets  | 10   | 41,116,582               | 34,588,444         |
| 199,031                              | 175,107            | Operating fixed assets                                      | 11   | 16,766,668               | 14,751,252         |
| 109,280                              | 144,665            | Deferred tax asset  | 12   | 9,205,944                | 12,186,848         |
| <u>10,253,588</u>                    | <u>8,900,670</u>   |   |      | <u>863,778,621</u>       | <u>749,806,715</u> |
| <b>LIABILITIES</b>                   |                    |   |      |                          |                    |
| 119,199                              | 116,665            | Bills payable   | 13   | 10,041,542               | 9,828,082          |
| 623,718                              | 557,458            | Borrowings from financial institutions                      | 14   | 52,542,978               | 46,961,165         |
| 8,104,667                            | 7,087,835          | Deposits and other accounts                                 | 15   | 682,750,079              | 597,090,545        |
| 50,000                               | 50,000             | Sub-ordinated loans   | 16   | 4,212,080                | 3,954,925          |
| -                                    | -                  | Liabilities against assets subject to finance lease         |      | -                        | -                  |
| 354,482                              | 301,588            | Other liabilities   | 17   | 29,862,144               | 25,663,411         |
| -                                    | -                  | Deferred tax liability                                      |      | -                        | -                  |
| 9,252,066                            | 8,113,546          |   |      | 779,408,823              | 683,498,128        |
| <u>1,001,522</u>                     | <u>787,124</u>     |   |      | <u>84,369,798</u>        | <u>66,308,587</u>  |
| <b>NET ASSETS</b>                    |                    |   |      |                          |                    |
| <b>REPRESENTED BY:</b>               |                    |   |      |                          |                    |
| <b>Shareholders' equity</b>          |                    |   |      |                          |                    |
| 108,118                              | 90,098             | Share capital   | 18   | 9,108,000                | 7,590,000          |
| 326,767                              | 280,812            | Reserves  |      | 27,527,380               | 23,656,044         |
| 456,999                              | 379,070            | Unappropriated profit                                       |      | 38,498,335               | 31,933,178         |
| 891,884                              | 749,980            | Total equity attributable to the equity holders of the Bank |      | 75,133,715               | 63,179,222         |
| 13,572                               | 10,565             | Minority interest   |      | 1,143,241                | 890,099            |
| 96,066                               | 26,579             | Surplus on revaluation of assets - net of deferred tax      | 19   | 8,092,842                | 2,239,266          |
| <u>1,001,522</u>                     | <u>787,124</u>     |   |      | <u>84,369,798</u>        | <u>66,308,587</u>  |
| <b>CONTINGENCIES AND COMMITMENTS</b> |                    |   |      |                          |                    |
| 20                                   |                    |   |      |                          |                    |

The annexed notes 1 to 52 including restated balance sheet for three years and annexures I to IV form an integral part of these consolidated financial statements.

President and Chief Executive Officer

Director

Director

Director

# Consolidated Balance Sheet

As at December 31, 2009

|   |      | 2009                     | 2008                     | 2007                     |
|---|------|--------------------------|--------------------------|--------------------------|
|   | Note | (Rupees in '000)         |                          |                          |
|   |      | (Restated)               |                          |                          |
| <b>ASSETS</b>   |      |                          |                          |                          |
| Cash and balances with treasury banks                       | 5    | 79,839,836               | 56,533,134               | 55,487,664               |
| Balances with other banks                                   | 6    | 40,366,687               | 39,364,297               | 27,361,486               |
| Lendings to financial institutions                          | 7    | 5,352,873                | 6,193,787                | 1,628,130                |
| Investments   | 8    | 216,467,532              | 129,833,446              | 175,197,075              |
| Advances  | 9    | 454,662,499              | 456,355,507              | 382,172,734              |
| Other assets  | 10   | 41,116,582               | 34,588,444               | 25,795,962               |
| Operating fixed assets                                      | 11   | 16,766,668               | 14,751,252               | 13,780,555               |
| Deferred tax asset  | 12   | 9,205,944                | 12,186,848               | 7,577,776                |
|   |      | <u>863,778,621</u>       | <u>749,806,715</u>       | <u>689,001,382</u>       |
| <b>LIABILITIES</b>  |      |                          |                          |                          |
| Bills payable   | 13   | 10,041,542               | 9,828,082                | 15,418,230               |
| Borrowings from financial institutions                      | 14   | 52,542,978               | 46,961,165               | 58,994,609               |
| Deposits and other accounts                                 | 15   | 682,750,079              | 597,090,545              | 531,298,127              |
| Sub-ordinated loans   | 16   | 4,212,080                | 3,954,925                | 3,100,000                |
| Liabilities against assets subject to finance lease         |      | -                        | -                        | -                        |
| Other liabilities   | 17   | 29,862,144               | 25,663,411               | 19,951,112               |
| Deferred tax liability                                      |      | -                        | -                        | -                        |
|   |      | <u>779,408,823</u>       | <u>683,498,128</u>       | <u>628,762,078</u>       |
| <b>NET ASSETS</b>   |      | <u><u>84,369,798</u></u> | <u><u>66,308,587</u></u> | <u><u>60,239,304</u></u> |
| <b>REPRESENTED BY:</b>                                      |      |                          |                          |                          |
| <b>Shareholders' equity</b>                                 |      |                          |                          |                          |
| Share capital   | 18   | 9,108,000                | 7,590,000                | 6,900,000                |
| Reserves  |      | 27,527,380               | 23,656,044               | 19,585,359               |
| Unappropriated profit                                       |      | 38,498,335               | 31,933,178               | 25,587,627               |
| Total equity attributable to the equity holders of the Bank |      | 75,133,715               | 63,179,222               | 52,072,986               |
| Minority interest   |      | 1,143,241                | 890,099                  | 965,642                  |
| Surplus on revaluation of assets - net of deferred tax      | 19   | 8,092,842                | 2,239,266                | 7,200,676                |
|   |      | <u><u>84,369,798</u></u> | <u><u>66,308,587</u></u> | <u><u>60,239,304</u></u> |
| <b>CONTINGENCIES AND COMMITMENTS</b>                        | 20   |                          |                          |                          |

The annexed notes 1 to 52 including restated balance sheet for three years and annexures I to IV form an integral part of these consolidated financial statements.

President and Chief Executive Officer

Director

Director

Director

## Consolidated Profit and Loss Account

For the Year Ended December 31, 2009

| 2009<br>(US \$ in '000) | 2008<br>(Restated) |   | Note        | 2009<br>(Rupees in '000) | 2008<br>(Restated) |
|-------------------------|--------------------|---|-------------|--------------------------|--------------------|
| 903,073                 | 752,313            | Mark-up / return / interest earned                        | 22          | 76,076,347               | 63,376,047         |
| 396,548                 | 314,875            | Mark-up / return / interest expensed                      | 23          | 33,405,813               | 26,525,556         |
| 506,525                 | 437,438            | Net mark-up / interest income                             |             | 42,670,534               | 36,850,491         |
| 104,397                 | 81,966             | Provision against non-performing loans and advances - net | 9.4 / 9.5.1 | 8,794,560                | 6,904,919          |
| (610)                   | 4,423              | Provision against off-balance sheet obligations           | 17.1        | (51,396)                 | 372,598            |
| 4,113                   | 22,672             | Provision against diminution in the value of investments  | 8.8         | 346,495                  | 1,909,887          |
| -                       | -                  | Bad debts written off directly                            |             | -                        | -                  |
| 107,900                 | 109,061            |   |             | 9,089,659                | 9,187,404          |
| 398,625                 | 328,377            | Net mark-up / interest income after provisions            |             | 33,580,875               | 27,663,087         |
|                         |                    | <b>Non mark-up / interest income</b>                      |             |                          |                    |
| 63,110                  | 53,636             | Fee, commission and brokerage income                      |             | 5,316,479                | 4,518,408          |
| 7,087                   | 15,443             | Income / gain on investments                              | 24          | 597,018                  | 1,300,975          |
| 22,710                  | 28,185             | Income from dealing in foreign currencies                 |             | 1,913,115                | 2,374,318          |
| 39,565                  | 36,668             | Other income  | 25          | 3,333,000                | 3,088,994          |
| 132,472                 | 133,932            | Total non-mark-up / interest income                       |             | 11,159,612               | 11,282,695         |
| 531,097                 | 462,309            |   |             | 44,740,487               | 38,945,782         |
|                         |                    | <b>Non mark-up / interest expense</b>                     |             |                          |                    |
| 270,009                 | 254,332            | Administrative expenses                                   | 26          | 22,745,955               | 21,425,361         |
| 2,495                   | 2,376              | Other provisions / write offs - net                       |             | 210,190                  | 200,163            |
| 42                      | 769                | Other charges   | 27          | 3,540                    | 64,751             |
| 4,738                   | 3,841              | Workers welfare fund                                      | 28          | 399,166                  | 323,575            |
| 277,284                 | 261,318            | Total non mark-up / interest expenses                     |             | 23,358,851               | 22,013,850         |
| 253,813                 | 200,991            |   |             | 21,381,636               | 16,931,932         |
|                         |                    | <b>Profit before taxation</b>                             |             |                          |                    |
|                         |                    | <b>Taxation</b>   | 29          |                          |                    |
| 96,100                  | 98,628             | - current   |             | 8,095,642                | 8,308,611          |
| (13,003)                | 2,767              | - prior years   |             | (1,095,355)              | 233,100            |
| 11,640                  | (29,368)           | - deferred  |             | 980,600                  | (2,473,891)        |
| 94,737                  | 72,027             |   |             | 7,980,887                | 6,067,820          |
| 159,076                 | 128,964            | <b>Profit after taxation</b>                              |             | 13,400,749               | 10,864,112         |
|                         |                    | <b>Attributable to:</b>                                   |             |                          |                    |
| 158,940                 | 127,901            | Equity holders of the Bank                                |             | 13,389,452               | 10,774,584         |
| 1,074                   | 938                | Minority interest   |             | 90,230                   | 79,009             |
| (938)                   | 125                | Minority investor of HBL Funds                            |             | (78,933)                 | 10,519             |
| 159,076                 | 128,964            |   |             | 13,400,749               | 10,864,112         |
| 0.174                   | 0.140              | Basic and diluted earnings per share                      | 30          | 14.70                    | 11.83              |

The annexed notes 1 to 52 including restated balance sheet for three years and annexures I to IV form an integral part of these consolidated financial statements.

President and Chief Executive Officer

Director

Director

Director

## Consolidated Statement of Comprehensive Income

For the Year Ended December 31, 2009

| 2009<br>(US \$ in '000) | 2008<br>(Restated) |   | 2009<br>(Rupees in '000) | 2008<br>(Restated) |
|-------------------------|--------------------|---|--------------------------|--------------------|
| 159,075                 | 128,964            | <b>Profit for the year</b>  | 13,400,749               | 10,864,112         |
|                         |                    | <b>Other comprehensive income</b>   |                          |                    |
| 937                     | (125)              | Minority share of HBL funds transferred to other liabilities  | 78,933                   | (10,519)           |
| 31,995                  | 35,565             | Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates | 2,695,330                | 2,996,018          |
| <u>192,007</u>          | <u>164,404</u>     | <b>Comprehensive income transferred to equity</b>   | <u>16,175,012</u>        | <u>13,849,611</u>  |
|                         |                    | <b>Components of comprehensive income not reflected in equity</b>                                       |                          |                    |
| 22,378                  | -                  | Surplus on revaluation of fixed assets  | 1,885,159                | -                  |
| (4,473)                 | -                  | Deferred tax on revaluation of fixed assets   | (376,827)                | -                  |
| 75,538                  | (84,728)           | Surplus / (deficit) on revaluation of investments   | 6,363,436                | (7,137,641)        |
| (21,290)                | 25,337             | Deferred tax on revaluation of investments  | (1,793,471)              | 2,134,415          |
| <u>264,160</u>          | <u>105,013</u>     |   | <u>22,253,309</u>        | <u>8,846,385</u>   |
|                         |                    | <b>Attributable to:</b>   |                          |                    |
| 261,949                 | 105,571            | Equity holders of the Bank  | 22,066,998               | 8,893,541          |
| 3,148                   | (683)              | Minority interest   | 265,244                  | (57,675)           |
| (937)                   | 125                | Minority investor   | (78,933)                 | 10,519             |
| <u>264,160</u>          | <u>105,013</u>     |   | <u>22,253,309</u>        | <u>8,846,385</u>   |

The annexed notes 1 to 52 including restated balance sheet for three years and annexures I to IV form an integral part of these consolidated financial statements.

President and Chief Executive Officer

Director

Director

Director

## Consolidated Cash Flow Statement For the Year Ended December 31, 2009

| 2009<br>(US \$ in '000) |  | 2008<br>(Restated) |  | Note | 2009<br>(Rupees in '000) |  | 2008<br>(Restated) |  |
|-------------------------|--|--------------------|--|------|--------------------------|--|--------------------|--|
|                         |  |                    |  |      |                          |  |                    |  |
| 253,813                 |  | 200,991            |  |      | 21,381,636               |  | 16,931,932         |  |
| (8,922)                 |  | (13,198)           |  |      | (751,599)                |  | (1,111,810)        |  |
| 1,990                   |  | (2,341)            |  |      | 167,618                  |  | (197,242)          |  |
| (6,932)                 |  | (15,539)           |  |      | (583,981)                |  | (1,309,052)        |  |
| 246,881                 |  | 185,452            |  |      | 20,797,655               |  | 15,622,880         |  |
|                         |  |                    |  |      |                          |  |                    |  |
| 20,616                  |  | 19,301             |  |      | 1,736,708                |  | 1,625,943          |  |
| 4,113                   |  | 22,672             |  |      | 346,495                  |  | 1,909,887          |  |
| 104,397                 |  | 81,966             |  |      | 8,794,560                |  | 6,904,919          |  |
| (155)                   |  | 96                 |  |      | (13,037)                 |  | 8,077              |  |
| 3,053                   |  | 10,148             |  |      | 257,155                  |  | 854,925            |  |
| (349)                   |  | (497)              |  |      | (29,410)                 |  | (41,840)           |  |
| 1,885                   |  | 6,799              |  |      | 158,794                  |  | 572,761            |  |
| 133,560                 |  | 140,485            |  |      | 11,251,265               |  | 11,834,672         |  |
| 380,441                 |  | 325,937            |  |      | 32,048,920               |  | 27,457,552         |  |
|                         |  |                    |  |      |                          |  |                    |  |
| 9,982                   |  | (54,197)           |  |      | 840,914                  |  | (4,565,657)        |  |
| (84,300)                |  | (962,561)          |  |      | (7,101,552)              |  | (81,087,692)       |  |
| (13,393)                |  | (75,449)           |  |      | (1,128,283)              |  | (6,355,923)        |  |
| (87,711)                |  | (1,092,207)        |  |      | (7,388,921)              |  | (92,009,272)       |  |
|                         |  |                    |  |      |                          |  |                    |  |
| 1,016,832               |  | 780,997            |  |      | 85,659,534               |  | 65,792,418         |  |
| 66,260                  |  | (142,844)          |  |      | 5,581,813                |  | (12,033,444)       |  |
| 2,534                   |  | (66,359)           |  |      | 213,460                  |  | (5,590,148)        |  |
| 55,095                  |  | 67,153             |  |      | 4,641,308                |  | 5,657,085          |  |
| 1,140,721               |  | 638,947            |  |      | 96,096,115               |  | 53,825,911         |  |
| 1,433,451               |  | (127,323)          |  |      | 120,756,114              |  | (10,725,809)       |  |
| (154,353)               |  | (137,709)          |  |      | (13,002,981)             |  | (11,600,790)       |  |
| 1,279,098               |  | (265,032)          |  |      | 107,753,133              |  | (22,326,599)       |  |
|                         |  |                    |  |      |                          |  |                    |  |
| (954,075)               |  | 444,489            |  |      | (80,372,778)             |  | 37,444,490         |  |
| 3,196                   |  | 2,817              |  |      | 269,200                  |  | 237,291            |  |
| (23,128)                |  | (31,609)           |  |      | (1,948,372)              |  | (2,662,833)        |  |
| 1,247                   |  | 1,282              |  |      | 105,051                  |  | 108,033            |  |
| 30,965                  |  | 36,052             |  |      | 2,608,858                |  | 3,037,018          |  |
| (941,795)               |  | 453,031            |  |      | (79,338,041)             |  | 38,163,999         |  |
|                         |  |                    |  |      |                          |  |                    |  |
| (212)                   |  | (212)              |  |      | (17,868)                 |  | (17,868)           |  |
| 1,026                   |  | (486)              |  |      | 86,472                   |  | (41,000)           |  |
| (49,555)                |  | (32,409)           |  |      | (4,174,604)              |  | (2,730,251)        |  |
| (48,741)                |  | (33,107)           |  |      | (4,106,000)              |  | (2,789,119)        |  |
| 288,562                 |  | 154,892            |  |      | 24,309,092               |  | 13,048,281         |  |
|                         |  |                    |  |      |                          |  |                    |  |
| 1,061,850               |  | 896,455            |  |      | 89,451,959               |  | 75,518,830         |  |
| 76,512                  |  | 87,015             |  |      | 6,445,472                |  | 7,330,320          |  |
| 1,138,362               |  | 983,470            |  |      | 95,897,431               |  | 82,849,150         |  |
| 1,426,924               |  | 1,138,362          |  |      | 120,206,523              |  | 95,897,431         |  |

The annexed notes 1 to 52 including restated balance sheet for three years and annexures I to IV form an integral part of these consolidated financial statements.

President and Chief Executive Officer

Director

Director

Director

**Consolidated Statement of Changes in Equity  
For the Year Ended December 31, 2009**

|   | Attributable to shareholders of the Group |                                |                       |                |           |                       | Sub Total   | Minority interest | Total       |
|---|---|--------------------------------|-----------------------|----------------|-----------|-----------------------|-------------|-------------------|-------------|
|   | Share capital                             | Reserves                       |                       |                |           | Unappropriated profit |             |                   |             |
|   |   | Exchange translation reserve   | Statutory requirement | Other reserves |           |                       |             |                   |             |
|   |   | Joint venture and subsidiaries | Bank                  | General        |           |                       |             |                   |             |
| (Rupees in '000)  |   |                                |                       |                |           |                       |             |                   |             |
| Balance as at December 31, 2007 as previously reported  | 6,900,000                                 | 3,573,024                      | 155,770               | 10,018,849     | 6,073,812 | 28,341,670            | 55,063,125  | 965,642           | 56,028,767  |
| Restatement due to effects of an error  | -   | (236,096)                      | -                     | -              | -         | (2,754,043)           | (2,990,139) | -                 | (2,990,139) |
| Balance as at December 31, 2007 - as (Restated)   | 6,900,000                                 | 3,336,928                      | 155,770               | 10,018,849     | 6,073,812 | 25,587,627            | 52,072,986  | 965,642           | 53,038,628  |
| <b>Total comprehensive income for the year</b>  |   |                                |                       |                |           |                       |             |                   |             |
| Profit for the year ended December 31, 2008   | -   | -                              | -                     | -              | -         | 10,785,103            | 10,785,103  | 79,009            | 10,864,112  |
| Minority share of HBL funds transferred to other liabilities  | -   | -                              | -                     | -              | -         | (10,519)              | (10,519)    | -                 | (10,519)    |
| <b>- Other comprehensive income</b>   |   |                                |                       |                |           |                       |             |                   |             |
| Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates | -   | 3,388,132                      | -                     | -              | -         | -                     | 3,388,132   | (41,000)          | 3,347,132   |
| Restatement due to effects of an error  | -   | (351,114)                      | -                     | -              | -         | -                     | (351,114)   | -                 | (351,114)   |
|   | -   | 3,037,018                      | -                     | -              | -         | 10,774,584            | 13,811,602  | 38,009            | 13,849,611  |
| <b>Transactions with owners, recorded directly in equity</b>  |   |                                |                       |                |           |                       |             |                   |             |
| Cash dividend paid at Rs 4 per share  | -   | -                              | -                     | -              | -         | (2,760,000)           | (2,760,000) | -                 | (2,760,000) |
| Issued as bonus shares  | 690,000                                   | -                              | -                     | -              | -         | (690,000)             | -           | -                 | -           |
| Cash dividend paid at Rs 0.50 per certificate by modaraba   | -   | -                              | -                     | -              | -         | -                     | -           | (17,868)          | (17,868)    |
|   | 690,000                                   | -                              | -                     | -              | -         | (3,450,000)           | (2,760,000) | (17,868)          | (2,777,868) |
| Transferred from surplus on revaluation of fixed assets   | -   | -                              | -                     | -              | -         | 54,634                | 54,634      | -                 | 54,634      |
| Transferred to statutory reserve  | -   | -                              | 33,569                | 1,000,098      | -         | (1,033,667)           | -           | -                 | -           |
| Minority share of deficit on revaluation of securities of subsidiaries                                  | -   | -                              | -                     | -              | -         | -                     | -           | (95,684)          | (95,684)    |
| Balance as at December 31, 2008 - as (Restated)   | 7,590,000                                 | 6,373,946                      | 189,339               | 11,018,947     | 6,073,812 | 31,933,178            | 63,179,222  | 890,099           | 64,069,321  |
| <b>Total comprehensive income for the year</b>  |   |                                |                       |                |           |                       |             |                   |             |
| Profit for the year ended December 31, 2009   | -   | -                              | -                     | -              | -         | 13,310,519            | 13,310,519  | 90,230            | 13,400,749  |
| Minority share of HBL funds transferred to other liabilities  | -   | -                              | -                     | -              | -         | 78,933                | 78,933      | -                 | 78,933      |
| <b>- Other comprehensive income</b>   |   |                                |                       |                |           |                       |             |                   |             |
| Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates | -   | 2,608,858                      | -                     | -              | -         | -                     | 2,608,858   | 86,472            | 2,695,330   |
|   | -   | 2,608,858                      | -                     | -              | -         | 13,389,452            | 15,998,310  | 176,702           | 16,175,012  |
| <b>Transactions with owners, recorded directly in equity</b>  |   |                                |                       |                |           |                       |             |                   |             |
| Cash dividend paid at Rs. 5.50 per share  | -   | -                              | -                     | -              | -         | (4,174,500)           | (4,174,500) | -                 | (4,174,500) |
| Issued as bonus shares  | 1,518,000                                 | -                              | -                     | -              | -         | (1,518,000)           | -           | -                 | -           |
| Cash dividend paid at Rs 0.50 per certificate by modaraba   | -   | -                              | -                     | -              | -         | -                     | -           | (17,868)          | (17,868)    |
|   | 1,518,000                                 | -                              | -                     | -              | -         | (5,692,500)           | (4,174,500) | (17,868)          | (4,192,368) |
| Transferred from surplus on revaluation of fixed assets   | -   | -                              | -                     | -              | -         | 130,683               | 130,683     | -                 | 130,683     |
| Transferred to statutory reserve  | -   | -                              | 32,614                | 1,229,864      | -         | (1,262,478)           | -           | -                 | -           |
| Minority share of surplus on revaluation of securities of subsidiaries                                  | -   | -                              | -                     | -              | -         | -                     | -           | 88,542            | 88,542      |
| Minority share of surplus on revaluation of fixed assets of subsidiaries                                | -   | -                              | -                     | -              | -         | -                     | -           | 5,766             | 5,766       |
| Balance as at December 31, 2009   | 9,108,000                                 | 8,982,804                      | 221,953               | 12,248,811     | 6,073,812 | 38,498,335            | 75,133,715  | 1,143,241         | 76,276,956  |

The annexed notes 1 to 52 including restated balance sheet for three years and annexures I to IV form an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

## 1 THE GROUP AND ITS OPERATIONS

Habib Bank Limited (the Bank) is incorporated in Pakistan and is engaged in commercial banking, modaraba management and asset management related services in Pakistan and overseas. The Bank's registered office is located at Habib Bank Tower, 4th Floor, Jinnah Avenue, Islamabad. The Bank's shares are listed on the stock exchanges in Pakistan. The Bank operates 1,454 (2008: 1,468) branches inside Pakistan and 40 (2008: 40) outside the country. The Group comprises of:

### Holding company

Habib Bank Limited, Pakistan

### Subsidiaries

- Habib Allied International Bank Plc., United Kingdom – shareholding at 90.50%
- Habib Finance International Limited, Hong Kong – wholly owned
- Habib Bank Financial Services (Private) Limited, Pakistan – wholly owned
- Habib Currency Exchange (Private) Limited, Pakistan – wholly owned
- HBL Asset Management Limited, Pakistan – wholly owned
- First Habib Bank Modaraba, Pakistan
- HBL Stock Fund – shareholding 76.46%
- HBL Multi Asset Fund - shareholding 68.93%
- HBL Income Fund - shareholding 50.50%

The subsidiary company of the Bank, Habib Bank Financial Services (Private) Limited exercises control over Habib Bank Modaraba as its management company and also has a direct economic interest in it. The Bank has consolidated the financial statements of the modaraba as the ultimate holding company. During the year the Group's holding in Multi asset and Income Funds managed by HBL Asset Management Limited increased above 50% due to redemption of units by other investors.

## 2 BASIS OF PRESENTATION

- In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.
- The US Dollar amounts shown in the financial statements are stated solely for information convenience. For the purpose of translation to US Dollars, the rate of Rs. 84.2416 per US Dollar has been used for both December 31, 2009 and 2008.

### 2.1 Basis of measurement

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

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

### 2.2 Use of estimates and judgments

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

#### i) Classification of investments

- In classifying investments as "held-for-trading" the Group has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.

## Notes to the Consolidated Financial Statements

- In classifying investments as "held-to-maturity" the Group follows the guidance provided in SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.
- The investments which are not classified as held for trading or held to maturity are classified as available for sale.

### ii) **Provision against non performing loans and advances**

The Group reviews its loan portfolio to assess amount of non-performing loans and advances and provision required there-against. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, the forced sale value of the securities and the requirement of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances, the Group follows, the general provision requirement set out in Prudential Regulations.

### iii) **Valuation and impairment of available for sale equity investments**

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

### iv) **Income taxes**

In making the estimates for income taxes currently payable by the Group, the management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Group's future taxable profits are taken into account.

### v) **Fair value of derivatives**

The fair value of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates in effect at the balance sheet date and the rates contracted.

### vi) **Fixed assets, depreciation and amortisation**

The Group carries its land and buildings at their respective fair values. The fair values are determined by independent valuation experts and such valuations are carried out with sufficient regularity that the valuation at year end is close to their fair values. The revaluation of major properties of the Group was carried out during the year.

In making estimates of the depreciation / amortisation method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Group. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, "Changes in Accounting Estimates and Errors".

### vii) **Defined benefits plans and other benefits**

Liability is determined on the basis of actuarial advice using the Projected Unit Credit Method.

### viii) **Impairment of investments in associates and subsidiaries**

The Group determined that a significant or prolonged decline in the fair value of its investments in associates and subsidiaries below their cost is an objective evidence of impairment. The impairment loss is recognized when the higher of fair value less cost to sell and value in use exceeds the carrying value.

## 2.3 **Change in accounting policies**

Effective January 01, 2009 the Group has changed its accounting policies in the followings areas:

### **Customer Loyalty Programmes**

IFRIC 13 Customer Loyalty Programmes issued by the International Financial Reporting Interpretations Committee became effective January 01, 2009. The revenue from award credits for loyalty points earned on use of various products of the Group is measured by reference to their fair value and is recognised when award credits are redeemed. Due to current size of the program the effect of change is not estimated to be material and therefore previous year figures have not been restated.

## Notes to the Consolidated Financial Statements

### Accounting for Ijarah contracts

Pursuant to IBD circular no. 1 dated January 27, 2009 the Group has adopted IFAS 2 - "Ijarah" for all Ijarah contracts entered on or after January 01, 2009. The policy adopted is stated in note 4.6. As the policy applied for all futures contracts, the adoption of this standard did not require any restatement.

### Determination and Presentation of Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expense that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. There is no change in the operating segments being reported as a result of adoption of IFRS 8 - Operating Segments, other than changes in certain disclosures.

### Presentation of Financial Statements

The Group applied revised IAS 1 Presentation of Financial Statements (2007), which became effective as of January 01, 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of consolidated comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

## 3 STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards issued by the International Accounting Standards Board and Islamic Financial Accounting Standards issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by State Bank of Pakistan (SBP). In case the requirements of provisions and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP differ, the provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP shall prevail.

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

In addition, Securities and Exchange Commission of Pakistan (SECP) has notified the Islamic Financial Accounting Standard (IFAS) 1 - Murabaha issued by the Institute of Chartered Accountants of Pakistan. IFAS 1 was effective for financial periods beginning on or after January 1, 2006. The IFAS 1 has not been adopted by stand alone Islamic branches of conventional banks pending resolution of certain issues e.g. invoicing of goods, recording of inventories, concurrent application with other approved accounting standards in place for conventional banks, etc. Pakistan Banks Association and Modaraba Association of Pakistan have taken up the issue with SBP and SECP.

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 1 January 2010:

- Revised IFRS 3 Business Combinations (applicable for annual periods beginning on or after July 01, 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the Group's financial statements.

## Notes to the Consolidated Financial Statements

- Amended IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 01, 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard is not likely to have an effect on the Group's financial statements.
- IFRIC 15- Agreement for the Construction of Real Estate (effective for annual periods beginning on or after October 01, 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Group's operations.
- IFRIC – 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 01, 2009) states that when a Group distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognised in the income statement. As the Group does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Group's financial statements.
- The International Accounting Standards Board made certain amendments to existing standards as part of its Second annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Group's 2010 financial statements. These amendments are unlikely to have an impact on the Group's financial statements.
- Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after January 01, 2010). Currently effective IFRSs requires attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 01, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Group's financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 01, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Group's financial statements.
- IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after January 01, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Group's financial statements
- Improvements to IFRSs 2008 – Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – (effective for annual periods beginning on or after July 01, 2009). The amendments specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in IFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. This amendment is not likely to have any impact on Group's financial statements.

## Notes to the Consolidated Financial Statements

### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 4.1 Revenue recognition

##### **Advances and investments**

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

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

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

##### **Lease financing**

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.

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

##### **Letters of credit and guarantees**

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

##### **Customer Loyalty Programmes**

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

#### 4.2 Taxation

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

##### **Current**

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

##### **Deferred**

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

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

#### 4.3 Investments

The Group classifies its investment portfolio into the following categories:

##### **Held-for-trading**

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

##### **Held-to-maturity**

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

## Notes to the Consolidated Financial Statements

### Available-for-sale

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

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

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

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

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

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

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

Associates as defined under local statutes but not under IAS are accounted for as ordinary investments.

### 4.4 Basis of consolidation

- Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, so as to obtain economic benefits from its activities.
- The consolidated financial statements incorporate the financial statements of Habib Bank Limited and the financial statements of subsidiary companies from the date that control commences until the date that control ceases. The financial statements of such subsidiary companies are incorporated on a line-by-line basis and the investment held by the Bank is eliminated against the corresponding share capital of subsidiaries in the consolidated financial statements.
- Material intra-group balances and transactions are eliminated.
- Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control established by contractual agreement. Associates and joint ventures are accounted for using the equity method. The consolidated financial statements include Groups' share of the results of the associates and joint venture.

### 4.5 Lendings to / borrowings from financial institutions

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

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

### 4.6 Advances

#### Loans and advances

Loans and advances and net investment in finance lease are stated net of provision for loan losses. Provision for loan losses of Pakistan operations including general provision is made in accordance with the requirements of the prudential regulations issued by the State Bank of Pakistan. Provision for loan losses of overseas branches and subsidiary companies are made as per the requirements of the respective central banks. Advances are written off when there are no realistic prospects of recovery.

## Notes to the Consolidated Financial Statements

### Finance lease receivables

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

### Ijarah

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

These leases are shown as financing against lease under advances and further analysis is provided in the note of Islamic Banking activities (note 48).

## 4.7 Operating fixed assets and depreciation

### 4.7.1 Tangible

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

Cost of fixed assets of foreign branches and subsidiary companies include exchange differences arising on translation at year-end rates. Land and buildings are revalued by independent professionally qualified valuers with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. Surplus arising on revaluation is credited to the 'surplus on revaluation of fixed assets' account (net of deferred tax). Under the provision of the Companies Ordinance, 1984, deficit arising on revaluation of fixed assets is adjusted against the balance in the above surplus account.

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

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

Depreciation is calculated so as to write-off the assets over their expected useful lives at the rates specified in note 11.3 to these financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

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

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

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

### 4.7.2 Intangible

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method over their estimated useful lives. Amortization is charged at the rate stated in note 11.2. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful lives and amortization method are reviewed and adjusted, if appropriate at each balance sheet date. Intangible assets having an indefinite useful life are stated at acquisition cost less impairment, if any.

## Notes to the Consolidated Financial Statements

### 4.8 Employee benefits

The Bank operates the following post retirement schemes for its employees:

- i) For those who did not opt for the pension scheme of 1977 and for new employees, the Bank operates:
- Approved funded provident fund (defined contribution scheme)
  - Approved funded gratuity scheme (defined benefit scheme)

Liability under the gratuity scheme is determined on the basis of actuarial advice under the Projected Unit Credit method.

- ii) For those who opted for the pension scheme introduced in 1977, Bank operates:
- Approved funded pension scheme (defined benefit scheme) for services up to March 31, 2005
  - Contributory gratuity and provident fund schemes in lieu of pension fund for services subsequent to March 31, 2005 (defined contribution scheme).

Liability under the pension scheme is determined on the basis of actuarial advice using the Projected Unit Credit method.

#### Post retirement medical benefits

The Bank also provides post retirement medical benefits to its clerical employees and pensioners retiring before December 31, 2005. However, effective January 01, 2006 onwards, an option of lump sum payment in lieu of post retirement medical facilities to the management cadre staff had been offered. Provision is made in the financial statements for this benefit based on actuarial advice using the Projected Unit Credit method.

#### Other post retirement benefits

The Bank provides cash benefits on retirement which are estimated as per the actuarial advice.

#### Employees' compensated absences

The Bank also makes provision in the financial statements for its liabilities towards compensated absences. This liability is estimated on the basis of actuarial advice under the Projected Unit Credit method.

#### Benevolent fund

The Bank operates funded benevolent schemes for its executives / officers and clerical / non-clerical employees. Under this scheme, the employees of the Bank are entitled to receive defined grants / facilities during their service and after retirement. The benevolent fund plan covers all the employees of the Bank.

An option for one time full and final payment of fair value of Pension and Benevolent fund based on actuarial valuation has been offered on retirement / early settlement at the time of availing leave prior to retirement (LPR) and / or death of an employee. Similarly, the existing beneficiaries / or prospective legal heir(s) shall have an option to receive fair value of aforesaid benefits including medical in lump sum offered by the Bank, being one time payment in full and final settlement.

#### Surplus / deficit on retirement funds / schemes

Any surplus / deficit arising on actuarial valuation of these schemes (including actuarial gains / losses) available to / payable by the Group is recognized in the year in which it arises.

#### Other schemes

Employee benefits offered by subsidiary companies are as follows:

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

### 4.9 Foreign currency

#### Foreign currency transactions

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

## Notes to the Consolidated Financial Statements

### Foreign operations

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

### Translation gains and losses

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

### Commitments

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

#### 4.10 Cash and cash equivalents

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

#### 4.11 Off setting

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

#### 4.12 Impairment

The carrying amount of the Groups' assets (other than deferred tax asset) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

#### 4.13 Provision for guarantee claim

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

#### 4.14 Other provisions

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

#### 4.15 Derivative financial instruments

Derivative financial instruments are initially measured at fair value and subsequently remeasured at fair value. The gain or loss on remeasurement to fair value is recognized in profit and loss account.

#### 4.16 Dividend distribution

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

#### 4.17 Segment reporting

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

### Business segments

#### - *Retail Banking*

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

#### - *Corporate / Commercial Banking*

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

## Notes to the Consolidated Financial Statements

- *Treasury*

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

- *International Banking Group*

It represents Group's operations in 24 countries and is considered a separate segment for monitoring purposes.

- *Head Office*

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

### Geographical segments

The group operates in five geographic regions, being:

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

| 5. CASH AND BALANCES WITH TREASURY BANKS | Note | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|--|------|--------------------------|--------------------------|
| In hand including National Prize Bonds   |      |                          |                          |
| Local currency                           |      | 8,505,736                | 8,023,934                |
| Foreign currency                         |      | <u>2,135,519</u>         | <u>2,055,913</u>         |
|  |      | 10,641,255               | 10,079,847               |
| With State Bank of Pakistan in           |      |                          |                          |
| Local currency current account           |      | <u>26,047,420</u>        | <u>19,971,514</u>        |
| Foreign currency deposit account         |      | <u>9,125,330</u>         | <u>8,266,160</u>         |
|  |      | 35,172,750               | 28,237,674               |
| With other Central Banks in              | 5.1  |                          |                          |
| Foreign currency current account         |      | <u>13,522,953</u>        | <u>10,230,919</u>        |
| Foreign currency deposit account         |      | <u>15,223,023</u>        | <u>3,331,897</u>         |
|  |      | 28,745,976               | 13,562,816               |
| With National Bank of Pakistan in        |      |                          |                          |
| Local currency current account           |      | <u>5,279,855</u>         | <u>4,652,797</u>         |
|  |      | <u>79,839,836</u>        | <u>56,533,134</u>        |

The above balances include remunerative accounts amounting to Rs 22,426.060 million (2008: Rs 11,387.516 million).

5.1 This includes balances held with the Central Banks of the respective countries in accordance with the requirements of the local statutory / Central Bank regulations.

| 6. BALANCES WITH OTHER BANKS | Note | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|------------------------------|------|--------------------------|--------------------------|
| In Pakistan                  |      |                          |                          |
| On current account           |      | 358,198                  | 372,264                  |
| On deposit account           |      | <u>10,853</u>            | <u>56,976</u>            |
|                              |      | 369,051                  | 429,240                  |
| Outside Pakistan             |      |                          |                          |
| On current account           | 6.1  | <u>3,530,197</u>         | <u>3,124,812</u>         |
| On deposit account           |      | <u>36,467,439</u>        | <u>35,810,245</u>        |
|                              |      | <u>39,997,636</u>        | <u>38,935,057</u>        |
|                              |      | <u>40,366,687</u>        | <u>39,364,297</u>        |

6.1 This includes remunerative current account balance amounting to Rs 580.818 million (2008: Rs 153.545 million).

| 7. LENDINGS TO FINANCIAL INSTITUTIONS        | Note | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|--|------|--------------------------|--------------------------|
| 7.1. In local currency                       |      |                          |                          |
| Call money lendings                          |      | 560,000                  | 1,850,000                |
| Repurchase agreement lendings (reverse repo) | 7.2  | <u>4,792,873</u>         | <u>4,343,787</u>         |
|  |      | <u>5,352,873</u>         | <u>6,193,787</u>         |

## Notes to the Consolidated Financial Statements

| 7.2 Securities held as collateral against lendings to financial institutions | 2009             |                             |                  | 2008             |                             |                  |
|--|------------------|-----------------------------|------------------|------------------|-----------------------------|------------------|
|  | Held by Group    | Further given as collateral | Total            | Held by Group    | Further given as collateral | Total            |
| ----- (Rupees in '000) -----   |                  |                             |                  |                  |                             |                  |
| Market treasury bills  | 3,850,151        | 942,722                     | 4,792,873        | 3,786,863        | 556,924                     | 4,343,787        |
|  | <u>3,850,151</u> | <u>942,722</u>              | <u>4,792,873</u> | <u>3,786,863</u> | <u>556,924</u>              | <u>4,343,787</u> |

Market value of securities held as collateral against lendings to financial institutions as at December 31, 2009 amounted to Rs 4,830.115 million (2008: Rs 4,385 million).

| 8. INVESTMENTS               | Note | 2009          |                     |       | 2008          |                     |       |
|------------------------------|------|---------------|---------------------|-------|---------------|---------------------|-------|
| 8.1 Investments by type      |      | Held by Group | Given as collateral | Total | Held by Group | Given as collateral | Total |
| ----- (Rupees in '000) ----- |      |               |                     |       |               |                     |       |

### Held for Trading Securities (HFT)

|                               |                |          |                |               |          |               |
|-------------------------------|----------------|----------|----------------|---------------|----------|---------------|
| - Pakistan Investment Bonds   | 9,652          | -        | 9,652          | -             | -        | -             |
| - Market Treasury Bills       | 387,191        | -        | 387,191        | -             | -        | -             |
| - Investments of mutual funds | 245,913        | -        | 245,913        | 13,592        | -        | 13,592        |
|                               | <u>642,756</u> | <u>-</u> | <u>642,756</u> | <u>13,592</u> | <u>-</u> | <u>13,592</u> |

### Held-to-Maturity Securities (HTM)

8.3

#### Federal Government Securities

|  |            |                  |          |                  |                  |          |                  |
|--|------------|------------------|----------|------------------|------------------|----------|------------------|
| - Pakistan Investment Bonds                      | 8.9 / 8.11 | 8,428,352        | -        | 8,428,352        | 9,865,095        | -        | 9,865,095        |
| <i>Overseas Government securities</i>            |            | 78,963           | -        | 78,963           | 74,604           | -        | 74,604           |
| <i>Debentures and Corporate Debt Instruments</i> |            | 48,182           | -        | 48,182           | 57,557           | -        | 57,557           |
|  |            | <u>8,555,497</u> | <u>-</u> | <u>8,555,497</u> | <u>9,997,256</u> | <u>-</u> | <u>9,997,256</u> |

#### Available-for-Sale Securities (AFS)

##### Federal Government Securities

|   |            |            |           |            |            |           |            |
|---|------------|------------|-----------|------------|------------|-----------|------------|
| - Market Treasury Bills                                     | 8.9 / 8.11 | 84,407,507 | 3,559,326 | 87,966,833 | 49,465,602 | 8,754,798 | 58,220,400 |
| - Pakistan Investment Bonds                                 |            | 8,840,806  | -         | 8,840,806  | 9,021,042  | -         | 9,021,042  |
| - Government of Pakistan Guaranteed Bonds                   |            | 5,522,370  | -         | 5,522,370  | 6,598,710  | -         | 6,598,710  |
| - Government of Pakistan Bonds / Sukuk / (US Dollar / Euro) |            | 6,784,749  | -         | 6,784,749  | 4,718,958  | -         | 4,718,958  |
| <i>Overseas Government Securities</i>                       |            | 14,601,416 | -         | 14,601,416 | 8,153,876  | -         | 8,153,876  |

##### Fully paid-up ordinary shares

|                      |  |           |   |           |         |   |         |
|----------------------|--|-----------|---|-----------|---------|---|---------|
| - Listed companies   |  | 1,090,273 | - | 1,090,273 | 766,194 | - | 766,194 |
| - Unlisted companies |  | 730,244   | - | 730,244   | 437,657 | - | 437,657 |

##### Debentures and Corporate Debt Instruments

|                       |     |            |   |            |            |   |            |
|-----------------------|-----|------------|---|------------|------------|---|------------|
| - Listed securities   |     | 4,482,005  | - | 4,482,005  | 2,227,518  | - | 2,227,518  |
| - Unlisted securities | 8.9 | 69,095,974 | - | 69,095,974 | 23,678,576 | - | 23,678,576 |

##### NIT Units

8.12

|  |  |        |   |        |        |   |        |
|--|--|--------|---|--------|--------|---|--------|
|  |  | 21,839 | - | 21,839 | 23,948 | - | 23,948 |
|--|--|--------|---|--------|--------|---|--------|

##### Preference shares

|  |  |         |   |         |         |   |         |
|--|--|---------|---|---------|---------|---|---------|
|  |  | 170,000 | - | 170,000 | 181,700 | - | 181,700 |
|--|--|---------|---|---------|---------|---|---------|

##### Other investments

|  |  |           |   |           |         |   |         |
|--|--|-----------|---|-----------|---------|---|---------|
|  |  | 1,523,641 | - | 1,523,641 | 782,003 | - | 782,003 |
|--|--|-----------|---|-----------|---------|---|---------|

##### Investments of mutual funds

|  |  |           |   |           |         |   |         |
|--|--|-----------|---|-----------|---------|---|---------|
|  |  | 3,041,384 | - | 3,041,384 | 740,246 | - | 740,246 |
|--|--|-----------|---|-----------|---------|---|---------|

|  |  |                    |                  |                    |                    |                  |                    |
|--|--|--------------------|------------------|--------------------|--------------------|------------------|--------------------|
|  |  | <u>200,312,208</u> | <u>3,559,326</u> | <u>203,871,534</u> | <u>106,796,030</u> | <u>8,754,798</u> | <u>115,550,828</u> |
|--|--|--------------------|------------------|--------------------|--------------------|------------------|--------------------|

### Investment in Associates and Joint Venture

8.4

|  |  |                    |                  |                    |                    |                  |                    |
|--|--|--------------------|------------------|--------------------|--------------------|------------------|--------------------|
|  |  | 3,397,745          | -                | 3,397,745          | 4,271,770          | -                | 4,271,770          |
|  |  | <u>212,908,206</u> | <u>3,559,326</u> | <u>216,467,532</u> | <u>121,078,648</u> | <u>8,754,798</u> | <u>129,833,446</u> |

## Notes to the Consolidated Financial Statements

| 8.2 Investments by segments  | Note | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|--|------|--------------------------|--------------------------|
| Federal Government Securities  |      |                          |                          |
| - Market Treasury Bills  |      | 88,258,937               | 58,280,986               |
| - Pakistan Investment Bonds  |      | 17,979,865               | 21,158,414               |
| - Government of Pakistan Guaranteed Bonds  |      | 5,522,753                | 6,900,442                |
| - Government of Pakistan Bonds / Sukuk / (US Dollar / Euro)                                  |      | 7,322,125                | 7,112,356                |
| Overseas Government Securities   |      | 14,589,448               | 8,124,611                |
| Fully paid-up Ordinary Shares  |      |                          |                          |
| - Listed companies   |      | 1,383,147                | 1,994,800                |
| - Unlisted companies   |      | 756,455                  | 471,853                  |
| Debentures and Corporate Debt Instruments  |      |                          |                          |
| - Listed securities  |      | 4,752,851                | 2,303,140                |
| - Unlisted securities  |      | 70,166,252               | 24,878,702               |
| Preference Shares  |      | 200,000                  | 200,000                  |
| NIT Units  |      | 11,529                   | 11,529                   |
| Investments of mutual funds  |      | 3,420,302                | 1,536,941                |
| Other Investments  |      | 1,819,409                | 1,736,669                |
| Investment in Associates and Joint Venture   |      | 3,733,008                | 4,429,353                |
|  |      | <u>219,916,081</u>       | <u>139,139,796</u>       |
| Less: Provision for diminution / impairment in the value of investments including associates | 8.8  | <u>(2,572,470)</u>       | <u>(2,143,709)</u>       |
| Net investment   |      | 217,343,611              | 136,996,087              |
| Deficit on revaluation of held for trading securities  |      | (1,266)                  | (12,934)                 |
| Deficit on revaluation of available for sale securities                                      | 19.2 | <u>(874,813)</u>         | <u>(7,149,707)</u>       |
|  |      | <u>216,467,532</u>       | <u>129,833,446</u>       |

8.3 The market value of securities classified as "held-to-maturity" as at December 31, 2009 amounted to Rs. 7,067.141 million (2008: Rs 7,370.797 million).

| 8.4 Investment in associates and joint venture company   | Note  | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|--|-------|--------------------------|--------------------------|
| <b>Platinum Habib Bank Plc., - Holding, 6.28% (2008: 6.28%) - Listed</b>                       | 8.5.1 | -                        | -                        |
| <b>Kyrgyz Investment and Credit Bank, Kyrgyz Republic - Holding 18% (2008: 18%) - Unlisted</b> |       |                          |                          |
| Opening balance  |       | 235,435                  | 139,995                  |
| Share of profit for the year - net of tax  |       | 46,679                   | 41,199                   |
| Exchange translation reserve for the year  |       | 19,208                   | 54,241                   |
|  |       | 301,322                  | 235,435                  |
| <b>Diamond Trust Bank Limited, Kenya - Holding 10% (2008: 10%) - Listed</b>                    | 8.5   |                          |                          |
| Opening balance  |       | 1,139,122                | 1,001,782                |
| Investment during the year   |       | -                        | 42,749                   |
| Share of profit for the year - net of tax  |       | 138,557                  | 107,049                  |
| Exchange translation reserve for the year  |       | 34,786                   | 9,758                    |
| Dividend received during the year  |       | (24,098)                 | (22,216)                 |
|  |       | 1,288,367                | 1,139,122                |
| <b>Himalayan Bank Limited, Nepal, - Holding 20% (2008: 20%) - Listed</b>                       |       |                          |                          |
| Opening balance  |       | 660,994                  | 488,750                  |
| Share of profit for the year - net of tax  |       | 151,630                  | 162,509                  |
| Exchange translation reserve for the year  |       | 58,532                   | 27,166                   |
| Dividend received during the year  |       | (52,110)                 | (17,431)                 |
|  |       | 819,046                  | 660,994                  |
| <b>New Jubilee Insurance Company Limited, - Holding 9.64% (2008: 9.64%) - Listed</b>           | 8.5   |                          |                          |
| Opening balance  |       | 1,114,317                | 1,097,086                |
| Impairment loss  |       | (335,261)                | -                        |
| Share of profit for the year - net of tax  |       | (1,636)                  | 25,176                   |
| Dividend received during the year  |       | (9,534)                  | (7,945)                  |
|  |       | 767,886                  | 1,114,317                |

Notes to the Consolidated Financial Statements

| Note  | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|---|--------------------------|--------------------------|
| 8.5   |                          |                          |
| <b>New Jubilee Life Insurance Company Limited, Holding 8.91% (2008: 8.91%) - Listed</b> |                          |                          |
| Opening balance   | 223,850                  | 216,659                  |
| Share of profit for the year - net of tax   | (2,726)                  | 9,986                    |
| Dividend received during the year   | -                        | (2,795)                  |
|   | 221,124                  | 223,850                  |
| <b>HBL Income Fund, Holding 50.50% (2008: 27.48%) - Unlisted</b>                        |                          |                          |
| Opening balance   | 732,224                  | 268,322                  |
| Investment during the year  | -                        | 475,000                  |
| Share of profit for the year  | 41,930                   | 57,800                   |
| Gain / (loss) on revaluation of investments   | 39,164                   | (68,898)                 |
| Realisation of gain on disposal   | 7,239                    | -                        |
| Transferred as subsidiary company   | (820,557)                | -                        |
|   | -                        | 732,224                  |
| <b>HBL Multi Asset Fund, Holding 68.93% (2008: 35.59%) - Unlisted</b>                   |                          |                          |
| Opening balance   | 165,828                  | 250,975                  |
| Share of profit for the year  | (26,002)                 | 3,540                    |
| Gain / (loss) on revaluation of investments   | 101,694                  | (88,687)                 |
| Realisation of gain on disposal   | 6,661                    | -                        |
| Transferred as subsidiary company   | (248,181)                | -                        |
|   | -                        | 165,828                  |
|   | <b>3,397,745</b>         | <b>4,271,770</b>         |

8.4.1 The market value of shares of above investments in listed associates at December 31, 2009 amounted to Rs. 6,737.033 million (2008: Rs. 12,994.610 million).

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

8.5.1 The Central Bank of Nigeria (CBN) has carried out a special investigation of the books and affairs of BankPHB, Nigeria (PHB) and identified serious mismanagement issues including contravention of the requirements with respect to the keeping of books and accounts which reflect a true and fair view of the financial position of PHB. CBN through its order dated October 2, 2009 not only required PHB to make provisions for bad loan portfolio amounting to Naira 118 billion but also removed the chief executive officer (CEO) along with all the executive directors of PHB. CBN had also appointed a new CEO and executive directors of PHB. The new CEO and his team further scrutinized the books of PHB and took further provisions for loan losses amounting to Naira 113 billion and other provisions/write offs amounting to Naira 220 billion. CBN has appointed an independent firm to carry out a forensic review at PHB.

Subsequently, the previous CEO of PHB has been formally charged with multiple cases of fraud and mishandling the bank.

The huge provisions taken as result of CBN action have resulted in negative equity of PHB by Naira 139.4 billion according to unaudited accounts as at September 30, 2009. Appointment of auditors for forensic review, charges on ex-CEO and CBN's findings that books and accounts of PHB do not reflect true and fair view of the financial position of PHB have raised serious doubts on the reported earnings by PHB in previous years. At this stage there is significant uncertainty in identification of actual periods to which these misrepresentations relate, however, considering the issues explained above, and the fact that for most of calendar year 2009 PHB has been involved in CBN investigation, the management of HBL believes that such huge provisions surfaced by CBN and the new management of PHB, are not the outcome of events occurred during the year 2009 but a result of overstatement of earnings in prior periods.

The financial impacts are as follows:

|   | 2008<br>(Rupees in '000) |
|---|--------------------------|
| <b>Profit and loss for the year ended December 31,</b>        |                          |
| Decrease in profit before tax for the year                    | (5,112,966)              |
| Decrease in tax expense for the year                          | 352,539                  |
| <b>Balance sheet as at December 31,</b>                       |                          |
| Cumulative impact on investments in associates                | (9,066,084)              |
| Cumulative impact on deferred tax assets                      | 964,404                  |
| Cumulative impact on exchange translation reserve             | (587,210)                |
| Cumulative impact on retained earnings                        | (8,101,680)              |
|   | (Rupees)                 |
| <b>Reduction on earnings per share</b>                        | (5.23)                   |
| Cumulative impact on retained earning as on December 31, 2007 | (2,990,139)              |

8.5.2 The Group has decided to continue its investments in HBL Stock Fund managed by HBL Asset Management Limited. Accordingly the financial information of HBL Stock Fund has been consolidated on a line by line basis under IAS 27. The comparative information of the Group has been reclassified from other assets and other liabilities in the following heads of balance sheet and profit and loss account:

|                                    | 2008<br>(Rupees in '000) |
|------------------------------------|--------------------------|
| <b>Balance sheet</b>               |                          |
| Balances with other banks          | (199,905)                |
| Investments                        | 753,838                  |
| Other assets                       | (553,933)                |
| Other liabilities                  | 770,169                  |
| Surplus on revaluation of assets   | (770,169)                |
| <b>Profit and loss account</b>     |                          |
| Mark-up / return / interest earned | 71,014                   |
| Income on investments              | 44,378                   |
| Other income                       | (27,528)                 |
| Administrative expenses            | 77,345                   |

8.5.3 The recoverable amount of the investment in New Jubilee Insurance Company Limited was tested for impairment based on value in use, in accordance with IAS - 36. The value in use calculations are based on cash flow projections based on the budget and forecasts approved by management for 2010. These are then extrapolated for a period of 5 years using a steady long term expected growth of 15% and terminal value determined based on long term earning multiples. The cash flows are discounted using a post-tax discount rate of 19%. Based on this calculation, impairment of Rs. 335 million has been accounted for.

8.6 Summary of financial information of associates and joint venture company

|   | 2009               |             |             |              |                 |               |
|---|--------------------|-------------|-------------|--------------|-----------------|---------------|
|   | Assets             | Liabilities | Equity      | Revenue      | Profit / (loss) |               |
| Based on the financial statements as on | (Rupees in '000)   |             |             |              |                 |               |
| PlatinumHabib Bank Plc., Nigeria        | September 30, 2009 | 407,184,107 | 484,353,044 | (77,168,937) | 117,555,405     | (212,622,044) |
| Diamond Trust Bank Limited, Kenya       | September 30, 2009 | 68,191,003  | 59,815,739  | 8,375,265    | 5,053,154       | 950,506       |
| Himalayan Bank Limited, Nepal           | July 15, 2009      | 43,798,907  | 40,323,671  | 3,475,235    | 2,480,622       | 797,328       |
| Kyrgyz Investment and Credit Bank       | December 31, 2008  | 8,215,241   | 6,597,634   | 1,617,607    | 914,676         | 264,968       |
| New Jubilee Life Insurance Co. Ltd.     | September 30, 2009 | 7,612,867   | 7,135,824   | 477,043      | 25,565          | 60,481        |
| New Jubilee Insurance Co. Ltd.          | September 30, 2009 | 6,692,694   | 4,380,631   | 2,312,063    | 2,040,260       | 347,521       |

## Notes to the Consolidated Financial Statements

|   |                    | 2008             |             |            |            |                 |
|---|--------------------|------------------|-------------|------------|------------|-----------------|
| Based on the financial statements as on |                    | Assets           | Liabilities | Equity     | Revenue    | Profit / (loss) |
|   |                    | (Rupees in '000) |             |            |            |                 |
| PlatinumHabib Bank Plc., Nigeria        | June 30, 2008      | 605,546,832      | 507,759,794 | 97,787,038 | 51,333,928 | 11,523,174      |
| Diamond Trust Bank Limited, Kenya       | September 30, 2008 | 47,434,250       | 41,200,618  | 6,233,632  | 3,256,330  | 790,715         |
| Himalayan Bank Limited, Nepal           | July 15, 2008      | 37,199,300       | 34,615,190  | 2,584,110  | 1,988,389  | 1,056,874       |
| Kyrgyz Investment and Credit Bank       | December 31, 2007  | 6,608,284        | 5,345,793   | 1,262,491  | 525,305    | 211,782         |
| New Jubilee Life Insurance Co. Ltd.     | September 30, 2008 | 5,888,878        | 5,422,938   | 465,940    | 16,231     | 27,068          |
| New Jubilee Insurance Co. Ltd.          | September 30, 2008 | 6,506,983        | 3,925,893   | 2,581,090  | 578,009    | 97,237          |
| HBL Income Fund                         | September 30, 2008 | 4,483,422        | 18,525      | 4,464,897  | 548,699    | 454,423         |
| HBL Multi Asset Fund                    | September 30, 2008 | 631,924          | 3,674       | 628,250    | 36,080     | 22,828          |

### 8.7 Investment in associated undertakings - as per statute

|                          | 2009                     |              | 2008                     |              |
|--------------------------|--------------------------|--------------|--------------------------|--------------|
|                          | Cost<br>(Rupees in '000) | Holding<br>% | Cost<br>(Rupees in '000) | Holding<br>% |
| First Women Bank Limited | 63,300                   | 26.78%       | 63,300                   | 26.78%       |
| Khushali Bank            | 300,000                  | 17.60%       | 300,000                  | 17.60%       |
|                          | <u>363,300</u>           |              | <u>363,300</u>           |              |

8.7.1 The Group does not have significant influence over these entities due to influence of the Government / major shareholders. Accordingly these investments are accounted for as normal investments.

### 8.8 Particulars of provision held against diminution in value of investments

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

|  | Note  | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|--|-------|--------------------------|--------------------------|
| Opening balance  |       | 2,143,709                | 421,729                  |
| Charge for the year - net                                |       | 435,427                  | 483,327                  |
| Impairment loss / (reversal) on listed securities        |       | (424,193)                | 1,426,560                |
| Impairment loss on associate                             |       | 335,261                  | -                        |
| Total charge - net                                       |       | 346,495                  | 1,909,887                |
| Amount written off                                       |       | (78,116)                 | (187,907)                |
| Other movement   |       | 27,529                   | -                        |
| Transfer of provision on consolidation of open end funds |       | 131,019                  | -                        |
| Exchange adjustment                                      |       | 1,834                    | -                        |
| Closing balance  | 8.8.1 | <u>2,572,470</u>         | <u>2,143,709</u>         |

### 8.8.1 Particulars of provision in respect of type and segment

#### Available-for-sale securities (AFS)

|  | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|--|--------------------------|--------------------------|
| <i>Fully paid-up ordinary shares</i>             |                          |                          |
| - Listed companies                               | 795,859                  | 1,228,247                |
| - Unlisted companies                             | 26,211                   | 34,196                   |
| <i>Preference shares</i>                         | 68,300                   | 18,300                   |
| <i>Debentures and corporate debt instruments</i> | 1,062,779                | 562,993                  |
| <i>Associate</i>                                 | 335,261                  | -                        |
| <i>Units</i>                                     | 284,060                  | 299,973                  |
|  | <u>2,572,470</u>         | <u>2,143,709</u>         |

8.9 Investments held for maintaining the liquidity requirements of the State Bank of Pakistan amounted to Rs. 113,482.568 million as at December 31, 2009 (2008: Rs. 87,384.669 million).

8.10 Investments include Rs. 491.470 million as at December 31, 2009 (2008: Rs. 483.990 million) pledged with State Bank of Pakistan and National Bank of Pakistan against TT/DD discounting facilities and demand loan facilities.

8.11 Investments include Rs. 9.043 million as at December 31, 2009 (2008: Rs. 9.800 million) pledged with the Controller of Military Accounts in lieu of Regimental Fund Accounts being maintained at various branches of the bank.

8.12 NIT units of Rs. 15.225 million as at December 31, 2009 (2008: Rs. 16.675 million) are pledged with Multan High Court.

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

## Notes to the Consolidated Financial Statements

| 9. ADVANCES   | Note  | 2009<br>(Rupees in '000) | 2008               |
|---|-------|--------------------------|--------------------|
| Loans, cash credits, running finances, etc.   |       |                          |                    |
| In Pakistan   |       | 384,534,667              | 367,769,370        |
| Outside Pakistan  |       | 68,435,996               | 73,166,782         |
|   |       | <u>452,970,663</u>       | <u>440,936,152</u> |
| Net investment in finance lease - in Pakistan   | 9.1.3 | 3,763,556                | 4,537,980          |
| Bills discounted and purchased<br>(excluding Government treasury bills)   |       |                          |                    |
| Payable in Pakistan   |       | 8,319,104                | 12,227,536         |
| Payable outside Pakistan  |       | 24,957,260               | 26,750,236         |
|   |       | 33,276,364               | 38,977,772         |
| Provision against non-performing advances   | 9.4   | (35,348,084)             | (28,096,397)       |
|   |       | <u>454,662,499</u>       | <u>456,355,507</u> |
| <b>Fully provided non-performing advances classified as<br/>loss for more than five years</b>   |       |                          |                    |
| In Pakistan   |       | 12,914,798               | 11,976,479         |
| Provision   | 9.5.1 | (12,914,798)             | (11,976,479)       |
|   |       | <u>-</u>                 | <u>-</u>           |
| <b>9.1 Particulars of advances</b>  |       |                          |                    |
| 9.1.1 In local currency   |       | 369,766,494              | 365,200,732        |
| In foreign currency including foreign currency financing<br>by domestic branches amounting to Rs. 16,328.404 million<br>(2008: Rs 14,603.966 million) |       | 84,896,005               | 91,154,775         |
|   |       | <u>454,662,499</u>       | <u>456,355,507</u> |
| 9.1.2 Short term (for upto one year)  |       | 313,361,615              | 347,684,398        |
| Long term (for over one year)   |       | 141,300,884              | 108,671,109        |
|   |       | <u>454,662,499</u>       | <u>456,355,507</u> |
| 9.1.3 <b>Net investment in finance lease</b>  |       |                          |                    |

|                                   | 2009                          |  |                  | 2008                          |  |                  |
|-----------------------------------|-------------------------------|--|------------------|-------------------------------|--|------------------|
|                                   | Not later<br>than one<br>year | Later than<br>one and<br>less than<br>five years | Total            | Not later<br>than one<br>year | Later than<br>one and<br>less than<br>five years | Total            |
|                                   | ----- (Rupees in '000) -----  |  |                  |                               |  |                  |
| Lease rentals receivable          | 1,077,137                     | 3,078,150  | 4,155,287        | 1,298,779                     | 3,711,539  | 5,010,318        |
| Residual value                    | 15,222                        | 76,841   | 92,063           | 13,292                        | 67,096   | 80,388           |
| Gross investment in finance lease | 1,092,359                     | 3,154,991  | 4,247,350        | 1,312,071                     | 3,778,635  | 5,090,706        |
| Unearned finance income           | (35,607)                      | (448,187)  | (483,794)        | (40,681)                      | (512,045)  | (552,726)        |
| Net investment in finance lease   | <u>1,056,752</u>              | <u>2,706,804</u>                                 | <u>3,763,556</u> | <u>1,271,390</u>              | <u>3,266,590</u>                                 | <u>4,537,980</u> |

## Notes to the Consolidated Financial Statements

- 9.2 Advances include Rs. 49,438.255 million (2008: Rs. 40,053.222 million) which have been placed under non-performing status, other than those accounts classified as loss and fully provided for more than five years which have been placed in separate category as referred to in note 9.4, as detailed below:

| Category of classification        | 2009                    |                   |                   |                             |                   |                   |                          |                  |                   |
|-----------------------------------|-------------------------|-------------------|-------------------|-----------------------------|-------------------|-------------------|--------------------------|------------------|-------------------|
|                                   | Non-performing advances |                   |                   | Provision required and held |                   |                   | Net non-performing loans |                  |                   |
|                                   | Domestic                | Overseas          | Total             | Domestic                    | Overseas          | Total             | Domestic                 | Overseas         | Total             |
|                                   | (Rupees in '000)        |                   |                   |                             |                   |                   |                          |                  |                   |
| <b>Specific provision</b>         |                         |                   |                   |                             |                   |                   |                          |                  |                   |
| Other assets especially mentioned | 1,760,738               | -                 | 1,760,738         | -                           | -                 | -                 | 1,760,738                | -                | 1,760,738         |
| Substandard                       | 4,387,109               | 4,520,458         | 8,907,567         | 1,036,043                   | 840,753           | 1,876,796         | 3,351,066                | 3,679,705        | 7,030,771         |
| Doubtful                          | 7,613,079               | 2,615,169         | 10,228,248        | 3,859,790                   | 1,252,599         | 5,112,389         | 3,753,289                | 1,362,570        | 5,115,859         |
| Loss                              | 18,917,280              | 9,624,422         | 28,541,702        | 18,031,320                  | 9,603,632         | 27,634,952        | 885,960                  | 20,790           | 906,750           |
|                                   | 32,678,206              | 16,760,049        | 49,438,255        | 22,927,153                  | 11,696,984        | 34,624,137        | 9,751,053                | 5,063,065        | 14,814,118        |
| <b>General provision</b>          | -                       | -                 | -                 | 345,341                     | 378,606           | 723,947           | -                        | -                | -                 |
|                                   | <u>32,678,206</u>       | <u>16,760,049</u> | <u>49,438,255</u> | <u>23,272,494</u>           | <u>12,075,590</u> | <u>35,348,084</u> | <u>9,751,053</u>         | <u>5,063,065</u> | <u>14,814,118</u> |

| Category of classification        | 2008                    |                   |                   |                             |                   |                   |                          |                  |                   |
|-----------------------------------|-------------------------|-------------------|-------------------|-----------------------------|-------------------|-------------------|--------------------------|------------------|-------------------|
|                                   | Non-performing advances |                   |                   | Provision required and held |                   |                   | Net non-performing loans |                  |                   |
|                                   | Domestic                | Overseas          | Total             | Domestic                    | Overseas          | Total             | Domestic                 | Overseas         | Total             |
|                                   | (Rupees in '000)        |                   |                   |                             |                   |                   |                          |                  |                   |
| <b>Specific provision</b>         |                         |                   |                   |                             |                   |                   |                          |                  |                   |
| Other assets especially mentioned | 1,200,357               | -                 | 1,200,357         | -                           | -                 | -                 | 1,200,357                | -                | 1,200,357         |
| Substandard                       | 6,271,877               | 1,003,359         | 7,275,236         | 1,507,622                   | 213,364           | 1,720,986         | 4,764,255                | 789,995          | 5,554,250         |
| Doubtful                          | 9,825,144               | 564,337           | 10,389,481        | 5,063,114                   | 398,206           | 5,461,320         | 4,762,030                | 166,131          | 4,928,161         |
| Loss                              | 11,539,436              | 9,648,712         | 21,188,148        | 10,465,720                  | 9,578,922         | 20,044,642        | 1,073,716                | 69,790           | 1,143,506         |
|                                   | 28,836,814              | 11,216,408        | 40,053,222        | 17,036,456                  | 10,190,492        | 27,226,948        | 11,800,358               | 1,025,916        | 12,826,274        |
| <b>General provision</b>          | -                       | -                 | -                 | 452,211                     | 417,238           | 869,449           | -                        | -                | -                 |
|                                   | <u>28,836,814</u>       | <u>11,216,408</u> | <u>40,053,222</u> | <u>17,488,667</u>           | <u>10,607,730</u> | <u>28,096,397</u> | <u>11,800,358</u>        | <u>1,025,916</u> | <u>12,826,274</u> |

- 9.2.1 Classification of overseas non-performing advances and provision there against has been made in accordance with the accounting policy as referred in note 4.6.
- 9.3 The Group monitors non-performing loans classified as loss for more than five years and fully provided as a separate category as shown in note 9.5.1. This category is not included in note 9.2 and in analytical break-up of other notes.
- 9.4 **Particulars of provision against non-performing advances**

|   | Note  | 2009              |                |                   | 2008              |                |                   |
|---|-------|-------------------|----------------|-------------------|-------------------|----------------|-------------------|
|   |       | Specific          | General        | Total             | Specific          | General        | Total             |
|   |       | (Rupees in '000)  |                |                   |                   |                |                   |
| Opening balance                             |       | 27,226,948        | 869,449        | 28,096,397        | 20,255,532        | 1,050,634      | 21,306,166        |
| Exchange adjustment                         |       | 1,126,460         | 55,593         | 1,182,053         | 1,978,245         | 39,297         | 2,017,542         |
| Charge for the year                         |       | 10,044,991        | 26,750         | 10,071,741        | 7,753,566         | 85,455         | 7,839,021         |
| Reversals                                   |       | (577,793)         | (227,845)      | (805,638)         | (144,702)         | (305,937)      | (450,639)         |
|   |       | 9,467,198         | (201,095)      | 9,266,103         | 7,608,864         | (220,482)      | 7,388,382         |
| Amounts written off                         | 9.6   | (1,550,687)       | -              | (1,550,687)       | (1,053,510)       | -              | (1,053,510)       |
| Transferred to / from over 5 years category | 9.5.1 | (1,645,782)       | -              | (1,645,782)       | (1,562,183)       | -              | (1,562,183)       |
| Closing balance                             |       | <u>34,624,137</u> | <u>723,947</u> | <u>35,348,084</u> | <u>27,226,948</u> | <u>869,449</u> | <u>28,096,397</u> |
| In local currency                           |       | 22,927,153        | 345,341        | 23,272,494        | 17,036,456        | 452,211        | 17,488,667        |
| In foreign currency                         |       | 11,696,984        | 378,606        | 12,075,590        | 10,190,492        | 417,238        | 10,607,730        |
|   |       | <u>34,624,137</u> | <u>723,947</u> | <u>35,348,084</u> | <u>27,226,948</u> | <u>869,449</u> | <u>28,096,397</u> |

- 9.5 **Amendments in Prudential Regulations in respect of provisioning against non-performing advances**

In accordance with BSD Circular No. 2 dated January 27, 2009 issued by the State Bank of Pakistan, the Bank has availed the benefit of FSV against the non-performing advances (excluding consumer housing finance portfolio). Had the benefit of FSV not been availed by the Bank the specific provision against non-performing advances would have been higher and consequently profit before taxation and advances (net of provisions) as at December 31, 2009 would have been lower by approximately Rs 850.685 million. Increase in profit would not be available for the distribution of cash and stock dividend to share holders.

## Notes to the Consolidated Financial Statements

|  | Note | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|--|------|--------------------------|--------------------------|
| <b>9.5.1 Particulars of provision against fully provided non-performing advances classified as loss for more than five years</b> |      |                          |                          |
| Opening balance  |      | 11,976,479               | 11,909,930               |
| Reversal   |      | (471,543)                | (483,463)                |
| Transferred from / to during the year  | 9.4  | 1,645,782                | 1,562,183                |
| Write off  | 9.6  | (235,920)                | (1,012,171)              |
|  |      | <u>12,914,798</u>        | <u>11,976,479</u>        |
| <b>9.6 Particulars of write-offs</b>   |      |                          |                          |
| 9.6.1 Against provisions   |      | <u>1,786,607</u>         | <u>2,065,681</u>         |
| 9.6.2 Analysis of write-offs   |      |                          |                          |
| Rs 500,000 and above in Pakistan (Note 9.7)  |      | 317,224                  | 1,030,120                |
| Below Rs 500,000 in Pakistan and overseas  |      | <u>1,469,383</u>         | <u>1,035,561</u>         |
|  |      | <u>1,786,607</u>         | <u>2,065,681</u>         |

## 9.7 Details of loan write-off of Rs 500,000 and above

The statement required under sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2009 is given in Annexure II.

## 9.8 Particulars of loans and advances to directors, associated companies, etc.

|  | 2009                |  |                                  |                             | 2008                |   |                                  |                             |
|--|---------------------|--|----------------------------------|-----------------------------|---------------------|---|----------------------------------|-----------------------------|
|  | Balance outstanding | Maximum total amount of loans and advances including temporary advances outstanding ** | Limit sanctioned during the year | Loan repaid during the year | Balance outstanding | Maximum total amount of loans and advances including temporary advances outstanding | Limit sanctioned during the year | Loan repaid during the year |
|  | (Rupees in '000)    |  |                                  |                             |                     |   |                                  |                             |
| Debts due by directors or executives of the Group or any of them either severally or jointly with any other persons:                                     |                     |  |                                  |                             |                     |   |                                  |                             |
| - in respect of directors  | -                   | -  | -                                | -                           | -                   | -   | -                                | -                           |
| - in respect of executives * (Other than KMPs)   | 1,038,000           | 1,054,700  | 155,890                          | 123,466                     | 1,005,576           | 1,039,416   | 341,604                          | 33,840                      |
| - in respect of key management personnel / Companies in which key management personnel or their spouse are interested                                    | 530,584             | 542,484  | 247,511                          | 299,296                     | 582,369             | 594,534   | 278,284                          | 12,288                      |
| Debts due by companies or firms in which the directors of the Group are interested as directors, partners or in the case of private companies as members | 1,155,500           | 1,155,500  | 1,657,401                        | 1,393,532                   | 891,631             | 894,419   | 15,295,761                       | 15,737,463                  |
| Debts due by companies in which key management personnel are nominated by the Bank as directors  |                     |  |                                  |                             |                     |   |                                  |                             |
| - Guaranteed by Government   | 12,664,465          | 14,055,572   | 20,143,120                       | 9,577,800                   | 2,099,145           | 2,883,582   | 6,533,245                        | 6,034,148                   |
| - Others   | 52,729              | 854,840  | 1,043,707                        | 1,164,741                   | 173,763             | 562,180   | 659,264                          | 488,106                     |
| - Retirement benefit funds   | -                   | -  | -                                | -                           | -                   | 1,033,720   | -                                | 1,033,720                   |

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

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

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

## 10. OTHER ASSETS

|  | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|--|--------------------------|--------------------------|
| Income / mark-up accrued in local currency   | 14,866,545               | 12,992,908               |
| Income / mark-up accrued in foreign currency   | 757,179                  | 1,236,730                |
| Advances, deposits, advance rent and other prepayments                                     | 1,122,910                | 1,860,456                |
| Advance taxation (payments less provisions)  | 8,608,437                | 2,605,743                |
| Receivable from defined benefit plans  | 7,919,870                | 6,572,013                |
| Stationery and stamps on hand  | 23,224                   | 199,447                  |
| Accrued fee income   | 31,169                   | 39,360                   |
| Due from Government of Pakistan  | -                        | 295,353                  |
| Unrealised gain on forward foreign exchange contract - net                                 | 102,076                  | -                        |
| Non-banking assets acquired in satisfaction of claims (market value Rs. 2,908.279 million) | 2,475,566                | 30,000                   |
| Receivable from National Savings Centre / Clearing in transit                              | 4,743,943                | 7,465,756                |
| Dividend receivable  | 39,801                   | 380,176                  |
| Others   | 425,862                  | 910,502                  |
|  | <u>41,116,582</u>        | <u>34,588,444</u>        |

Notes to the Consolidated Financial Statements

|  | Note | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|--|------|--------------------------|--------------------------|
| <b>10.1 Provision against other assets</b> |      |                          |                          |
| Opening balance                            |      | 402,005                  | 504,654                  |
| Charge for the year                        |      | 428,024                  | 134,824                  |
| Write off                                  |      | (605,545)                | (287,039)                |
| Other movement                             |      | 295,353                  | -                        |
| Exchange adjustment                        |      | 8,690                    | 49,566                   |
| Closing balance                            |      | <u>528,527</u>           | <u>402,005</u>           |
| <b>11. OPERATING FIXED ASSETS</b>          |      |                          |                          |
| Capital work-in-progress                   | 11.1 | 805,463                  | 830,551                  |
| Intangible assets                          | 11.2 | 235,123                  | 447,898                  |
| Tangible fixed assets                      | 11.3 | <u>15,726,082</u>        | <u>13,472,803</u>        |
|  |      | <u>16,766,668</u>        | <u>14,751,252</u>        |
| <b>11.1 Capital work-in-progress</b>       |      |                          |                          |
| Civil works                                |      | 534,366                  | 613,474                  |
| Others                                     |      | 271,097                  | 217,077                  |
|  |      | <u>805,463</u>           | <u>830,551</u>           |

11.2 Intangible assets

| Description       | 2009                        |  |             |                               |                             |  |             |                               | Book value<br>as at<br>December 31,<br>2009 | Rate of<br>amortization<br>% |
|-------------------|-----------------------------|--|-------------|-------------------------------|-----------------------------|--|-------------|-------------------------------|---|------------------------------|
|                   | COST                        |  |             | AMORTISATION                  |                             |  |             |                               |   |                              |
|                   | As at<br>January 1,<br>2009 | Additions /<br>(deletions)<br>during the<br>year | Adjustments | As at<br>December 31,<br>2009 | As at<br>January 1,<br>2009 | Charge for<br>the year /<br>(Amortisation<br>on deletions) | Adjustments | As at<br>December 31,<br>2009 |   |                              |
| (Rupees in 000)   |                             |  |             |                               |                             |  |             |                               |   |                              |
| Computer software | 1,402,405                   | 26,180<br>(107)                                  | -           | 1,428,478                     | 954,507                     | 238,942<br>(94)  | -           | 1,193,355                     | 235,123                                     | 33.33                        |
| Description       | 2008                        |  |             |                               |                             |  |             |                               | Book value<br>as at<br>December 31,<br>2008 | Rate of<br>amortization<br>% |
|                   | COST                        |  |             | AMORTISATION                  |                             |  |             |                               |   |                              |
|                   | As at<br>January 1,<br>2008 | Additions /<br>(deletions)<br>during the<br>year | Adjustments | As at<br>December 31,<br>2008 | As at<br>January 1,<br>2008 | Charge for<br>the year /<br>(Amortisation<br>on deletions) | Adjustments | As at<br>December 31,<br>2008 |   |                              |
| Rupees in 000     |                             |  |             |                               |                             |  |             |                               |   |                              |
| Computer software | 1,240,392                   | 163,555<br>(1,542)                               | -           | 1,402,405                     | 589,077                     | 366,965<br>(1,535)   | -           | 954,507                       | 447,898                                     | 33.33                        |

11.3 Tangible fixed assets

| Description                                | 2009                        |  |  |                               |                             |   |  |                               | Book value<br>as at<br>December 31,<br>2009 | Rate of<br>depreciation<br>% |
|--|-----------------------------|--|--|-------------------------------|-----------------------------|---|--|-------------------------------|---|------------------------------|
|  | COST / REVALUATION          |  |  | DEPRECIATION                  |                             |   |  |                               |   |                              |
|  | As at<br>January 1,<br>2009 | Additions /<br>(deletions) /<br>Adjustment<br>during the<br>year | Surplus /<br>(deficit) on<br>revaluation<br>during the<br>year | As at<br>December 31,<br>2009 | As at<br>January 1,<br>2009 | Charge for<br>the year /<br>(depreciation<br>on deletions) /<br>adjustments | Surplus /<br>(deficit) on<br>revaluation<br>reversed<br>during the<br>year | As at<br>December 31,<br>2009 |   |                              |
| Rupees in 000                              |                             |  |  |                               |                             |   |  |                               |   |                              |
| Land                                       | 7,592,693                   | 390,164<br>(58,951)<br>(59,111)                                  | 802,746  | 8,667,541                     | -                           | -   | -  | -                             | 8,667,541                                   | -                            |
| Building including<br>related machinery    | 4,075,280                   | 472,835<br>(942)<br>206,923                                      | 78,047   | 4,832,143                     | 1,160,627                   | 356,304<br>(137)<br>39,304  | (998,600)  | 557,498                       | 4,274,645                                   | 2.5-10                       |
| Furniture, fixture and<br>office equipment | 7,638,315                   | 864,929<br>(246,297)<br>88,685                                   | -  | 8,345,632                     | 4,818,704                   | 1,089,506<br>(230,852)<br>59,074  | -  | 5,736,432                     | 2,609,200                                   | 20-33                        |
| Vehicles                                   | 360,201                     | 82,179<br>(40,256)<br>2,718                                      | -  | 404,842                       | 214,355                     | 51,956<br>(39,829)<br>3,664   | -  | 230,146                       | 174,696                                     | 20                           |
|  | <u>19,666,489</u>           | <u>1,810,107</u><br><u>(346,446)</u><br><u>239,215</u>           | <u>880,793</u>   | <u>22,250,158</u>             | <u>6,193,686</u>            | <u>1,497,766</u><br><u>(270,818)</u><br><u>102,042</u>                      | <u>(998,600)</u>   | <u>6,524,076</u>              | <u>15,726,082</u>                           |                              |

Notes to the Consolidated Financial Statements

| Description                             | 2008                  |   |  |                         |                       |   |   |                         |                                    |                        |
|---|-----------------------|---|--|-------------------------|-----------------------|---|---|-------------------------|------------------------------------|------------------------|
|   | COST / REVALUATION    |   |  | DEPRECIATION            |                       |   |   |                         |                                    |                        |
|   | As at January 1, 2008 | Additions / (deletions) / Adjustments during the year | Surplus / (deficit) on revaluation during the year | As at December 31, 2008 | As at January 1, 2008 | Charge for the year / (depreciation on deletions) / Adjustments | Surplus / (deficit) on revaluation reversed during the year | As at December 31, 2008 | Book value as at December 31, 2008 | Rate of depreciation % |
| Rupees in '000                          |                       |   |  |                         |                       |   |   |                         |                                    |                        |
| Land                                    | 7,058,566             | 496,730<br>(3,960)<br>41,357                          | -  | 7,592,693               | -                     | -   | -   | -                       | 7,592,693                          | -                      |
| Building including related machinery    | 3,873,831             | 155,972<br>(3,432)<br>48,909                          | -  | 4,075,280               | 923,485               | 195,903<br>(329)<br>41,568                                      | -   | 1,160,627               | 2,914,653                          | 2.5-10                 |
| Furniture, fixture and office equipment | 6,536,957             | 1,318,542<br>(431,011)<br>213,827                     | -  | 7,638,315               | 4,028,913             | 1,016,048<br>(372,370)<br>146,113                               | -   | 4,818,704               | 2,819,611                          | 20-33                  |
| Vehicles                                | 269,047               | 112,123<br>(41,808)<br>20,839                         | -  | 360,201                 | 196,212               | 47,027<br>(41,326)<br>12,442                                    | -   | 214,355                 | 145,846                            | 20                     |
|   | 17,738,401            | 2,083,367<br>(480,211)<br>324,932                     | -  | 19,666,489              | 5,148,610             | 1,258,978<br>(414,025)<br>200,123                               | -   | 6,193,686               | 13,472,803                         |                        |

- 11.4 Habib Bank Limited's (HBL) domestic properties were revalued by independent professional valuers as on June 30, 2009. These properties were revalued by Iqbal A. Nanjee & Co., professional valuers on the basis of market value. The revaluation has resulted in increasing the surplus on revaluation of fixed assets by Rs. 1,814.219 million. HBL property of Lebanon branch was revalued as on June 25, 2009 by Banking Control Commission of Lebanon resulted in a surplus of Rs. 4.486 million. Moreover, properties of our subsidiary, Habib Allied International Bank Plc., United Kingdom, were revalued by Walker Fraser Steele, Chartered Surveyors and Property Link Professional Surveys Ltd. as on December 15, 2009, November 24, 2009 and October 27, 2009 respectively. These revaluation have resulted in a surplus of Rs.60.688 million. HBL properties of Srilanka and Singapore branches were revalued on August 10, 2005 and September 5, 2006 by A. Y. Daniel & Son and CB Richard Ellis (Pte) Ltd. respectively, licensed valuers, on market value basis. These revaluations have resulted in a surplus of Rs. 140.834 million and the same has been recorded in the books in 2006. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

(Rupees in '000)

|                                      |           |
|--------------------------------------|-----------|
| Land                                 | 7,211,553 |
| Building including related machinery | 2,897,137 |

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

11.5 **Details of disposal of fixed assets**

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

- 11.6 At December 31, 2009 carrying value of properties and equipment retired from active service and held for disposal purposes amounted to Rs. 0.682 million (2008: Rs. 127.979 million). The cost / valuation of fully depreciated properties and equipment that are still in the Group's use, as at the above date, amounted to Rs. 2,531.919 million (2008: Rs. 2,405.655 million).

12. **DEFERRED TAX ASSET**

| Note             | 2009        | 2008       |
|------------------|-------------|------------|
| (Rupees in '000) |             |            |
|                  | 851,147     | 551,103    |
|                  | 1,232,262   | 1,383,922  |
|                  | 6,403,229   | 7,098,785  |
|                  | 1,305,184   | 1,580,550  |
|                  | 139,413     | 139,413    |
|                  | 379,556     | 2,173,027  |
|                  | 10,310,791  | 12,926,800 |
|                  | (976,218)   | (641,764)  |
|                  | (128,629)   | (98,188)   |
|                  | (1,104,847) | (739,952)  |
|                  | 9,205,944   | 12,186,848 |

**Deductible temporary differences on**

- recognised tax losses
- provision against investments
- provision against doubtful debts
- provision against others
- Provision against off balance sheet obligations
- revaluation of investments

**Taxable temporary differences on**

- fixed assets
- others

**Net deferred tax asset recognised by the Group**

12.1 **Movement in temporary differences during the year**

|   | Balance As at January 1, 2008 | Recognised In profit or loss | Recognised In equity | Balance As at December 31, 2008 | Recognised In profit or loss | Recognised In equity | Balance As at December 31, 2009 |
|---|-------------------------------|------------------------------|----------------------|---------------------------------|------------------------------|----------------------|---------------------------------|
| (Rupees in '000)                                  |                               |                              |                      |                                 |                              |                      |                                 |
| <b>Deductible temporary differences on</b>        |                               |                              |                      |                                 |                              |                      |                                 |
| - Recognised tax losses                           | 551,103                       | -                            | -                    | 551,103                         | 130,320                      | 169,724              | 851,147                         |
| - Provision against investments                   | 1,074,908                     | 309,014                      | -                    | 1,383,922                       | (151,660)                    | -                    | 1,232,262                       |
| - Provision against doubtful debts                | 5,362,476                     | 1,736,309                    | -                    | 7,098,785                       | (695,556)                    | -                    | 6,403,229                       |
| - Provision against others                        | 1,181,437                     | 399,113                      | -                    | 1,580,550                       | (275,366)                    | -                    | 1,305,184                       |
| - Provision against off balance sheet obligations | -                             | 139,413                      | -                    | 139,413                         | -                            | -                    | 139,413                         |
| - On revaluation of investments                   | 38,612                        | -                            | 2,134,415            | 2,173,027                       | -                            | (1,793,471)          | 379,556                         |
| <b>Taxable temporary differences on</b>           |                               |                              |                      |                                 |                              |                      |                                 |
| - fixed assets                                    | (577,373)                     | (65,157)                     | 766                  | (641,764)                       | 42,103                       | (376,557)            | (976,218)                       |
| - others  | (53,387)                      | (44,801)                     | -                    | (98,188)                        | (30,441)                     | -                    | (128,629)                       |
|   | 7,577,776                     | 2,473,891                    | 2,135,181            | 12,186,848                      | (980,600)                    | (2,000,304)          | 9,205,944                       |

12.2 **Movement in unrecognised deferred tax assets and liabilities during the year**

|                  | Balance As at January 1, 2008 | Additions | Recognised | Balance As at December 31, 2008 | Additions | Recognised | Balance As at December 31, 2009 |
|------------------|-------------------------------|-----------|------------|---------------------------------|-----------|------------|---------------------------------|
| (Rupees in '000) |                               |           |            |                                 |           |            |                                 |
| Tax losses       | 3,626,150                     | -         | -          | 3,626,150                       | -         | (244,740)  | 3,381,410                       |

## Notes to the Consolidated Financial Statements

| 13. <b>BILLS PAYABLE</b>  | Note   | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|---|--------|--------------------------|--------------------------|
| In Pakistan   |        | 9,434,879                | 9,025,987                |
| Outside Pakistan  |        | 606,663                  | 802,095                  |
|   |        | <u>10,041,542</u>        | <u>9,828,082</u>         |
| <b>14. BORROWINGS FROM FINANCIAL INSTITUTIONS</b>   |        |                          |                          |
| In Pakistan   |        | 39,978,533               | 30,406,859               |
| Outside Pakistan  |        | 12,564,445               | 16,554,306               |
|   |        | <u>52,542,978</u>        | <u>46,961,165</u>        |
| <b>14.1 Particulars of borrowings from financial institutions</b>   |        |                          |                          |
| In local currency   |        | 39,978,533               | 30,406,859               |
| In foreign currency   |        | 12,564,445               | 16,554,306               |
|   |        | <u>52,542,978</u>        | <u>46,961,165</u>        |
| <b>14.2 Details of borrowings from financial institutions</b>   |        |                          |                          |
| <b>Secured</b>  |        |                          |                          |
| Borrowings from State Bank of Pakistan under:   |        |                          |                          |
| - Export refinance scheme   | } 14.3 | 22,267,455               | 15,736,471               |
| - Long term financing facility - locally manufactured and imported plant & machinery  |        | 1,575,542                | 392,475                  |
| - Long term finance - export oriented projects  |        | 5,196,466                | 5,364,315                |
| Repurchase agreement borrowings   |        | 4,497,374                | 8,684,350                |
|   |        | <u>33,536,837</u>        | <u>30,177,611</u>        |
| <b>Unsecured</b>  |        |                          |                          |
| In Pakistan   |        |                          |                          |
| - Interbank call money borrowing including borrowing by domestic subsidiaries   |        | 6,441,696                | 229,248                  |
| Outside Pakistan  |        |                          |                          |
| - Overdrawn nostro accounts   |        | 434,821                  | 982,783                  |
| - Borrowings of overseas branches and subsidiaries  |        | 12,129,624               | 15,571,523               |
|   |        | <u>12,564,445</u>        | <u>16,554,306</u>        |
|   |        | <u>19,006,141</u>        | <u>16,783,554</u>        |
|   |        | <u>52,542,978</u>        | <u>46,961,165</u>        |
| <b>14.3</b> Borrowings from State Bank of Pakistan (SBP) under the export, locally manufactured machinery and export oriented projects refinance schemes of SBP are secured by the bank's cash and security balances held by SBP. |        |                          |                          |
| <b>15. DEPOSITS AND OTHER ACCOUNTS</b>  |        | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
| <b>Customers</b>  |        |                          |                          |
| Fixed deposits  |        | 208,459,070              | 186,206,978              |
| Savings chequing account  |        | 314,040,743              | 271,240,066              |
| Current accounts - remunerative   |        | 1,811,833                | 2,739,417                |
| Current accounts - non-remunerative   |        | 149,221,644              | 130,326,871              |
|   |        | <u>673,533,290</u>       | <u>590,513,332</u>       |
| <b>Financial institutions</b>   |        |                          |                          |
| Remunerative deposits   |        | 1,616,443                | 2,368,970                |
| Non-remunerative deposits   |        | 7,600,346                | 4,208,243                |
|   |        | <u>9,216,789</u>         | <u>6,577,213</u>         |
|   |        | <u>682,750,079</u>       | <u>597,090,545</u>       |
| <b>15.1 Particulars of deposits</b>   |        |                          |                          |
| In local currency   |        | 530,788,868              | 463,802,118              |
| In foreign currency (including foreign currency deposits of domestic branches of Rs 48,530.820 million (2008: Rs 42,887.922 million))   |        | 151,961,211              | 133,288,427              |
|   |        | <u>682,750,079</u>       | <u>597,090,545</u>       |
| <b>16 SUB-ORDINATED LOAN</b>  |        |                          |                          |

The Group has obtained loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million (2008: US \$ 50 million). The principal amount is repayable in four equal half yearly installments commencing from the year 2013 to 2014. Interest is payable on bi - annual basis commencing from December 2007 at LIBOR + 1.75%. The loan is unsecured and subordinated as to payment of principal and interest to all other indebtedness of the group (including deposits). The loan may not be prepaid or repaid before maturity without the prior written approval of the State Bank of Pakistan. The Bank is not exposed to significant exchange risk as the loan forms part of the Bank's foreign currency net open position.

## Notes to the Consolidated Financial Statements

| 17. OTHER LIABILITIES   | Note   | 2009<br>(Rupees in '000) | 2008              |
|---|--------|--------------------------|-------------------|
| Mark-up / return / interest payable in local currency         |        | 11,093,544               | 8,536,457         |
| Mark-up / return / interest payable in foreign currency       |        | 556,964                  | 867,959           |
| Security deposits against leases                              |        | 92,063                   | 80,388            |
| Accrued expenses  |        | 3,173,141                | 2,117,792         |
| Unrealised loss on forward foreign exchange contracts - net   |        | -                        | 64,351            |
| Unclaimed dividends   |        | 44,137                   | 45,029            |
| Dividend payable  |        | 788                      | -                 |
| Provision for employees' compensated absences                 | 33.2.8 | 1,513,413                | 1,450,272         |
| Provision for post retirement medical benefits                | 33.2.3 | 2,072,460                | 2,349,341         |
| Provision against off-balance sheet obligations               | 17.1   | 741,033                  | 792,429           |
| Provision for contingencies                                   | 17.2   | 419,167                  | 658,432           |
| Branch adjustment account                                     |        | 4,139,134                | 4,706,175         |
| Provision for staff retirement benefits                       |        | 1,115,486                | 838,381           |
| Payable to defined benefit plan                               |        | 266,245                  | -                 |
| Amounts due to minority investors in fund consolidated by HBL |        | 1,325,075                | 272,645           |
| Provision for workers welfare fund                            |        | 722,741                  | 323,575           |
| Unearned commission   |        | 203,205                  | 120,938           |
| Qarza-e-Hasna Fund  |        | 351,142                  | 353,802           |
| Others  |        | 2,032,406                | 2,085,445         |
|   |        | <u>29,862,144</u>        | <u>25,663,411</u> |

### 17.1 Provision against off-balance sheet obligations

|  |                 |                |
|--|-----------------|----------------|
| Opening balance                        | 792,429         | 419,831        |
| (Reversal) / charge for the year - net | <u>(51,396)</u> | <u>372,598</u> |
| Closing balance                        | <u>741,033</u>  | <u>792,429</u> |

### 17.2 Provision for contingencies

|                                  |                |                |
|----------------------------------|----------------|----------------|
| Opening balance                  | 658,432        | 740,834        |
| Charge / (reversal) for the year | 47,600         | (129,080)      |
| Write off                        | (5,732)        | (600)          |
| Other movement                   | (295,353)      | -              |
| Exchange adjustment              | 14,220         | 47,278         |
| Closing balance                  | <u>419,167</u> | <u>658,432</u> |

## 18. SHARE CAPITAL

### 18.1 Authorised capital

| 2009<br>Number of shares in '000 | 2008<br>Number of shares in '000 |                                | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|----------------------------------|----------------------------------|--------------------------------|--------------------------|--------------------------|
| <u>1,380,000</u>                 | <u>1,380,000</u>                 | Ordinary shares of Rs. 10 each | <u>13,800,000</u>        | <u>13,800,000</u>        |

### 18.2 Issued, subscribed and paid-up capital

| 2009<br>Number of shares in '000 | 2008<br>Number of shares in '000 |                                | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|----------------------------------|----------------------------------|--------------------------------|--------------------------|--------------------------|
| 690,000                          | 690,000                          | Ordinary shares of Rs. 10 each | 6,900,000                | 6,900,000                |
| 220,800                          | 69,000                           | Fully paid in cash             | 2,208,000                | 690,000                  |
| <u>910,800</u>                   | <u>759,000</u>                   | Issued as bonus shares         | <u>9,108,000</u>         | <u>7,590,000</u>         |

### 18.3 Exchange translation reserve

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

#### 18.4 Statutory reserves

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

#### 18.5 Dividends

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

|   | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|---|--------------------------|--------------------------|
| Cash dividend: Rs. 5.50 per share (2008: Rs. 4 per share)                               | 4,174,500                | 2,760,000                |
| Bonus share: 2 shares for every 10 shares held (2008: 1 share for every 10 shares held) | 1,518,000                | 690,000                  |

After December 31, 2009 the following dividends were proposed by the Directors for 2009. The dividends have not been provided for and, there are no income tax consequences.

|   |           |
|---|-----------|
| Cash dividend: Rs. 6 per share                | 5,464,800 |
| Bonus share: 1 share for every 10 shares held | 910,800   |

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

Note

Surplus arising on revaluation of:

|  |      | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|--|------|--------------------------|--------------------------|
| - fixed assets   | 19.1 | 8,588,099                | 7,215,946                |
| - investments  | 19.2 | (495,257)                | (4,976,680)              |
| Surplus on revaluation of assets - net of deferred tax |      | 8,092,842                | 2,239,266                |

#### 19.1 Surplus on revaluation of fixed assets

|  |           |           |
|--|-----------|-----------|
| Surplus on revaluation of fixed assets as at January 1   | 7,809,013 | 7,889,744 |
| Surplus on revaluation of bank's properties recognised during the year   | 1,879,393 | -         |
| Surplus realised on disposal of revalued properties during the year  | (46,754)  | (6,168)   |
| Transferred to accumulated profit in respect of incremental depreciation charged during the year - net of deferred tax | (83,929)  | (48,466)  |
| Related deferred tax liability of incremental depreciation charged during the year                                     | (45,192)  | (26,097)  |
| Surplus on revaluation of fixed assets as at December 31   | 9,512,531 | 7,809,013 |

Less: related deferred tax liability on

|   |           |           |
|---|-----------|-----------|
| - revaluation as at January 1   | 593,067   | 619,930   |
| - revaluation of bank's properties recognised during the year                             | 376,827   | -         |
| - Surplus realised on disposal of revalued properties during the year                     | (270)     | (766)     |
| - incremental depreciation charged during the year transferred to profit and loss account | (45,192)  | (26,097)  |
|   | 924,432   | 593,067   |
|   | 8,588,099 | 7,215,946 |

#### 19.2 Surplus / (deficit) on revaluation of investments

|                                 |           |             |
|---------------------------------|-----------|-------------|
| Market Treasury Bills           | 94,651    | (60,586)    |
| Pakistan Investment Bonds       | (700,540) | (2,272,277) |
| Sukuk and Euro Bonds            | (532,377) | (2,393,398) |
| Listed Securities               | 314,408   | (809,241)   |
| NIT Units                       | 10,311    | 12,419      |
| Other Investments               | (61,266)  | (1,626,624) |
|                                 | (874,813) | (7,149,707) |
| Add: related deferred tax asset | 379,556   | 2,173,027   |
|                                 | (495,257) | (4,976,680) |

#### 20. CONTINGENCIES AND COMMITMENTS

##### 20.1 Direct credit substitutes - financial guarantees

Guarantees in favour of:

|                          |            |            |
|--------------------------|------------|------------|
| - Government             | 7,220,955  | 5,960,958  |
| - Financial institutions | 641,533    | 137,947    |
| - Others                 | 50,716,165 | 38,699,414 |
|                          | 58,578,653 | 44,798,319 |

## Notes to the Consolidated Financial Statements

|  | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|--|--------------------------|--------------------------|
| <b>20.2 Transaction-related contingent liabilities</b> |                          |                          |
| Guarantees in favour of:                               |                          |                          |
| - Government   | 2,153,320                | 3,537,882                |
| - Financial institutions                               | 112,588                  | 167,196                  |
| - Others   | 20,437,508               | 14,854,247               |
|  | <u>22,703,416</u>        | <u>18,559,325</u>        |
| <b>20.3 Trade-related commitments</b>                  |                          |                          |
| Credit cash  | 97,707,388               | 100,355,497              |
| Credit documentary acceptances                         | 10,085,276               | 11,319,117               |
| Credit acceptances                                     | 28,852,010               | 20,281,662               |
|  | <u>136,644,674</u>       | <u>131,956,276</u>       |
| <b>20.4 Other contingencies</b>                        |                          |                          |
| Claims against the Group not acknowledged as debts     | <u>80,967,499</u>        | <u>46,865,521</u>        |

### 20.5 Commitments in respect of forward lending

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

|  | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|--|--------------------------|--------------------------|
| <b>20.6 Commitments in respect of forward foreign and local exchange contracts</b> |                          |                          |
| Purchase   | 43,970,316               | 26,840,479               |
| Sale   | 43,978,039               | 26,722,359               |
| The above commitments have maturities falling within one year                      |                          |                          |
| <b>Commitments in respect of foreign currency options</b>                          |                          |                          |
| Purchase   | 2,556,777                | 123,241                  |
| Sale   | 2,556,777                | 123,241                  |
| <b>Commitments in respect of local currency interest rate swaps</b>                |                          |                          |
| Purchase   | 456,208                  | 35,000                   |
| Sale   | 456,208                  | 35,000                   |
| <b>20.7 Commitments for acquisition of operating fixed assets / intangibles</b>    | 548,975                  | 761,514                  |

## 21 DERIVATIVE INSTRUMENTS

### 21.1 Product Analysis

| Counterparties                       | 2009                |  |                     |   |
|--------------------------------------|---------------------|--|---------------------|---|
|                                      | Interest Rate Swaps |  | FX Options          |   |
|                                      | No. of<br>Contracts | Notional<br>Principal*<br>(Rupees in '000) | No. of<br>Contracts | Notional<br>Principal *<br>(Rupees in '000) |
| <b>With Banks for</b>                |                     |  |                     |   |
| Hedging                              | -                   | -  | -                   | -   |
| Market Making                        | 2                   | 456,208                                    | 49                  | 2,556,777                                   |
| <b>With FIs other than banks for</b> |                     |  |                     |   |
| Hedging                              | -                   | -  | -                   | -   |
| Market Making                        | -                   | -  | -                   | -   |
| <b>With other entities for</b>       |                     |  |                     |   |
| Hedging                              | -                   | -  | -                   | -   |
| Market Making                        | 2                   | 456,208                                    | 49                  | 2,556,777                                   |
| <b>Total</b>                         |                     |  |                     |   |
| Hedging                              | -                   | -  | -                   | -   |
| Market Making                        | 4                   | 912,416                                    | 98                  | 5,113,554                                   |
|                                      |                     |  |                     |   |
|                                      | 2008                |  |                     |   |
|                                      | Interest Rate Swaps |  | FX Options          |   |
|                                      | No. of<br>Contracts | Notional<br>Principal*<br>(Rupees in '000) | No. of<br>Contracts | Notional<br>Principal *<br>(Rupees in '000) |
| <b>Counterparties</b>                |                     |  |                     |   |
| <b>With Banks for</b>                |                     |  |                     |   |
| Hedging                              | -                   | -  | -                   | -   |
| Market Making                        | 1                   | 35,000                                     | 4                   | 64,762                                      |
| <b>With FIs other than banks for</b> |                     |  |                     |   |
| Hedging                              | -                   | -  | -                   | -   |
| Market Making                        | -                   | -  | -                   | -   |
| <b>With other entities for</b>       |                     |  |                     |   |
| Hedging                              | -                   | -  | -                   | -   |
| Market Making                        | 1                   | 35,000                                     | 4                   | 64,762                                      |
| <b>Total</b>                         |                     |  |                     |   |
| Hedging                              | -                   | -  | -                   | -   |
| Market Making                        | 2                   | 70,000                                     | 8                   | 129,524                                     |

\* At the exchange rate prevailing at the end of the reporting period

## Notes to the Consolidated Financial Statements

### 21.2 Maturity Analysis

| 2009               |                  |  |                              |                              |       |
|--------------------|------------------|--|------------------------------|------------------------------|-------|
| Remaining Maturity | No. of Contracts | Notional Principal<br>(Rupees in '000) | Mark to Market               |                              |       |
|                    |                  |  | Negative<br>(Rupees in '000) | Positive<br>(Rupees in '000) | Net   |
| 6 to 12 months     | 2                | 70,000                                 | (482)                        | 521                          | 39    |
| 7 to 8 years       | 2                | 842,416                                | (1,103)                      | 2,224                        | 1,121 |
|                    | 4                | 912,416                                | (1,585)                      | 2,745                        | 1,160 |

| 2008               |                  |  |                              |                              |     |
|--------------------|------------------|--|------------------------------|------------------------------|-----|
| Remaining Maturity | No. of Contracts | Notional Principal<br>(Rupees in '000) | Mark to Market               |                              |     |
|                    |                  |  | Negative<br>(Rupees in '000) | Positive<br>(Rupees in '000) | Net |
| 2 to 3 years       | 2                | 70,000                                 | (464)                        | 562                          | 98  |
|                    | 2                | 70,000                                 | (464)                        | 562                          | 98  |

### 22. MARK-UP / RETURN / INTEREST EARNED

|   | Note | 2009              |  | 2008              |  |
|---|------|-------------------|--|-------------------|--|
|   |      | (Rupees in '000)  |  |                   |  |
| <i>On loans and advances to</i>         |      |                   |  |                   |  |
| - Customers                             |      | 55,841,646        |  | 46,630,664        |  |
| - Financial institutions                |      | 260,162           |  | 419,950           |  |
| <i>On investments</i>                   |      |                   |  |                   |  |
| - Held-for-trading                      |      | 42,822            |  | -                 |  |
| - Available-for-sale                    |      | 16,746,655        |  | 13,231,820        |  |
| - Held-to-maturity                      |      | 547,808           |  | 641,144           |  |
| On deposits with financial institutions |      | 834,666           |  | 1,718,760         |  |
| On lendings to financial institutions   |      | 1,802,588         |  | 733,709           |  |
|   |      | <u>76,076,347</u> |  | <u>63,376,047</u> |  |

### 23. MARK-UP / RETURN / INTEREST EXPENSED

|   |  |                   |  |                   |  |
|---|--|-------------------|--|-------------------|--|
| Deposits  |  | 30,581,174        |  | 22,836,362        |  |
| Securities sold under repurchase agreement borrowings |  | 511,897           |  | 1,829,627         |  |
| Other short term borrowings                           |  | 1,859,233         |  | 1,367,513         |  |
| Long term borrowings                                  |  | 453,509           |  | 492,054           |  |
|   |  | <u>33,405,813</u> |  | <u>26,525,556</u> |  |

### 24. INCOME / GAIN ON INVESTMENTS

|   |      |                |  |                  |  |
|---|------|----------------|--|------------------|--|
| Dividend income   |      | 264,109        |  | 268,270          |  |
| Share of profit of associates and joint venture               |      | 487,490        |  | 843,540          |  |
| (Loss) / gain on sale of securities                           | 24.1 | (167,618)      |  | 197,242          |  |
| Unrealised appreciation in value of investments at fair value |      | 13,037         |  | (8,077)          |  |
|   |      | <u>597,018</u> |  | <u>1,300,975</u> |  |

### 24.1 (LOSS) / GAIN ON SALE OF SECURITIES

|                                      |  |                  |  |                |  |
|--------------------------------------|--|------------------|--|----------------|--|
| <i>Federal Government Securities</i> |  |                  |  |                |  |
| - Market treasury bills              |  | 228,630          |  | 31,039         |  |
| - Pakistan investment bonds          |  | (73,560)         |  | 3,458          |  |
| - Other securities                   |  | (29,147)         |  | 2,023          |  |
| <i>Shares</i>                        |  |                  |  |                |  |
| - Listed                             |  | (290,714)        |  | 160,722        |  |
| <i>Associates</i>                    |  | (2,827)          |  | -              |  |
|                                      |  | <u>(167,618)</u> |  | <u>197,242</u> |  |

### 25. OTHER INCOME

|  |  |                  |  |                  |  |
|--|--|------------------|--|------------------|--|
| Incidental charges                     |  | 1,502,581        |  | 1,292,558        |  |
| Rent on lockers                        |  | 254,318          |  | 149,215          |  |
| Gain on sale of property and equipment |  | 29,410           |  | 41,840           |  |
| Rent on property                       |  | 68,040           |  | 111,782          |  |
| Miscellaneous earnings                 |  | 1,478,651        |  | 1,493,599        |  |
|  |  | <u>3,333,000</u> |  | <u>3,088,994</u> |  |

## Notes to the Consolidated Financial Statements

### 26. ADMINISTRATIVE EXPENSES

|   | Note | 2009<br>(Rupees in '000) | 2008              |
|---|------|--------------------------|-------------------|
| Salaries, allowances, etc.  | 26.3 | 13,142,577               | 11,793,597        |
| Charge for defined benefit / contribution plan and other benefits |      | (138,302)                | 470,304           |
| Non-executive directors' fees, allowances and other expenses      |      | 12,880                   | 11,200            |
| Brokerage and commission  |      | 11,953                   | 13,476            |
| Rent, taxes, insurance, electricity, etc                          |      | 2,171,057                | 1,919,993         |
| Legal and professional charges                                    |      | 827,227                  | 763,018           |
| Communications  |      | 419,914                  | 417,599           |
| Repairs and maintenance   |      | 891,145                  | 728,718           |
| Stationery and printing   |      | 595,479                  | 413,739           |
| Auditors' remuneration  | 26.1 | 98,046                   | 92,788            |
| Advertisement and publicity                                       |      | 211,870                  | 696,203           |
| Amortisation  | 11.2 | 238,942                  | 366,965           |
| Depreciation  | 11.3 | 1,497,766                | 1,258,978         |
| Entertainment   |      | 93,393                   | 92,201            |
| Travelling  |      | 268,769                  | 322,307           |
| Conveyance and motor car  |      | 96,014                   | 93,070            |
| Training  |      | 128,195                  | 168,784           |
| Security charges  |      | 396,300                  | 351,894           |
| Remittance charges  |      | 125,560                  | 88,877            |
| Donations   | 26.4 | 48,179                   | 27,330            |
| Others  |      | 1,608,991                | 1,334,320         |
|   |      | <u>22,745,955</u>        | <u>21,425,361</u> |

#### 26.1 Auditors' remuneration

|   |               |               |
|---|---------------|---------------|
| Audit fee   | 3,273         | 2,910         |
| Fee for interim audit   | 2,979         | 2,648         |
| Fee for audit of local branches<br>of Habib Bank Limited              | 7,252         | 6,446         |
| Special certifications / examinations<br>and sundry advisory services | 1,390         | 1,330         |
| Tax services  | -             | 5,186         |
| Out of pocket expenses  | 2,745         | 2,622         |
|   | <u>17,639</u> | <u>21,142</u> |
| Overseas subsidiaries / branches and domestic subsidiaries            | 80,407        | 71,646        |
|   | <u>98,046</u> | <u>92,788</u> |

26.2 The Bank operates a short term employee benefit scheme which includes cash award / special bonus for all employees. Under this scheme, the bonus for all Executives, including the Chief Executive Officer is determined on the basis of employees' evaluation and the Bank's performance during the year. The aggregate amount determined for the eligible employees in respect of the above scheme relating to all Executives and for the Key Management Personnel of the Bank amounted to Rs. 512.950 million (2008: Rs. 528.584 million) and Rs. 366.630 million (2008: Rs. 402.124 million) respectively.

26.3 The bank has paid in addition to payments under the staff retirement funds, an amount of Rs. 1,720.420 million (2008: Rs. 561.868 million) to the staff retrenched during the year and in previous years.

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

## Notes to the Consolidated Financial Statements

|   | Note | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|---|------|--------------------------|--------------------------|
| 27. OTHER CHARGES                           |      |                          |                          |
| Penalties imposed by State Bank of Pakistan |      | 3,540                    | 64,751                   |

### 28 WORKERS WELFARE FUND

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

### 29. TAXATION

|                                       | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|---------------------------------------|--------------------------|--------------------------|
| For Pakistan - for the year - current | 6,878,293                | 7,221,777                |
| - deferred                            | (698,263)                | (1,245,956)              |
| For Pakistan - prior year - current   | (1,173,853)              | 261,895                  |
| - deferred                            | 1,778,743                | (1,227,935)              |
| For Overseas - for the year - current | 1,217,349                | 1,086,834                |
| - deferred                            | 152,924                  | -                        |
| For Overseas - prior year - current   | 78,498                   | (28,795)                 |
| - deferred                            | (252,804)                | -                        |
|                                       | <u>7,980,887</u>         | <u>6,067,820</u>         |

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

#### 29.1 Relationship between tax expense and accounting profit

|  |                  |                  |
|--|------------------|------------------|
| Accounting profit for the current year | 21,381,636       | 16,931,932       |
| Tax on income @ 35% (2008: 35%)        | 7,483,573        | 5,926,176        |
| - Reduced rate income                  | (152,100)        | (58,320)         |
| - Others                               | 649,414          | 199,964          |
| Tax charge for the current year        | <u>7,980,887</u> | <u>6,067,820</u> |

29.2 The income tax returns of Habib Bank Limited have been submitted upto and including the bank's financial year 2008. The tax authorities have concluded the audit of years 2002 through 2008.

While amending the assessments under section 122(5A) of the Income Tax Ordinance, 2001 the tax authorities have disallowed certain items including disallowance of double income tax relief relating to Azad Jammu & Kashmir (AJK) branches amounting to Rs. 2,923 million and addition on account of allocation of expenses related to exempt capital gains and dividend income resulting in additional tax liability amounting to Rs. 637 million.

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

The tax authorities allocated the total operating expenses on the basis of turnover/ income. Management's view is that the law requires that expenses should be based on specific expenditure allocated in a reasonable manner, which is based on assets deployed.

Appeals against these assessments are in process. Although the bank has made partial payment of tax assessed, under protest, no provision has been made in the financial statements for the above liabilities, as the management is confident that the eventual outcome of these issues will be in favour of the bank.

The Finance Act, 2009 has made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. Through these amendments the deduction for provisions for advances and off balance sheet items will be allowed upto 1% of total advances. The amendments introduced in the Seventh Schedule do not provide for any transitional mechanism i.e. how and when the provision for bad debts disallowed upto December 31, 2007 would be allowed as a deduction. The matter was taken up by the Pakistan Banks Association (PBA) and the Institute of Chartered Accountants of Pakistan (ICAP) with the Federal Board of Revenue (FBR). FBR vide its letter reference F.No. 4(1)ITP/2008-49 dated December 23, 2009 has informed ICAP that it has decided to insert a new Rule 8(a) in Seventh Schedule to allow for amounts provided for in tax year 2008 and prior to said tax year for doubtful debts, which were neither claimed nor allowed as tax deductible in any year shall be allowed as deduction in tax year in which such doubtful debts are written off.

However, to date no SRO has been issued to incorporate the agreed amendments to the Seventh Schedule. The Bank based on advise of its tax consultant has treated the FBR commitment as effective. Accordingly, the deferred tax asset recognized through December 31, 2007 relating to provision for advances and off balance sheet items amounting to Rs. 4.095 billion has been carried forward.

With reference to allowability of provision upto 1% of total advances, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognised deferred tax asset on such provision amounting to Rs. 2.308 billion.

### 30. BASIC AND DILUTED EARNINGS PER SHARE

|   | Note | 2009<br>(Rupees in '000) | 2008<br>(Rupees in '000) |
|---|------|--------------------------|--------------------------|
| Profit for the year attributable to equityholders of the Bank |      | 13,389,452               | 10,774,584               |
|   |      | (Number)                 |                          |
| Weighted average number of ordinary shares                    |      | 910,800,000              | 910,800,000              |
|   |      | (Rupees)                 |                          |
| Basic and diluted earnings per share                          |      | 14.70                    | 11.83                    |

## Notes to the Consolidated Financial Statements

| 31. CASH AND CASH EQUIVALENTS | Note | 2009 2008<br>(Rupees in '000)        |                   |
|-------------------------------|------|--------------------------------------|-------------------|
|                               |      | Cash and balance with treasury banks | 5                 |
| Balance with other banks      | 6    | 40,366,687                           | 39,364,297        |
|                               |      | <u>120,206,523</u>                   | <u>95,897,431</u> |

  

| 32. STAFF STRENGTH   | (Number)      |               |
|----------------------|---------------|---------------|
|                      | Permanent     | 13,190        |
| Others               | 21            | 18            |
| Total staff strength | <u>13,211</u> | <u>14,123</u> |

## 33. DEFINED BENEFIT PLANS AND OTHER BENEFITS

### 33.1 Principal actuarial assumptions

The latest actuarial valuation for pension and gratuity schemes was carried out as at December 31, 2009 using the Projected Unit Credit Actuarial Cost Method and assuming that no indexation of pension will take place. The following significant assumptions were used for the valuation of these schemes:

|   | 2009 2008<br>-----Per annum----- |     |
|---|----------------------------------|-----|
|   | Valuation discount rate          | 13% |
| Expected rate of increase in salary level | 11%                              | 12% |
| Expected rate of return on funds invested | 13%                              | 14% |

### 33.2 Pension, gratuity and benevolent fund schemes

33.2.1 Fair value of plan assets and present value of defined benefits obligations of these schemes as at December 31, 2009 are as follows:

|   | Pension                      |                  | Gratuity       |                | Benevolent      |                | Post-employment medical benefits |                    |
|---|------------------------------|------------------|----------------|----------------|-----------------|----------------|----------------------------------|--------------------|
|   | 2009                         | 2008             | 2009           | 2008           | 2009            | 2008           | 2009                             | 2008               |
|   | ----- (Rupees in '000) ----- |                  |                |                |                 |                |                                  |                    |
| Fair value of plan assets                           | 11,308,988                   | 10,235,607       | 770,148        | 651,072        | 1,170,236       | 1,276,397      | -                                | -                  |
| Present value of defined benefit obligation         | (3,823,669)                  | (3,958,503)      | (335,598)      | (357,163)      | (1,432,930)     | (1,249,439)    | -                                | -                  |
| Surplus / (deficit)                                 | 7,485,319                    | 6,277,104        | 434,550        | 293,909        | (262,694)       | 26,958         | -                                | -                  |
| Present value of unfunded obligation                | -                            | -                | -              | -              | -               | -              | (2,180,320)                      | (2,422,945)        |
| Unrecognised past service cost                      | -                            | -                | -              | -              | 188,760         | 166,364        | 107,860                          | 73,604             |
| Asset / (provision) recognised in the balance sheet | <u>7,485,319</u>             | <u>6,277,104</u> | <u>434,550</u> | <u>293,909</u> | <u>(73,934)</u> | <u>193,322</u> | <u>(2,072,460)</u>               | <u>(2,349,341)</u> |

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

| Note                             | Pension                      |                    | Gratuity         |               | Benevolent     |                  | Post-employment medical benefits |                  |
|----------------------------------|------------------------------|--------------------|------------------|---------------|----------------|------------------|----------------------------------|------------------|
|                                  | 2009                         | 2008               | 2009             | 2008          | 2009           | 2008             | 2009                             | 2008             |
|                                  | ----- (Rupees in '000) ----- |                    |                  |               |                |                  |                                  |                  |
| Current service cost             | 32,440                       | 50,844             | 496              | 118           | 14,645         | 23,556           | 16,799                           | 21,064           |
| Mark-up cost                     | 554,190                      | 506,890            | 50,003           | 30,600        | 174,921        | 149,391          | 339,212                          | 159,072          |
| Expected return on plan assets   | (1,432,985)                  | (1,113,460)        | (91,150)         | (60,238)      | (178,696)      | (134,198)        | -                                | -                |
| Other movements                  | 33.2.2.1 (361,860)           | (839,176)          | (66,373)         | 65,811        | 294,148        | (164,586)        | (276,607)                        | 865,126          |
| Contributions - employees        | -                            | -                  | -                | -             | (18,881)       | (16,476)         | -                                | -                |
| Charge / (reversal) for the year | <u>(1,208,215)</u>           | <u>(1,394,902)</u> | <u>(107,024)</u> | <u>36,291</u> | <u>286,137</u> | <u>(142,313)</u> | <u>79,404</u>                    | <u>1,045,262</u> |

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

33.2.2.1 It represents net impact of actuarial (gain) / loss, past service cost recognized in current period.

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

|                                | Pension                      |                    | Gratuity         |                  | Benevolent    |                  | Post-employment medical benefits |                  |
|--------------------------------|------------------------------|--------------------|------------------|------------------|---------------|------------------|----------------------------------|------------------|
|                                | 2009                         | 2008               | 2009             | 2008             | 2009          | 2008             | 2009                             | 2008             |
|                                | ----- (Rupees in '000) ----- |                    |                  |                  |               |                  |                                  |                  |
| Opening balance                | (6,277,104)                  | (4,882,202)        | (293,909)        | (276,713)        | (193,322)     | (34,533)         | 2,349,341                        | 1,517,413        |
| Charge / (credit) for the year | (1,208,215)                  | (1,394,902)        | (107,024)        | 36,291           | 286,137       | (142,313)        | 79,404                           | 1,045,262        |
| Contributions during the year  | -                            | -                  | (33,617)         | (53,487)         | (18,881)      | (16,476)         | -                                | -                |
| Benefits paid                  | -                            | -                  | -                | -                | -             | -                | (356,285)                        | (213,334)        |
| Closing balance                | <u>(7,485,319)</u>           | <u>(6,277,104)</u> | <u>(434,550)</u> | <u>(293,909)</u> | <u>73,934</u> | <u>(193,322)</u> | <u>2,072,460</u>                 | <u>2,349,341</u> |

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

## Notes to the Consolidated Financial Statements

### 33.2.5 Movement of present value of defined benefit obligation

|                      | Pension            |                    | Gratuity         |                  | Benevolent         |                    | Post-employment medical benefits |                    |
|----------------------|--------------------|--------------------|------------------|------------------|--------------------|--------------------|----------------------------------|--------------------|
|                      | 2009               | 2008               | 2009             | 2008             | 2009               | 2008               | 2009                             | 2008               |
|                      | (Rupees in '000)   |                    |                  |                  |                    |                    |                                  |                    |
| Opening balance      | (3,958,503)        | (5,086,147)        | (357,163)        | (325,663)        | (1,249,439)        | (1,515,402)        | (2,422,945)                      | (1,609,418)        |
| Current service cost | (32,440)           | (50,844)           | (496)            | (118)            | (14,645)           | (23,556)           | (16,799)                         | (21,064)           |
| Mark-up cost         | (554,190)          | (506,890)          | (50,003)         | (30,600)         | (174,921)          | (149,391)          | (339,212)                        | (159,072)          |
| Benefits paid        | 851,763            | 552,109            | 57,483           | 53,487           | 279,433            | 196,046            | 356,285                          | 213,334            |
| Other movements      | (130,299)          | 1,133,269          | 14,581           | (54,269)         | (273,358)          | 242,864            | 242,351                          | (846,725)          |
| Closing balance      | <u>(3,823,669)</u> | <u>(3,958,503)</u> | <u>(335,598)</u> | <u>(357,163)</u> | <u>(1,432,930)</u> | <u>(1,249,439)</u> | <u>(2,180,320)</u>               | <u>(2,422,945)</u> |

### 33.2.6 Movement of fair value of plan assets

|  | Pension           |                   | Gratuity       |                | Benevolent       |                  |
|--|-------------------|-------------------|----------------|----------------|------------------|------------------|
|  | 2009              | 2008              | 2009           | 2008           | 2009             | 2008             |
|  | (Rupees in '000)  |                   |                |                |                  |                  |
| Opening balance                        | 10,235,607        | 9,968,349         | 651,072        | 602,376        | 1,276,397        | 1,341,979        |
| Expected return on plan assets         | 1,432,985         | 1,113,460         | 91,150         | 60,238         | 178,696          | 134,198          |
| Employer contributions                 | -                 | -                 | 33,617         | 53,487         | 18,881           | 16,476           |
| Employee contributions                 | -                 | -                 | -              | -              | 18,881           | 16,476           |
| Benefits paid                          | (851,763)         | (552,109)         | (57,483)       | (53,487)       | (279,433)        | (196,046)        |
| Actuarial gain / (loss) on plan assets | 492,159           | (294,093)         | 51,792         | (11,542)       | (43,186)         | (36,686)         |
| Closing balance                        | <u>11,308,988</u> | <u>10,235,607</u> | <u>770,148</u> | <u>651,072</u> | <u>1,170,236</u> | <u>1,276,397</u> |

### 33.2.7 Actual return on plan assets

|  | Pension          |                | Gratuity       |               | Benevolent     |               |
|--|------------------|----------------|----------------|---------------|----------------|---------------|
|  | 2009             | 2008           | 2009           | 2008          | 2009           | 2008          |
|  | (Rupees in '000) |                |                |               |                |               |
| Expected return on plan assets         | 1,432,985        | 1,113,460      | 91,150         | 60,238        | 178,696        | 134,198       |
| Actuarial gain / (loss) on plan assets | 492,159          | (294,093)      | 51,792         | (11,542)      | (43,186)       | (36,686)      |
| Actual return on plan assets           | <u>1,925,144</u> | <u>819,367</u> | <u>142,942</u> | <u>48,696</u> | <u>135,510</u> | <u>97,512</u> |

### 33.2.8 Other benefits - Employee compensated absences

The liability of the Bank in respect of employee compensated absences as at December 31, 2009, amounted to Rs. 1,513.413 million (2008: Rs. 1,450.272 million). Provision for this balance is held by Bank.

The charge for the year amounting to Rs. 229.694 million (2008: Rs. 299.883 million) is included in administrative expenses (note 26 to these financial statements) under 'Charge for defined benefit plans and other benefits' account head.

## 34. DEFINED CONTRIBUTION PLAN

### HABIB BANK LIMITED (BANK)

#### 34.1 Provident Fund

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

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

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

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

The total assets of the Fund were Rs. 7,682.228 million as at December 31, 2008 (2007: Rs. 7,219.429 million) as per latest available audited financial statements.

#### 34.2 Subsidiary companies

#### 34.3 Habib Finance International Limited, Hongkong

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

##### Provident Fund

The company is required to contribute at 5% of salary of all of its employees, subject to a maximum contribution of HK \$ 1,000. Employees who earn HK \$ 5,000 or more per month are also required to contribute the same amount. Those who earn less than HK \$ 5,000 per month have an option to contribute to the fund.

##### Long Service Payment

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

#### 34.4 Habib Allied International Bank plc., United Kingdom

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

## Notes to the Consolidated Financial Statements

### 35. REMUNERATION OF DIRECTORS AND EXECUTIVES

|  | Group President / Chief Executive |               | Directors     |               | Executives       |                  |
|--|-----------------------------------|---------------|---------------|---------------|------------------|------------------|
|  | 2009                              | 2008          | 2009          | 2008          | 2009             | 2008             |
|  | (Rupees in '000)                  |               |               |               |                  |                  |
| Directors Fee                                  | -                                 | -             | 12,880        | 11,200        | -                | -                |
| Directors - Others                             | -                                 | -             | 1,934         | 957           | -                | -                |
| Managerial remuneration (including allowances) | 10,320                            | 10,320        |               |               | 2,387,725        | 2,006,787        |
| Contribution to provident and benevolent fund  | 900                               | 900           |               |               | 56,964           | 48,702           |
| Medical  | 156                               | 178           |               |               | 96,182           | 77,270           |
| House maintenance                              | 1,689                             | 261           |               |               | -                | -                |
| Utilities                                      | 288                               | 233           |               |               | -                | -                |
| Conveyance                                     | 195                               | 397           |               |               | -                | -                |
|  | <u>13,548</u>                     | <u>12,289</u> | <u>14,814</u> | <u>12,157</u> | <u>2,540,871</u> | <u>2,132,759</u> |
| Number of persons                              | <u>1</u>                          | <u>1</u>      | <u>7</u>      | <u>7</u>      | <u>1,206</u>     | <u>987</u>       |

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

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

### 36. RELATED PARTY TRANSACTIONS

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

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk (i.e. under the comparable uncontrolled price method) other than those under terms of employment. Details of loans and advances to related parties are given in note 9.8 to these financial statements.

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

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

|  | Note | 2009<br>(Rupees in '000) | 2008      |
|--|------|--------------------------|-----------|
| <b>Balances outstanding as at the year end</b>   |      |                          |           |
| <b>- Borrowings / Deposits from</b>  |      |                          |           |
| - Joint venture and associates   |      | 2,774,917                | 5,654,663 |
| - Retirement benefit funds   |      | 7,841,600                | 2,050,404 |
| - Companies in which directors are interested  |      | 34,573                   | 57,174    |
| - Companies in which key management personnel are nominated by the Bank as directors   |      | 104,424                  | 90,330    |
| - AKFED Group Companies  |      | 1,572,335                | 175,180   |
| - Investments in companies in which directors are interested   |      | 216,460                  | 195,444   |
| - Investment in companies in which key management personnel are nominated by the Bank as directors   |      | 34,113                   | 45,512    |
| - Receivable from defined benefit schemes  | 10   | 7,919,870                | 6,572,013 |
| - Payable to associates  |      | -                        | 55        |
| - Receivables from companies in which key management personnel are nominated by the Bank as directors  |      | 31,169                   | -         |
| - Placements with associates   |      | -                        | 228,752   |
| - Overdrawn nostro balances with joint venture and associates / companies in which key management personnel are nominated by the Bank as directors |      | 210,208                  | 617,255   |
| - Acceptances  |      | 7,966                    | -         |
| <b>Profit / expense for the year</b>   |      |                          |           |
| <b>- Interest paid</b>   |      |                          |           |
| - Joint venture and associates   |      | 106,818                  | 109,797   |
| - Retirement benefit funds   |      | 318,332                  | 7,047     |
| - Companies in which Directors are interested  |      | 162                      | 25,898    |
| - Companies in which key management personnel are nominated by the Bank as directors   |      | 5,219                    | -         |
| - AKFED Group Companies  |      | 1,845                    | 1,696     |
| - Premium paid to companies in which directors are interested  |      | 184,471                  | 225,641   |
| <b>- Interest income</b>   |      |                          |           |
| - Joint venture and associates   |      | 12,906                   | 15,144    |
| - Retirement benefit funds   |      | -                        | 36,112    |
| - Companies in which Directors are interested  |      | 80,952                   | 443       |
| - Companies in which key management personnel are nominated by the Bank as directors   |      | 421,551                  | 4,583     |
| - In respect of debts due by key management personnel  |      | 27,800                   | 29,279    |
| - Insurance claim received against branch damages  |      | -                        | 62,561    |
| - Other income from associates   |      | 746,467                  | 141,965   |
| - Impairment loss on associate   |      | 335,261                  | -         |
| - Share of profit of associates and joint venture company - net of tax   |      | 348,432                  | 407,259   |
| <b>- Dividend income</b>   |      |                          |           |
| - Companies in which Directors are interested  |      | 3,783                    | 12,000    |
| - Companies in which key management personnel are nominated by the Bank as directors   |      | 9,855                    | 9,855     |

## Notes to the Consolidated Financial Statements

### 36.1 Key Management Personnel

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

|  | 2009<br>(Rupees in '000) | 2008           |
|--|--------------------------|----------------|
| Managerial remuneration (including allowances) | 966,854                  | 909,128        |
| Contribution to provident and benevolent fund  | 16,953                   | 18,099         |
| Medical  | 25,168                   | 26,038         |
|  | <u>1,008,975</u>         | <u>953,265</u> |
| Number of persons                              | <u>148</u>               | <u>145</u>     |

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

### 37. RISK MANAGEMENT FRAMEWORK

Risk taking is central to banking activity. The Group evaluates business opportunities in terms of the risk-reward relationship. The risks that Group takes are reasonable, controlled, within its financial resources and credit competence.

The diversity of our business requires us to identify, measure and manage our risks effectively. At the Group, the risk is managed through a framework, organisational structure, risk management and monitoring processes that are closely aligned with the activities of the Group and in line with the guidelines given by the State Bank of Pakistan (SBP).

#### Risk Management Principles

The following key principles form part of our approach to risk management:

- The Board, through its subcommittee, oversees risk management, reviews and approves risk policies and tolerance limits wherever required.
- Various committees at functional level oversee the implementation of risk management policies.
- Market and Liquidity risks are managed by a well-represented Assets and Liabilities Committee (ALCO), whose members are President and CEO, heads of business groups, Chief Risk Officer, Chief Financial Officer and Head of Market risk.
- Risk Management group is headed by Chief Risk Officer, who is the secretary of the Board subcommittee on risk management.
- Credit policy committee and Operational risk committee are responsible for defining and implementation of respective policies.
- The Management Risk Committee represented by Heads of various risk groups allows the Group to manage Credit, Market and Operational risk on an integrated basis.
- The structure of Risk Management group is closely aligned with the structure of Group's business segments.
- The risk management function is independent of business groups / divisions.
- Independent risk review function is conducted by our Business risk review department operating under Internal Audit function which reports directly to The Board Audit committee.

#### Credit Risk Management

Credit risk is the risk of loss due to the failure of a borrower to meet its credit obligations in accordance with agreed contract terms.

Credit risk makes up the largest part of Group's risk exposures. The Group's credit process is guided by centrally established credit policies, rules and guidelines continuing a close-to-the market approach with an aim to maintain a well-diversified portfolio of credit risk which produces a reliable and consistent return.

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

- an independent risk management function
- multiple credit approvers
- an independent audit and risk review function.

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

Salient features of our Risk approval process are delineated below:

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

Certain groups of exposures /facilities are managed under product programs which are approved by various level of approving authorities as defined in the credit policy manual. Each product program contains detailed credit criteria, regulatory, compliance and documentation requirement.

The Group uses risk rating system to supplement the credit risk measurement procedure for exposures exceeding a certain threshold. Risk rating of counterparties is an essential requirement of credit approval process. Risk management group validates the individual risk rating. The Group is currently involved with external consultants to introduce more effective Risk Rating methodology that will align closely with the Basel II IRB guidelines.

Stress testing on the credit portfolio is performed according to the guidelines issued by SBP at defined frequency.

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

The Group monitors its credit portfolio on continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of our credit culture and is intended to ensure that greater attention is paid to such exposure. The bank has an established Asset Remedial Division to focus on expediting recoveries from problem credits. The division negotiates with problem borrowers and recommends restructuring and rescheduling of stuck up loans to the senior management. Cases where the possibilities of economically viable means of recovery are exhausted, legal proceedings are initiated.

The Group follows the guidelines of SBP or the Regulators under which it is operating in other countries for the classification / write off procedures relating to problem loans.

## Notes to the Consolidated Financial Statements

### Country Risk

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

### Market Risk Management

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

Market risk at Group is managed by the Risk Management Group under the supervision of ALCO supported by Treasury Middle Office (TMO).

The Group carries a limited amount of Market risk, the bulk is located in the banking book stemming from the mismatches in structural assets and liabilities positions.

Tolerance limits for market risk are approved by the Board. The limit is further allocated to banking and trading book that is monitored at pre defined frequencies. Risk measurement is currently based on sensitivity analysis and stress testing. Negotiations are in process with vendors for acquiring robust systems to introduce more sophisticated methodologies including Value at Risk .

### Derivatives

SBP has granted permission to financial institutions for dealing in Derivatives. Transactions currently permitted include Foreign Currency Options (FXCO), Forward Rate Agreements (FRA), Interest Rate Swaps (IRS) and Cross Currency Interest Rate Swaps (CCIRS). At present the Group is dealing in FXCO CCIRS and IRS on a very limited scale on purely back to back basis without carrying any open position in its books. Policies in line with SBP instructions have been formulated and are operative.

### Interest Rate Risk

Interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates i.e. the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship.

Substantial part of the Group's assets and liabilities are subject to floating rates hence are re-priced simultaneously. However, the Group is exposed to interest rate risk as a result of mismatches on a relatively small portion of its assets and liabilities. The major portion related to this risk is reflected in the banking book owing to the retail activities and investments qualifying for statutory reserve requirements. The overall potential impact of the mismatches on the earnings in short term and economic value of the portfolio in the long term is not material and is being managed with in the tolerance limits approved by the Board.

The Group uses simulation and duration gap models to measure and monitor the interest rate sensitivity on the potential earnings and Group's economic value.

### Foreign Exchange Risk

The Group's assets are typically funded in the same currency as that of the business transacted to eliminate foreign exchange exposure. However the Group is obliged to maintain a reasonable open position in various currencies resulting from the sizeable trade related transactions handled across the Group.

Foreign Exchange risks are controlled and monitored through the limits approved by ALCO with in the overall limits advised by SBP. The regulatory limit for foreign exchange is relatively small compared to the size of the Group, hence the risk generated through Foreign exchange activities is insignificant.

End of the day positions are marked to market daily according to the guidelines of SBP and sensitivity is conducted in line with the internal market risk policy of the Group. The intra- day positions are managed by treasury through stop loss / dealers limits. Going forward the Group will adopt VAR approaches to measure and monitor Foreign exchange risk.

### Liquidity Risk Management

Liquidity Risk is the risk that the Group will be unable to meet its cash flow obligations as they become due, because of an inability to liquidate assets, or to obtain adequate funding.

ALCO has the responsibility for the formulation of overall strategy and oversight of the asset liability management function.

The Group follows a comprehensive liquidity risk management policy duly approved by ALCO and Board. The policy stipulates maintenance of various ratios, funding preferences, and evaluation of Group's liquidity under normal and crisis situation (stress testing). To comply with the policy the Group has also conducted a behavioural study on its open ended deposits to evaluate their stickiness, which may not reflect in their maturity profile. Such evaluation forms part of liquidity management process to realistically project the reliance on such funding sources. As a result of close monitoring and strict policy towards reliance on core deposit, the Group has been able to avoid concentration / reliance on volatile deposit in its books. A comprehensive contingency plan to deal with crisis situation is also in place.

### Operational Risk

In line with the approved Operational Risk Management Policy, Group has instituted an Operational Risk Management Department. This department is currently in the process of finalizing a detailed ORM Framework with the support of external consultants in line with the Group's strategic direction to move from the current Basic Indicator Approach (BIA) towards a relatively advanced approach i.e. Alternative Standardized Approach (ASA).

The ORM Framework is expected to address all the significant areas of ORM within the Group including Risk Control Self Assessment (RCSA), Key Risk Indicators, Operational Loss Data Management, Operational Risk Reporting, Capital Calculation etc. As an important tool for operational risk assessment, a detailed RCSA exercise is being conducted within the Group, the results of which will be continually evaluated against the losses and Key Risk Indicators (KRI) data to be collected.

### Risk Management alignment with Basel II project

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

## Notes to the Consolidated Financial Statements

### 38. CAPITAL ADEQUACY

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

#### 38.1 Regulatory Capital Base

|   | 2009<br>(Rupees in '000) | 2008<br>(Restated) |
|---|--------------------------|--------------------|
| <b>Tier 1 Capital</b>   |                          |                    |
| 1.1 Fully Paid-up capital   | 9,108,000                | 7,590,000          |
| 1.2 General Reserves as disclosed on the Balance Sheet  | 18,544,576               | 17,282,098         |
| 1.3 Un-appropriated / un-remitted profits (net of accumulated losses, if any)   | 38,498,335               | 31,933,178         |
| 1.4 Minority interest   | 1,143,241                | 890,099            |
|   | 67,294,152               | 57,695,375         |
| <b>Deductions:</b>  |                          |                    |
| 1.5 Book value of intangibles   | 235,123                  | 447,898            |
| 1.6 Deficit on account of revaluation of investments held in AFS category   | -                        | -                  |
| 1.7 Other deductions (50% of the amount)<br>Investments in equity and other regulatory capital of majority owned securities<br>or other financial subsidiaries not consolidated in the balance sheet                        | 441,173                  | 362,147            |
|   | 676,296                  | 810,045            |
| <b>Total eligible Tier 1 capital</b>  | 66,617,856               | 56,885,330         |
| <b>Supplementary Capital</b>  |                          |                    |
| <b>Tier 2 Capital</b>   |                          |                    |
| 2.1 General Provisions or general reserves for loan losses-up to maximum<br>of 1.25% of Risk Weighted Assets  | 723,947                  | 869,449            |
| 2.2 Revaluation Reserves up to 45%  | 3,886,973                | 296,688            |
| 2.3 Foreign Exchange Translation Reserves   | 8,982,804                | 6,373,946          |
| 2.4 Subordinated debt -upto maximum of 50% of Total eligible Tier 1 capital   | 4,212,080                | 3,954,925          |
| <b>Total tier 2 Capital</b>   | 17,805,804               | 11,495,008         |
| <b>Deductions:</b>  |                          |                    |
| 2.5 Other deductions (50% of the amount as calculated on CAP 2)<br>Investments in equity and other regulatory capital of majority owned securities<br>or other financial subsidiaries not consolidated in the balance sheet | 441,173                  | 362,147            |
|   | 441,173                  | 362,147            |
| <b>Total eligible Tier 2 Capital</b>  | 17,364,631               | 11,132,861         |
| <b>Tier 3 Capital</b>   |                          |                    |
| Eligible Tier 3 Capital   | -                        | -                  |
| <b>Committed Tier II Capital</b>  | -                        | -                  |
| <b>Total Eligible Capital (1+2+3)</b>   | 83,982,487               | 68,018,191         |

#### 38.2 Risk-Weighted Exposures

##### Credit Risk

Claims on:

Other sovereigns, GOP, PG, SBP other than PKR  
PSE's  
Banks  
Corporates  
Retail Portfolio  
Secured by residential property  
Past due loans  
Listed Equity investments  
Unlisted equity investments  
Investments in fixed assets  
Other assets

| Note                                   | Capital Requirements |             | Risk Weighted Assets |             |
|--|----------------------|-------------|----------------------|-------------|
|  | 2009                 | 2008        | 2009                 | 2008        |
|  | (Rupees in '000)     |             |                      |             |
|  | 3,421,913            | 2,017,654   | 34,219,132           | 22,418,383  |
|  | 1,890,641            | 1,515,337   | 18,906,405           | 16,837,082  |
|  | 1,768,183            | 1,680,569   | 17,681,834           | 18,672,993  |
|  | 32,481,675           | 28,556,809  | 324,816,755          | 317,297,877 |
|  | 4,310,382            | 5,772,120   | 43,103,823           | 64,134,668  |
|  | 256,513              | 200,845     | 2,565,128            | 2,231,614   |
|  | 1,524,111            | 1,166,564   | 15,241,113           | 12,961,819  |
|  | 659,640              | 434,522     | 6,596,405            | 4,828,028   |
|  | 195,257              | 226,352     | 1,952,569            | 2,515,022   |
|  | 1,653,155            | 1,287,302   | 16,531,545           | 14,303,354  |
|  | 2,819,635            | 2,154,573   | 28,196,353           | 23,939,703  |
|  | 50,981,105           | 45,012,647  | 509,811,062          | 500,140,543 |
| <b>Market Risk</b>                     |                      |             |                      |             |
| Interest Rate Risk                     | 20,289               | 25,102      | 253,612              | 313,777     |
| Equity Position Risk                   | 39,346               | 2,175       | 491,826              | 27,184      |
| Foreign Exchange Risk                  | 2,730,826            | 1,264,628   | 34,135,319           | 15,807,854  |
|  | 2,790,461            | 1,291,905   | 34,880,757           | 16,148,815  |
| <b>Operational Risk</b>                |                      |             |                      |             |
|  | 7,149,095            | 6,396,396   | 89,363,690           | 79,954,956  |
|  | 60,920,661           | 52,700,949  | 634,055,509          | 596,244,314 |
| <b>Capital Adequacy Ratio</b>          |                      |             |                      |             |
| Total eligible regulatory capital held | 38.1                 | 83,982,487  | 68,018,191           |             |
| Total risk weighted assets             | 38.2                 | 634,055,509 | 596,244,314          |             |
| Capital adequacy ratio                 |                      | 13.25%      | 11.41%               |             |

## Notes to the Consolidated Financial Statements

### 38.3 Types of Exposures and ECAI's used

| Exposures                         | JCR-VIS | PACRA | MOODYS | FITCH | STANDARD & POOR | ECA SCORES |
|-----------------------------------|---------|-------|--------|-------|-----------------|------------|
| PSE's                             | ✓       | ✓     |        |       |                 |            |
| Banks                             | ✓       | ✓     | ✓      | ✓     |                 |            |
| Corporates                        | ✓       | ✓     |        |       |                 |            |
| Sovereigns and GOP other than PKR |         |       | ✓      |       | ✓               | ✓          |

### 38.4 Credit Exposures subject to Standardised approach

| Exposures  | Rating Category | 2009               |               |              | 2008               |               |              |
|--|-----------------|--------------------|---------------|--------------|--------------------|---------------|--------------|
|  |                 | Amount Outstanding | Deduction CRM | Net exposure | Amount Outstanding | Deduction CRM | Net exposure |
|  |                 | (Rupees in '000)   |               |              | (Rupees in '000)   |               |              |
| Cash and cash equivalent                           |                 | 10,641,255         | -             | 10,641,255   | 10,079,847         | -             | 10,079,847   |
| Claims on GOP in PKR                               |                 | 168,903,957        | 27,123,265    | 141,780,692  | 105,932,717        | 5,356,423     | 100,576,294  |
| Claims on SBP arising out of statutory obligations |                 | 9,115,279          | -             | 9,115,279    | 8,251,092          | -             | 8,251,092    |
| Claims on other sovereigns and GOP other than PKR  | 1               | 6,093,287          | -             | 6,093,287    | 3,288,331          | -             | 3,288,331    |
| Claims on other sovereigns and GOP other than PKR  | 2               | 17,501,791         | -             | 17,501,791   | 6,124,419          | -             | 6,124,419    |
| Claims on other sovereigns and GOP other than PKR  | 3               | 3,345,595          | -             | 3,345,595    | 2,196,098          | -             | 2,196,098    |
| Claims on other sovereigns and GOP other than PKR  | 4,5             | 20,041,330         | -             | 20,041,330   | 16,658,557         | -             | 16,658,557   |
| Claims on other sovereigns and GOP other than PKR  | 6               | 6,073,636          | -             | 6,073,636    | 2,043,469          | -             | 2,043,469    |
| Claims on other sovereigns and GOP other than PKR  | Unrated         | -                  | -             | -            | 507,191            | -             | 507,191      |
| PSE  | 1               | 12,196,037         | 746           | 12,195,291   | 23,017,929         | 8,072,306     | 14,945,623   |
| PSE  | Unrated         | 209,210,437        | 115,588,220   | 93,622,217   | 131,661,707        | 53,312,053    | 78,349,654   |
| Banks  | 1               | 31,805,872         | 784,156       | 31,021,716   | 28,209,099         | 1,486,077     | 26,723,022   |
| Banks  | 2,3             | 5,015,390          | 2,891         | 5,012,499    | 3,627,771          | 63,175        | 3,564,596    |
| Banks  | Unrated         | 4,268,369          | 7,787         | 4,260,582    | 13,931,339         | 3,982,807     | 9,948,532    |
| Bank - three months or less                        | 1,2,3           | 43,728,930         | 9,959,245     | 33,769,685   | 39,661,037         | 8,011,599     | 31,649,438   |
| Bank - three months or less                        | Unrated         | 7,345,048          | -             | 7,345,048    | 5,356,882          | -             | 5,356,882    |
| Corporate  | 1               | 31,128,241         | 130           | 31,128,111   | 24,064,506         | 5,136         | 24,059,370   |
| Corporate  | 2               | 9,342,578          | 137,760       | 9,204,818    | 9,389,815          | 8,481         | 9,381,334    |
| Corporate  | 3,4             | 1,590,954          | 2,429         | 1,588,525    | 2,611,473          | 428,137       | 2,183,336    |
| Corporate  | Unrated         | 360,218,224        | 9,343,493     | 350,874,731  | 351,549,510        | 12,287,876    | 339,261,634  |
| Retail   |                 | 60,899,153         | 2,628,324     | 58,270,829   | 89,558,820         | 2,570,114     | 86,988,706   |
| Residential mortgage                               |                 | 7,328,936          | -             | 7,328,936    | 6,376,039          | -             | 6,376,039    |
| Past due loans                                     |                 | 14,814,118         | -             | 14,814,118   | 12,826,275         | -             | 12,826,275   |
| Listed equity and regulatory capital instruments   |                 | 6,596,405          | -             | 6,596,405    | 4,828,028          | -             | 4,828,028    |
| Unlisted equity                                    |                 | 1,301,713          | -             | 1,301,713    | 1,676,681          | -             | 1,676,681    |
| Fixed assets                                       |                 | 16,531,545         | -             | 16,531,545   | 14,303,354         | -             | 14,303,354   |
| Other assets                                       |                 | 28,196,353         | -             | 28,196,353   | 23,939,703         | -             | 23,939,703   |
|  |                 | 1,093,234,433      | 165,578,446   | 927,655,987  | 941,671,689        | 95,584,184    | 846,087,505  |

### 38.5 Capital management

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

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

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

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

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

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

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

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

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

### 38.6 The comparatives have been restated based on clarification issued by the State Bank of Pakistan and restatements as explained in note 8.5.1.



Notes to the Consolidated Financial Statements

41. YIELD / INTEREST RATE RISK

41.1 Interest rate risk management

A high proportion of loans and advances portfolio of the Group comprises of working capital finances which are re-priced on a three monthly basis. The Group's interest / mark-up rate risk is limited since the majority of customers deposits are retrospectively re-priced on a six monthly basis on the profit and loss sharing principles.

| Effective yield / interest rate                         | 2009                             |                |                          |                          |                             |                       |                         |                          |                        |                | Not exposed to yield / interest risk |
|---|----------------------------------|----------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|------------------------|----------------|--------------------------------------|
|   | Exposed to yield / interest risk |                |                          |                          |                             |                       |                         |                          |                        |                |                                      |
|   | Total                            | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | Over five to ten years | Over ten years |                                      |
|   | (Rupees in '000)                 |                |                          |                          |                             |                       |                         |                          |                        |                |                                      |
| <b>On-balance sheet assets</b>                          |                                  |                |                          |                          |                             |                       |                         |                          |                        |                |                                      |
| <b>Financial assets</b>                                 |                                  |                |                          |                          |                             |                       |                         |                          |                        |                |                                      |
| Cash and balances with treasury banks                   | 1.30%                            | 79,839,836     | 21,448,569               | 387,775                  | 2,512,007                   | -                     | -                       | -                        | -                      | -              | 55,491,485                           |
| Balances with other banks                               |                                  | 40,366,687     | 28,396,818               | 4,648,490                | 3,432,981                   | -                     | -                       | -                        | -                      | -              | 3,888,398                            |
| Lendings to financial institutions                      | 11.57%                           | 5,352,873      | 4,766,397                | 586,476                  | -                           | -                     | -                       | -                        | -                      | -              | -                                    |
| Investments   | 11.21%                           | 216,467,532    | 17,073,603               | 65,037,916               | 57,594,182                  | 34,724,683            | 4,577,057               | 5,471,558                | 15,261,861             | 8,149,973      | 1,260,688                            |
| Advances  | 11.43%                           | 454,662,499    | 52,848,777               | 206,415,791              | 143,631,304                 | 19,452,927            | 4,742,968               | 4,541,976                | 5,920,673              | 5,261,827      | 2,819,597                            |
| Other assets  |                                  | 31,385,235     | -                        | -                        | -                           | -                     | -                       | -                        | -                      | -              | 31,385,235                           |
|   |                                  | 828,074,662    | 124,534,164              | 277,076,448              | 207,170,474                 | 54,177,610            | 9,320,025               | 10,013,534               | 21,182,534             | 13,411,800     | 4,080,285                            |
| <b>Financial liabilities</b>                            |                                  |                |                          |                          |                             |                       |                         |                          |                        |                |                                      |
| Bills payable   |                                  | 10,041,542     | -                        | -                        | -                           | -                     | -                       | -                        | -                      | -              | 10,041,542                           |
| Borrowings from financial institutions                  | 6.43%                            | 52,542,978     | 17,374,095               | 14,013,595               | 14,512,165                  | 354,688               | 708,659                 | 1,363,820                | 2,224,105              | 1,991,851      | -                                    |
| Deposits and other accounts                             | 4.79%                            | 682,750,079    | 68,080,119               | 67,111,030               | 332,941,907                 | 38,310,026            | 7,910,516               | 8,947,712                | 40,765,685             | 21,399,467     | 19,958,774                           |
| Sub-ordinated loans                                     | 2.25%                            | 4,212,080      | -                        | -                        | 4,212,080                   | -                     | -                       | -                        | -                      | -              | -                                    |
| Other liabilities                                       |                                  | 29,139,403     | -                        | -                        | -                           | -                     | -                       | -                        | -                      | -              | 29,139,403                           |
|   |                                  | 778,686,082    | 85,454,214               | 81,124,625               | 351,666,152                 | 38,664,714            | 8,619,175               | 10,311,532               | 42,989,790             | 23,391,318     | 19,958,774                           |
| <b>On-balance sheet gap</b>                             |                                  | 49,388,580     | 39,079,950               | 195,951,823              | (144,495,678)               | 15,512,896            | 700,850                 | (297,998)                | (21,807,256)           | (9,979,518)    | (15,878,489)                         |
| <b>Non - financial net assets</b>                       |                                  | 34,981,218     | -                        | -                        | -                           | -                     | -                       | -                        | -                      | -              | (9,398,000)                          |
| <b>Total net assets</b>                                 |                                  | 84,369,798     | -                        | -                        | -                           | -                     | -                       | -                        | -                      | -              | -                                    |
| <b>Off-balance sheet financial instruments</b>          |                                  |                |                          |                          |                             |                       |                         |                          |                        |                |                                      |
| Foreign currency forward purchases                      |                                  | 43,970,316     | 23,800,113               | 15,422,211               | 4,138,582                   | 609,410               | -                       | -                        | -                      | -              | -                                    |
| Foreign currency forward sales                          |                                  | (43,978,039)   | (26,209,924)             | (10,670,786)             | (7,097,329)                 | -                     | -                       | -                        | -                      | -              | -                                    |
| Interest rate swaps - long position                     |                                  | 456,208        | -                        | -                        | -                           | 35,000                | -                       | -                        | -                      | 421,208        | -                                    |
| Interest rate swaps - short position                    |                                  | (456,208)      | -                        | -                        | -                           | (35,000)              | -                       | -                        | -                      | (421,208)      | -                                    |
| Forward currency options - long position                |                                  | 2,556,776      | 1,653,860                | 902,916                  | -                           | -                     | -                       | -                        | -                      | -              | -                                    |
| Forward currency options - short position               |                                  | (2,556,776)    | (1,653,860)              | (902,916)                | -                           | -                     | -                       | -                        | -                      | -              | -                                    |
| <b>Off-balance sheet gap</b>                            |                                  | (7,723)        | (2,409,811)              | 4,751,425                | (2,958,747)                 | 609,410               | -                       | -                        | -                      | -              | -                                    |
| <b>Total yield / interest risk sensitivity gap</b>      |                                  | 36,670,139     | 200,703,248              | (147,454,425)            | 16,122,306                  | 700,850               | (297,998)               | (21,807,256)             | (9,979,518)            | (15,878,489)   | (9,398,000)                          |
| <b>Cumulative yield / interest risk sensitivity gap</b> |                                  | 36,670,139     | 237,373,387              | 89,918,962               | 106,041,268                 | 106,742,118           | 106,444,120             | 84,636,864               | 74,657,346             | 58,778,857     | 49,380,857                           |

| Effective yield / interest rate                         | 2008                             |                |                          |                          |                             |                       |                         |                          |                        |                | Not exposed to yield / interest risk |
|---|----------------------------------|----------------|--------------------------|--------------------------|-----------------------------|-----------------------|-------------------------|--------------------------|------------------------|----------------|--------------------------------------|
|   | Exposed to yield / interest risk |                |                          |                          |                             |                       |                         |                          |                        |                |                                      |
|   | Total                            | Upto one month | Over one to three months | Over three to six months | Over six months to one year | Over one to two years | Over two to three years | Over three to five years | Over five to ten years | Over ten years |                                      |
|   | (Rupees in '000)                 |                |                          |                          |                             |                       |                         |                          |                        |                |                                      |
|   | (Restate)                        |                |                          |                          |                             |                       |                         |                          |                        |                |                                      |
| <b>On-balance sheet assets</b>                          |                                  |                |                          |                          |                             |                       |                         |                          |                        |                |                                      |
| <b>Financial assets</b>                                 |                                  |                |                          |                          |                             |                       |                         |                          |                        |                |                                      |
| Cash and balances with treasury banks                   | 3.04%                            | 56,533,134     | 10,726,895               | 538,385                  | -                           | 93,989                | 238,788                 | -                        | -                      | -              | 44,935,077                           |
| Balances with other banks                               |                                  | 39,364,297     | 29,639,379               | 5,709,116                | 280,000                     | 238,724               | -                       | -                        | -                      | -              | 3,497,078                            |
| Lendings to financial institutions                      | 11.93%                           | 6,193,787      | 5,186,863                | 1,006,924                | -                           | -                     | -                       | -                        | -                      | -              | -                                    |
| Investments   | 10.26%                           | 129,833,446    | 46,500,989               | 10,028,778               | 11,108,080                  | 3,214,732             | 8,408,979               | 6,052,859                | 28,908,331             | 8,107,878      | 1,070,901                            |
| Advances  | 12.71%                           | 456,355,507    | 55,182,285               | 238,061,213              | 119,198,845                 | 19,332,302            | 6,641,683               | 4,655,520                | 3,634,222              | 4,136,744      | 4,486,778                            |
| Other assets  |                                  | 30,122,245     | -                        | -                        | -                           | -                     | -                       | -                        | -                      | -              | 30,122,245                           |
|   |                                  | 718,402,416    | 147,236,411              | 255,344,416              | 130,586,925                 | 22,879,747            | 15,289,450              | 10,708,379               | 32,542,553             | 12,244,622     | 5,557,679                            |
| <b>Financial liabilities</b>                            |                                  |                |                          |                          |                             |                       |                         |                          |                        |                |                                      |
| Bills payable   |                                  | 9,828,082      | -                        | -                        | -                           | -                     | -                       | -                        | -                      | -              | 9,828,082                            |
| Borrowings from financial institutions                  | 5.76%                            | 46,961,165     | 17,876,101               | 15,706,062               | 7,708,875                   | 336,242               | 1,025,125               | 1,297,512                | 1,777,039              | 1,234,209      | -                                    |
| Deposits and other accounts                             | 5.21%                            | 597,090,545    | 83,814,337               | 77,763,557               | 274,262,096                 | 40,832,023            | 3,814,031               | 4,591,742                | 30,950,690             | 15,407,501     | 51,145,343                           |
| Sub-ordinated loans                                     | 4.12%                            | 3,954,925      | -                        | -                        | -                           | 3,954,925             | -                       | -                        | -                      | -              | -                                    |
| Other liabilities                                       |                                  | 25,339,836     | -                        | -                        | -                           | -                     | -                       | -                        | -                      | -              | 25,339,836                           |
|   |                                  | 683,174,553    | 101,690,438              | 93,469,619               | 281,970,971                 | 45,123,190            | 4,839,156               | 5,889,254                | 32,727,729             | 16,641,710     | 14,509,225                           |
| <b>On-balance sheet gap</b>                             |                                  | 35,227,863     | 45,545,973               | 161,874,797              | (151,384,046)               | (22,243,443)          | 10,450,294              | 4,819,125                | (185,176)              | (4,397,088)    | (8,951,546)                          |
| <b>Non - financial net assets</b>                       |                                  | 31,080,724     | -                        | -                        | -                           | -                     | -                       | -                        | -                      | -              | (301,027)                            |
| <b>Total net assets</b>                                 |                                  | 66,308,587     | -                        | -                        | -                           | -                     | -                       | -                        | -                      | -              | -                                    |
| <b>Off-balance sheet financial instruments</b>          |                                  |                |                          |                          |                             |                       |                         |                          |                        |                |                                      |
| Foreign currency forward purchases                      |                                  | 26,840,479     | 13,483,247               | 5,477,397                | 6,990,283                   | 889,552               | -                       | -                        | -                      | -              | -                                    |
| Foreign currency forward sales                          |                                  | (26,722,359)   | (14,001,069)             | (4,063,364)              | (8,000,774)                 | (657,152)             | -                       | -                        | -                      | -              | -                                    |
| Interest rate swaps - long position                     |                                  | 35,000         | -                        | -                        | -                           | -                     | 35,000                  | -                        | -                      | -              | -                                    |
| Interest rate swaps - short position                    |                                  | (35,000)       | -                        | -                        | -                           | -                     | (35,000)                | -                        | -                      | -              | -                                    |
| Forward currency options - long position                |                                  | 123,241        | -                        | 30,439                   | 85,378                      | 7,424                 | -                       | -                        | -                      | -              | -                                    |
| Forward currency options - short position               |                                  | (123,241)      | -                        | (30,439)                 | (85,378)                    | (7,424)               | -                       | -                        | -                      | -              | -                                    |
| <b>Off-balance sheet gap</b>                            |                                  | 118,120        | (517,822)                | 1,414,033                | (1,010,491)                 | 232,400               | -                       | -                        | -                      | -              | -                                    |
| <b>Total yield / interest risk sensitivity gap</b>      |                                  | 45,028,151     | 163,288,830              | (152,394,537)            | (22,011,043)                | 10,450,294            | 4,819,125               | (185,176)                | (4,397,088)            | (8,951,546)    | (301,027)                            |
| <b>Cumulative yield / interest risk sensitivity gap</b> |                                  | 45,028,151     | 208,316,981              | 55,922,444               | 33,911,401                  | 44,361,695            | 49,180,820              | 48,995,644               | 44,598,556             | 35,647,010     | 35,345,983                           |

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments are based on quoted market prices and unquoted investments are estimated using the break-up value / cost. Fair value of these investments has been disclosed in note 8. Fair value of fixed term loan, other assets and other liabilities cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Group's accounting policy as stated in note 4.6. The maturity and repricing profile and effective rates are stated in notes 40 and 41 respectively

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

43. CONCENTRATION OF CREDIT AND DEPOSITS

43.1 Concentration of credit risk

Out of the total financial assets of Rs 828,074.662 million, financial assets which were subject to credit risk amounted to Rs 817,433.407 million. The Group's major credit risk is concentrated in the textile sector.

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

|   | 2009             |
|---|------------------|
|   | (Rupees in '000) |
| Guaranteed by the Government of Pakistan                                      |                  |
| Investments   | 172,292,074      |
| Loans and advances  | 56,528,508       |
| Mark-up receivable on government guaranteed financial assets                  | 4,274,739        |
|   | 233,095,321      |
| Financial assets receivable from enterprises owned / controlled by Government | 51,025,018       |
| Guaranteed by overseas Governments  | 14,680,379       |
| Financial assets receivable from State Bank of Pakistan                       | 35,248,633       |
| Financial assets receivable from other Central Banks                          | 28,745,976       |
|   | 362,795,327      |

## Notes to the Consolidated Financial Statements

### 43.2 Segment by class of business

|   | 2009               |               |                    |               |                               |               |
|---|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
|   | Gross advances     |               | Deposits           |               | Contingencies and commitments |               |
|   | (Rupees in '000)   | Percent       | (Rupees in '000)   | Percent       | (Rupees in '000)              | Percent       |
| Chemical and pharmaceuticals            | 24,676,182         | 5.04          | 1,484,310          | 0.22          | 8,634,311                     | 3.96          |
| Agribusiness                            | 23,038,847         | 4.70          | 6,444,614          | 0.94          | 1,760,899                     | 0.81          |
| Textile                                 | 83,928,100         | 17.13         | 3,863,903          | 0.57          | 10,715,093                    | 4.92          |
| Cement                                  | 15,782,815         | 3.22          | 334,162            | 0.05          | 1,489,104                     | 0.68          |
| Sugar                                   | 3,261,614          | 0.67          | 580,556            | 0.09          | 1,254,731                     | 0.58          |
| Shoes and leather garments              | 2,134,380          | 0.44          | 381,744            | 0.06          | 386,736                       | 0.18          |
| Automobile and transportation equipment | 9,920,929          | 2.02          | 4,867,951          | 0.71          | 3,506,818                     | 1.61          |
| Financial                               | 14,762,836         | 3.01          | 6,753,226          | 0.99          | 33,507,347                    | 15.38         |
| Insurance                               | 837,635            | 0.17          | 2,222,077          | 0.33          | -                             | -             |
| Electronics and electrical appliances   | 13,127,762         | 2.68          | 2,256,162          | 0.33          | 3,611,997                     | 1.66          |
| Production and transmission of energy   | 38,684,080         | 7.89          | 14,630,830         | 2.14          | 23,753,347                    | 10.90         |
| Education & medical                     | 17,164             | -             | 3,453,750          | 0.51          | 225,793                       | 0.10          |
| Telecommunication                       | 19,485,472         | 3.98          | 1,270,826          | 0.19          | 5,971,395                     | 2.74          |
| Printing & publishing                   | 3,021,694          | 0.62          | 188,425            | 0.03          | 1,017,294                     | 0.47          |
| Construction                            | 3,269,600          | 0.67          | 2,180,608          | 0.32          | 607,432                       | 0.28          |
| Mining & quarrying                      | 2,027,309          | 0.41          | 539,082            | 0.08          | 172,485                       | 0.08          |
| Food, tobacco and beverages             | 7,159,979          | 1.46          | 1,140,525          | 0.17          | 2,863,042                     | 1.31          |
| Public / Government - note 43.2.1       | 101,076,558        | 20.63         | 115,234,701        | 16.88         | 83,998,398                    | 38.54         |
| Whole sale & retail trade               | 34,667,354         | 7.07          | 19,247,862         | 2.82          | 4,240,886                     | 1.95          |
| Metal and allied                        | 5,520,867          | 1.13          | 746,210            | 0.11          | 4,098,348                     | 1.88          |
| Individual                              | 39,440,890         | 8.05          | 411,168,813        | 60.22         | 276,034                       | 0.13          |
| Farming, cattle and dairy               | 1,363,743          | 0.28          | 452,983            | 0.07          | 124,910                       | 0.06          |
| Trust funds and non profit organization | 1,489,405          | 0.30          | 24,298,924         | 3.56          | 605,123                       | 0.28          |
| Others                                  | 41,315,368         | 8.43          | 59,007,835         | 8.61          | 25,105,220                    | 11.50         |
|   | <b>490,010,583</b> | <b>100.00</b> | <b>682,750,079</b> | <b>100.00</b> | <b>217,926,743</b>            | <b>100.00</b> |

  

|   | 2008               |               |                    |               |                               |               |
|---|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
|   | Gross advances     |               | Deposits           |               | Contingencies and commitments |               |
|   | (Rupees in '000)   | Percent       | (Rupees in '000)   | Percent       | (Rupees in '000)              | Percent       |
| Chemical and pharmaceuticals            | 26,728,899         | 5.52          | 2,205,071          | 0.37          | 8,224,930                     | 4.21          |
| Agribusiness                            | 24,740,282         | 5.11          | 6,208,001          | 1.04          | 855,998                       | 0.44          |
| Textile                                 | 91,568,249         | 18.90         | 2,628,225          | 0.44          | 8,094,918                     | 4.14          |
| Cement                                  | 15,009,760         | 3.10          | 324,179            | 0.05          | 4,591,429                     | 2.35          |
| Sugar                                   | 5,572,320          | 1.15          | 932,207            | 0.16          | 749,259                       | 0.38          |
| Shoes and leather garments              | 2,491,605          | 0.51          | 181,473            | 0.03          | 316,870                       | 0.16          |
| Automobile and transportation equipment | 11,341,744         | 2.34          | 2,701,291          | 0.45          | 2,483,923                     | 1.27          |
| Financial                               | 25,302,540         | 5.22          | 6,480,438          | 1.09          | 26,467,603                    | 13.55         |
| Insurance                               | 463,413            | 0.10          | 3,515,820          | 0.59          | -                             | -             |
| Electronics and electrical appliances   | 10,778,589         | 2.22          | 772,652            | 0.13          | 11,259,490                    | 5.76          |
| Production and transmission of energy   | 38,097,605         | 7.86          | 15,640,364         | 2.62          | 20,539,980                    | 10.52         |
| Education & medical                     | 63,610             | 0.01          | 2,700,481          | 0.45          | 138,729                       | 0.07          |
| Telecommunication                       | 20,218,777         | 4.17          | 569,941            | 0.10          | 4,118,847                     | 2.11          |
| Printing & publishing                   | 3,717,052          | 0.77          | 313,784            | 0.05          | 421,932                       | 0.22          |
| Construction                            | 3,952,525          | 0.82          | 3,864,028          | 0.65          | 520,507                       | 0.27          |
| Mining & quarrying                      | 2,354,443          | 0.49          | 16,268             | -             | 3,450                         | -             |
| Food, tobacco and beverages             | 7,573,848          | 1.56          | 1,279,803          | 0.21          | 1,574,261                     | 0.81          |
| Public / Government - note 43.2.1       | 70,098,737         | 14.47         | 101,086,610        | 16.93         | 70,885,460                    | 36.29         |
| Whole sale & retail trade               | 40,138,013         | 8.29          | 25,567,935         | 4.28          | 8,095,883                     | 4.15          |
| Metal and allied                        | 7,079,149          | 1.46          | 492,788            | 0.08          | 2,725,901                     | 1.40          |
| Individual                              | 35,023,930         | 7.23          | 359,375,895        | 60.19         | 806,910                       | 0.41          |
| Farming, cattle and dairy               | 1,449,361          | 0.30          | 391,565            | 0.07          | 163,014                       | 0.08          |
| Trust funds and non profit organization | 631,741            | 0.13          | 14,456,536         | 2.42          | 663,203                       | 0.34          |
| Others                                  | 40,055,712         | 8.27          | 45,385,190         | 7.60          | 21,611,423                    | 11.07         |
|   | <b>484,451,904</b> | <b>100.00</b> | <b>597,090,545</b> | <b>100.00</b> | <b>195,313,920</b>            | <b>100.00</b> |

## Notes to the Consolidated Financial Statements

### 43.2.1 Public / Government sector

|   | 2009               |               |                    |               |                               |               |
|---|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
|   | Gross advances     |               | Deposits           |               | Contingencies and commitments |               |
|   | (Rupees in '000)   | Percent       | (Rupees in '000)   | Percent       | (Rupees in '000)              | Percent       |
| Chemical and pharmaceuticals            | -                  | -             | 91,505             | 0.08          | -                             | -             |
| Agribusiness                            | 54,131,536         | 53.55         | 946,660            | 0.82          | 15                            | -             |
| Textile                                 | -                  | -             | 3                  | -             | -                             | -             |
| Cement                                  | -                  | -             | 51                 | -             | -                             | -             |
| Automobile and transportation equipment | 8,944,850          | 8.85          | 1,612,552          | 1.40          | 719,293                       | 0.86          |
| Financial                               | 3,159,448          | 3.13          | 1,937,264          | 1.68          | -                             | -             |
| Insurance                               | -                  | -             | 2,640,681          | 2.29          | 1,200                         | -             |
| Production and transmission of energy   | 27,578,814         | 27.29         | 19,472,576         | 16.90         | 20,313,254                    | 24.18         |
| Education & medical                     | 296,201            | 0.29          | 19,029,421         | 16.51         | 228,426                       | 0.27          |
| Telecommunication                       | -                  | -             | 1,342,603          | 1.17          | 66,442                        | 0.08          |
| Printing & publishing                   | -                  | -             | 20,100             | 0.02          | -                             | -             |
| Construction                            | -                  | -             | 16,857             | 0.01          | 15,858                        | 0.02          |
| Whole sale & retail trade               | 597,160            | 0.59          | -                  | -             | -                             | -             |
| Metal and allied                        | 1,114,472          | 1.10          | 1,150,889          | 1.00          | 1,009,376                     | 1.20          |
| Farming, cattle and dairy               | -                  | -             | 4,395              | -             | -                             | -             |
| Defence                                 | 1,003,165          | 0.99          | 5,219,379          | 4.53          | 55,747,938                    | 66.37         |
| Ports and shipping                      | -                  | -             | 18,471,918         | 16.03         | 3,649,488                     | 4.34          |
| Others                                  | 4,250,912          | 4.21          | 43,277,847         | 37.56         | 2,247,108                     | 2.68          |
|   | <b>101,076,558</b> | <b>100.00</b> | <b>115,234,701</b> | <b>100.00</b> | <b>83,998,398</b>             | <b>100.00</b> |

  

|   | 2008              |               |                    |               |                               |               |
|---|-------------------|---------------|--------------------|---------------|-------------------------------|---------------|
|   | Gross advances    |               | Deposits           |               | Contingencies and commitments |               |
|   | (Rupees in '000)  | Percent       | (Rupees in '000)   | Percent       | (Rupees in '000)              | Percent       |
| Chemical and pharmaceuticals            | -                 | -             | 174,652            | 0.17          | 72,422                        | 0.10          |
| Agribusiness                            | 29,860,752        | 42.60         | 819,004            | 0.81          | 2,166                         | -             |
| Textile                                 | -                 | -             | 1                  | -             | -                             | -             |
| Cement                                  | -                 | -             | 66                 | -             | -                             | -             |
| Automobile and transportation equipment | 10,498,060        | 14.98         | 2,517,300          | 2.49          | 565,300                       | 0.80          |
| Financial                               | -                 | -             | 2,273,338          | 2.25          | 1,200                         | -             |
| Insurance                               | -                 | -             | 4,334,518          | 4.29          | -                             | -             |
| Production and transmission of energy   | 25,173,948        | 35.91         | 9,978,514          | 9.87          | 8,926,814                     | 12.59         |
| Education & medical                     | 338,911           | 0.48          | 17,987,052         | 17.79         | 121,328                       | 0.17          |
| Telecommunication                       | 150,418           | 0.21          | 618,232            | 0.61          | 54,703                        | 0.08          |
| Printing & publishing                   | 300,000           | 0.43          | 91,733             | 0.09          | -                             | -             |
| Construction                            | -                 | -             | 22,439             | 0.02          | 16,778                        | 0.02          |
| Whole sale & retail trade               | 413,153           | 0.59          | -                  | -             | 73,830                        | 0.10          |
| Metal and allied                        | 1,112,946         | 1.59          | 735,513            | 0.73          | 990,952                       | 1.40          |
| Farming, cattle and dairy               | -                 | -             | 1,412              | -             | -                             | -             |
| Defence                                 | 1,503,876         | 2.15          | 3,522,350          | 3.48          | 55,245,189                    | 77.94         |
| Ports and shipping                      | -                 | -             | 20,699,907         | 20.48         | 466,076                       | 0.66          |
| Others                                  | 746,673           | 1.06          | 37,310,579         | 36.92         | 4,348,702                     | 6.14          |
|   | <b>70,098,737</b> | <b>100.00</b> | <b>101,086,610</b> | <b>100.00</b> | <b>70,885,460</b>             | <b>100.00</b> |

## Notes to the Consolidated Financial Statements

| 43.2.2 Segment by sector | 2009               |               |                    |               |                               |               |
|--------------------------|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
|                          | Gross advances     |               | Deposits           |               | Contingencies and commitments |               |
|                          | (Rupees in '000)   | Percent       | (Rupees in '000)   | Percent       | (Rupees in '000)              | Percent       |
| Public / Government      | 101,076,558        | 20.63         | 115,234,701        | 16.88         | 83,998,398                    | 38.54         |
| Private                  | 388,934,025        | 79.37         | 567,515,378        | 83.12         | 133,928,345                   | 61.46         |
|                          | <u>490,010,583</u> | <u>100.00</u> | <u>682,750,079</u> | <u>100.00</u> | <u>217,926,743</u>            | <u>100.00</u> |

  

| 43.3 Details of non-performing advances and specific provisions by class of business segment | 2008               |               |                    |               |                               |               |
|--|--------------------|---------------|--------------------|---------------|-------------------------------|---------------|
|  | Gross advances     |               | Deposits           |               | Contingencies and commitments |               |
|  | (Rupees in '000)   | Percent       | (Rupees in '000)   | Percent       | (Rupees in '000)              | Percent       |
| Public / Government  | 70,098,737         | 14.47         | 101,086,610        | 16.93         | 70,885,460                    | 36.29         |
| Private  | 414,353,167        | 85.53         | 496,003,935        | 83.07         | 124,428,460                   | 63.71         |
|  | <u>484,451,904</u> | <u>100.00</u> | <u>597,090,545</u> | <u>100.00</u> | <u>195,313,920</u>            | <u>100.00</u> |

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

|   | 2009                |                          | 2008                |                          |
|---|---------------------|--------------------------|---------------------|--------------------------|
|   | Classified advances | Specific provisions held | Classified advances | Specific provisions held |
|   | (Rupees in '000)    |                          | (Rupees in '000)    |                          |
| Chemical and pharmaceuticals            | 483,920             | 397,684                  | 380,751             | 309,657                  |
| Agribusiness                            | 3,744,163           | 1,791,545                | 3,026,234           | 1,264,714                |
| Textile                                 | 15,279,587          | 13,511,947               | 14,183,640          | 11,714,361               |
| Cement                                  | 500,000             | 500,000                  | 500,000             | 250,000                  |
| Sugar                                   | 431,881             | 344,003                  | 514,506             | 308,041                  |
| Shoes and leather garments              | 218,981             | 156,012                  | 521,500             | 438,744                  |
| Automobile and transportation equipment | 1,283,544           | 1,163,837                | 751,239             | 430,564                  |
| Financial                               | 3,164,665           | 3,127,971                | 2,968,659           | 2,953,747                |
| Electronics and electrical appliances   | 2,707,489           | 2,400,840                | 2,801,426           | 1,409,260                |
| Production and transmission of energy   | 1,613,915           | 879,108                  | 29,281              | 27,725                   |
| Education & medical                     | 972                 | 486                      | -                   | -                        |
| Telecommunication                       | 261,470             | 260,729                  | 251,138             | 239,448                  |
| Printing & publishing                   | 117,414             | 72,471                   | 32,516              | 28,963                   |
| Construction                            | 1,804,673           | 893,531                  | 2,033,686           | 945,885                  |
| Mining & quarrying                      | 434,954             | 387,766                  | 353,066             | 147,016                  |
| Food, tobacco and beverages             | 445,767             | 407,475                  | 450,329             | 401,282                  |
| Whole sale & retail trade               | 3,705,306           | 2,741,624                | 2,833,342           | 1,904,591                |
| Metal and allied                        | 490,893             | 376,315                  | 1,157,370           | 64,909                   |
| Individual                              | 2,794,372           | 1,367,049                | 2,240,166           | 1,042,117                |
| Farming, cattle and dairy               | 256,097             | 115,388                  | 182,788             | 61,134                   |
| Trust funds and non profit organization | 967                 | 481                      | 1,805               | 1,705                    |
| Others                                  | 9,697,225           | 3,727,875                | 4,839,780           | 3,283,085                |
|   | <u>49,438,255</u>   | <u>34,624,137</u>        | <u>40,053,222</u>   | <u>27,226,948</u>        |

Notes to the Consolidated Financial Statements

44. SEGMENT DETAIL WITH RESPECT TO BUSINESS ACTIVITIES

|   | 2009                |                                |          |                             |                                | Total   |
|---|---------------------|--------------------------------|----------|-----------------------------|--------------------------------|---------|
|   | Retail banking      | Corporate / commercial banking | Treasury | International banking group | Head Office / support services |         |
|   | (Rupees in million) |                                |          |                             |                                |         |
| Net interest income - External                            | (15,281)            | 41,638                         | 10,848   | 4,578                       | 888                            | 42,671  |
| Inter segment revenue - net                               | 43,470              | (32,851)                       | (10,023) | -                           | (596)                          | -       |
| Non-funded income   | 4,066               | 2,437                          | 1,171    | 3,703                       | (218)                          | 11,159  |
| Net interest and non-mark-up income                       | 32,255              | 11,224                         | 1,996    | 8,281                       | 74                             | 53,830  |
| Total expenses including provision (excluding impairment) | 11,774              | 6,918                          | 94       | 6,218                       | 7,533                          | 32,537  |
| Impairment against investments                            | -                   | 50                             | (669)    | -                           | 530                            | (89)    |
| Inter segment administrative cost                         | 3,905               | 781                            | 113      | 430                         | (5,229)                        | -       |
| Total expenses including provision                        | 15,679              | 7,749                          | (462)    | 6,648                       | 2,834                          | 32,448  |
| Net income / (loss) before tax                            | 16,576              | 3,475                          | 2,458    | 1,633                       | (2,760)                        | 21,382  |
| Segment assets (gross)                                    | 96,577              | 421,574                        | 135,539  | 184,632                     | 63,906                         | 902,228 |
| Segment non-performing loans                              | 8,764               | 23,444                         | -        | 16,760                      | 470                            | 49,438  |
| Segment provision required including general provision    | 5,247               | 19,116                         | 667      | 12,563                      | 856                            | 38,449  |
| Segment liabilities including equity                      | 512,078             | 101,460                        | 15,142   | 120,742                     | 114,357                        | 863,779 |
| Segment return on net liability / asset (%)               | 12.43               | 14.34                          | 9.11     | 6.12                        | 2.47                           | -       |
| Segment cost of funds (%)                                 | 5.42                | 11.16                          | 7.71     | 1.56                        | 0.04                           | -       |

|   | 2008                |                                |          |                             |                                | Total   |
|---|---------------------|--------------------------------|----------|-----------------------------|--------------------------------|---------|
|   | Retail banking      | Corporate / commercial banking | Treasury | International banking group | Head Office / support services |         |
|   | (Rupees in million) |                                |          |                             |                                |         |
|   | (Restated) -        |                                |          |                             |                                |         |
| Net interest income - External                            | (7,912)             | 30,012                         | 9,170    | 4,856                       | 652                            | 36,778  |
| Inter segment revenue - net                               | 32,597              | (23,983)                       | (8,620)  | -                           | 6                              | -       |
| Non-funded income   | 3,054               | 2,833                          | 1,716    | 3,024                       | 728                            | 11,355  |
| Net interest and non-mark-up income                       | 27,739              | 8,862                          | 2,266    | 7,880                       | 1,386                          | 48,133  |
| Total expenses including provision (excluding impairment) | 11,263              | 6,881                          | (118)    | 4,678                       | 7,070                          | 29,774  |
| Impairment against investments                            | -                   | -                              | 1,354    | -                           | 73                             | 1,427   |
| Inter segment administrative cost                         | 4,067               | 1,229                          | 345      | 706                         | (6,347)                        | -       |
| Total expenses including provision                        | 15,330              | 8,110                          | 1,581    | 5,384                       | 796                            | 31,201  |
| Net income before tax                                     | 12,409              | 752                            | 685      | 2,496                       | 590                            | 16,932  |
| Segment assets (gross)                                    | 95,805              | 357,354                        | 109,269  | 157,809                     | 60,211                         | 780,448 |
| Segment non-performing loans                              | 6,733               | 21,218                         | -        | 11,216                      | 886                            | 40,053  |
| Segment provision required including general provision    | 3,434               | 12,815                         | 1,354    | 10,817                      | 2,221                          | 30,641  |
| Segment liabilities including equity                      | 442,825             | 97,640                         | 11,421   | 110,765                     | 87,156                         | 749,807 |
| Segment return on net liability / asset                   | 11.05%              | 12.87%                         | 8.99%    | 7.38%                       | 2.53%                          | -       |
| Segment cost of funds                                     | 4.37%               | 9.85%                          | 7.45%    | 2.64%                       | 0.06%                          | -       |

45. TRUST ACTIVITIES

The Group is not engaged in any significant trust activities. However, Habib Bank Limited acts as security agent for some of the term finance certificates it arranges and distributes on behalf of its customers.

46. GEOGRAPHICAL SEGMENT ANALYSIS

|                                     | 2009                   |                       |                     |                               |
|-------------------------------------|------------------------|-----------------------|---------------------|-------------------------------|
|                                     | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
|                                     | (Rupees in '000)       |                       |                     |                               |
| Pakistan                            | 19,552,019             | 691,205,991           | 50,195,383          | 190,703,427                   |
| Asia Pacific (including South Asia) | (107,367)              | 46,722,438            | 9,860,056           | 5,989,963                     |
| Europe                              | 599,490                | 58,409,776            | 9,877,230           | 10,046,806                    |
| North America                       | 20,539                 | 5,765,555             | 1,506,161           | 499,933                       |
| Middle East                         | 617,907                | 49,469,276            | 8,797,550           | 10,373,681                    |
| Others                              | 699,048                | 12,205,585            | 4,133,418           | 312,933                       |
|                                     | 21,381,636             | 863,778,621           | 84,369,798          | 217,926,743                   |

|                                     | 2008                   |                       |                     |                               |
|-------------------------------------|------------------------|-----------------------|---------------------|-------------------------------|
|                                     | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
|                                     | (Rupees in '000)       |                       |                     |                               |
|                                     | (Restated)             |                       |                     |                               |
| Pakistan                            | 14,032,276             | 596,158,482           | 39,393,507          | 165,899,307                   |
| Asia Pacific (including South Asia) | 824,545                | 40,000,781            | 8,554,137           | 6,597,057                     |
| Europe                              | 525,632                | 49,421,831            | 7,165,419           | 10,784,493                    |
| North America                       | 28,596                 | 6,817,709             | 1,396,009           | 381,279                       |
| Middle East                         | 926,205                | 47,427,850            | 6,620,073           | 11,070,674                    |
| Others                              | 594,678                | 9,980,062             | 3,179,442           | 581,110                       |
|                                     | 16,931,932             | 749,806,715           | 66,308,587          | 195,313,920                   |

## Notes to the Consolidated Financial Statements

|   | 2009             | 2008             |
|---|------------------|------------------|
|   | (Rupees in '000) |                  |
| <b>47. NET ASSETS OF SUBSIDIARY COMPANIES - Share of the Group<br/>(before intra-group elimination)</b> |                  |                  |
| Habib Allied International Bank Plc., United Kingdom  | 5,504,471        | 3,317,261        |
| Habib Finance International Limited, Hong Kong  | 447,533          | 454,227          |
| Habib Bank Financial Services (Private) Limited   | 35,692           | 19,705           |
| Habib Currency Exchange (Private) Limited   | 471,660          | 247,102          |
| First Habib Bank Modaraba   | 63,307           | 60,691           |
| HBL Asset Management Limited  | 163,006          | 146,971          |
| HBL Multi Asset Fund  | 248,481          | -                |
| HBL Income Fund   | 826,251          | -                |
| HBL Stock Fund  | 1,309,572        | 813,639          |
|   | <u>9,069,973</u> | <u>5,059,596</u> |

## 48. BALANCE SHEET OF ISLAMIC BANKING BRANCH AND FIRST HABIB BANK MODARABA

Financial figures of the Islamic Banking Branch and First Habib Bank Modaraba are as follows

|  | Note | 2009             | 2008             |
|--|------|------------------|------------------|
|  |      | (Rupees in '000) |                  |
| <b>ASSETS</b>                                |      |                  |                  |
| Cash and balances with treasury banks        |      | 8,748            | 6,441            |
| Balances with other banks                    |      | 6,585            | 22,313           |
| Investments - net                            |      | 167,283          | 62,565           |
| Murabaha                                     |      | 434,455          | -                |
| Ijara  | 48.1 | 1,024,023        | 1,354,985        |
| Musharaka                                    |      | 100,000          | 150,000          |
| Other assets                                 |      | 29,786           | 21,667           |
| Operating fixed assets                       |      | 610              | 957              |
|  |      | <u>1,771,490</u> | <u>1,618,928</u> |
| <b>LIABILITIES</b>                           |      |                  |                  |
| Borrowings from financial institutions       |      | 41,696           | 256,917          |
| Deposit and other accounts                   |      | 60,320           | 18,655           |
| Other liabilities                            |      | 832,777          | 579,649          |
|  |      | <u>934,793</u>   | <u>855,221</u>   |
| <b>NET ASSETS</b>                            |      |                  |                  |
|  |      | <u>836,697</u>   | <u>763,707</u>   |
| <b>REPRESENTED BY</b>                        |      |                  |                  |
| Islamic Banking Fund / Certificate Capital   |      | 497,072          | 497,072          |
| Reserves                                     |      | 190,924          | 186,968          |
| Unappropriated profit                        |      | 143,538          | 80,567           |
|  |      | <u>831,534</u>   | <u>764,607</u>   |
| (Deficit) / surplus on revaluation of assets |      | 5,163            | (900)            |
|  |      | <u>836,697</u>   | <u>763,707</u>   |

The commitment in respect of letters of credit of Islamic Banking branch of Habib Bank Limited amounted to Rs 136.303 million (2008: Rs. 17.402 million).

48.1 This represents fixed assets given to customers under Ijarah agreement.

## Notes to the Consolidated Financial Statements

|   | 2009<br>(Rupees in '000) | 2008          |
|---|--------------------------|---------------|
| <b>49. PROFIT AND LOSS ACCOUNT OF ISLAMIC BANKING BRANCH<br/>AND FIRST HABIB BANK MODARABA</b>  |                          |               |
| Mark-up / return / profit earned  | 651,383                  | 608,087       |
| Mark-up / return / profit expensed  | 19,429                   | 48,687        |
| Net mark-up / interest income   | 631,954                  | 559,400       |
| Provision against doubtful lease rentals  | 29,164                   | 54,959        |
| Deprciation on assets given on lease  | 304,292                  | 203,914       |
| Loss on impairment of assets given on lease   | 133,814                  | 225,270       |
| Provision against diminution in value of investments  | 9,375                    | -             |
|   | 476,645                  | 484,143       |
| Net mark-up / interest income after depreciation and provisions   | 155,309                  | 75,257        |
| <b>Non mark-up / interest income</b>  |                          |               |
| Fee, commission and brokerage income  | 1,486                    | 574           |
| Dividend income   | 886                      | 816           |
| Other income  | 5,086                    | 9,313         |
| Total non-mark-up / interest income   | 7,458                    | 10,703        |
|   | 162,767                  | 85,960        |
| <b>Non mark-up / interest expense</b>   |                          |               |
| Administrative expenses   | 19,214                   | 15,214        |
| Other charges   | 3,993                    | 3,130         |
| Total non mark-up / interest expenses   | 23,207                   | 18,344        |
| <b>Net profit for the year</b>  | <b>139,560</b>           | <b>67,616</b> |
| <b>50. CHARITY FUND</b>   |                          |               |
| Opening balance   | 2                        | -             |
| Additions during the period   | -                        | 2             |
| Payments / Utilization during the period  | (2)                      | -             |
| <b>Closing balance</b>  | <b>-</b>                 | <b>2</b>      |
| <b>50.1 Remuneration to Shariah Advisor / Board</b>   | <b>1,075</b>             | <b>210</b>    |
| <b>51. DATE OF AUTHORISATION FOR ISSUE</b>  |                          |               |
| These consolidated financial statements were authorised for issue in the Board of Directors meeting held on February 19, 2010.  |                          |               |
| <b>52. GENERAL</b>  |                          |               |
| 52.1 These financial statements have been prepared in accordance with the revised format for financial statements of Banks issued by the State Bank of Pakistan through BSD Circular No. 4 dated February 17, 2006. |                          |               |

President and Chief Executive Officer

Director

Director

Director

**Annexure I - Details of Domestic Investments**  
**As at December 31, 2009**  
**Consolidated**

**1 Particulars of Investments held in listed companies**

**1.1 Ordinary shares**

|                                      | Number of shares held | Paid-up value per share (Rupees) | Total paid-up value (Rupees in '000) | Market value     | Credit Ratings Short Term |
|--------------------------------------|-----------------------|----------------------------------|--------------------------------------|------------------|---------------------------|
| TRG Pakistan Ltd                     | 16,017,000            | 10                               | 160,170                              | 33,956           | N/A                       |
| Bank Alfalah Ltd                     | 730,000               | 10                               | 7,300                                | 10,052           | A1+                       |
| NIB Bank Ltd                         | 13,000,000            | 10                               | 130,000                              | 62,400           | A1                        |
| Arif Habib Investment Management Ltd | 376,920               | 10                               | 3,769                                | 9,348            | A1                        |
| Kot Addu Power Plant                 | 312,257               | 10                               | 3,123                                | 14,323           | N/A                       |
| Hussain Sugar Mills Ltd              | 7,018                 | 10                               | 70                                   | 154              | N/A                       |
| Habib Sugar Mills Ltd                | 11,851                | 5                                | 59                                   | 472              | N/A                       |
| Colony Sugar Mills Limited           | 1,060                 | 10                               | 11                                   | 13               | N/A                       |
| Adamjee Insurance Co Ltd             | 28                    | 10                               | 0                                    | 3                | N/A                       |
| Central Insurance Corporation        | 641                   | 10                               | 6                                    | 47               | N/A                       |
| Pakistan Cables Ltd                  | 1                     | 10                               | 0                                    | 0                | N/A                       |
| Lucky Cement Ltd                     | 500,000               | 10                               | 5,000                                | 33,120           | N/A                       |
| Pakistan State Oil                   | 300,000               | 10                               | 3,000                                | 92,066           | A1+                       |
| Pakistan Oilfields Ltd               | 99,000                | 10                               | 990                                  | 22,846           | N/A                       |
| Pakistan Petroleum Ltd               | 1,125,000             | 10                               | 11,250                               | 213,289          | N/A                       |
| Engro Chemical Ltd                   | 250,000               | 10                               | 2,500                                | 45,818           | A1+                       |
| Fauji Fertilizer Bin Qasim Ltd       | 3,000,295             | 10                               | 30,003                               | 78,398           | N/A                       |
| Hub Power Company Ltd                | 15,250,000            | 10                               | 152,500                              | 473,970          | N/A                       |
|                                      |                       |                                  | <b>509,751</b>                       | <b>1,090,274</b> |                           |

**1.2 Ordinary shares held by HBL mutual funds**

|  | Number of shares held | Paid-up value per share (Rupees) | Total paid-up value (Rupees in '000) | Market value | Credit Ratings Short Term |
|--|-----------------------|----------------------------------|--------------------------------------|--------------|---------------------------|
| Jhangir Siddiqui Company Limited           | 516,100               | 10                               | 5,161                                | 15,520       | A1+                       |
| Arif Habib Bank Limited                    | 30,000                | 10                               | 300                                  | 305          | A2                        |
| Bank Al-Falah Limited                      | 335,331               | 10                               | 3,353                                | 4,617        | A1+                       |
| MCB Bank Limited                           | 114,710               | 10                               | 1,147                                | 25,199       | A1+                       |
| National Bank of Pakistan                  | 178,535               | 10                               | 1,785                                | 13,278       | A1+                       |
| United Bank Limited                        | 62,540                | 10                               | 625                                  | 3,655        | A1+                       |
| Adamjee Insurance Company Limited          | 15,662                | 10                               | 157                                  | 1,931        | N/A                       |
| Azgard Nine Limited                        | 216,538               | 10                               | 2,165                                | 4,502        | A1                        |
| Attock Refinery Limited                    | 5,800                 | 10                               | 58                                   | 800          | A1+                       |
| National Refinery Limited                  | 75,845                | 10                               | 758                                  | 13,411       | A1+                       |
| Pakistan Refinery Limited                  | 9,929                 | 10                               | 99                                   | 1,198        | N/A                       |
| Hub Power Company Limited                  | 170,000               | 10                               | 1,700                                | 5,284        | N/A                       |
| Nishat Chunian Power Limited               | 7,460                 | 10                               | 75                                   | 77           | A1+                       |
| Kot Addu Power Company limited             | 17,228                | 10                               | 172                                  | 790          | N/A                       |
| Oil and Gas Development Company Limited    | 10,000                | 10                               | 100                                  | 1,106        | A1+                       |
| Pakistan Oilfields Limited                 | 183,874               | 10                               | 1,839                                | 42,432       | N/A                       |
| Pakistan Petroleum Limited                 | 5,000                 | 10                               | 50                                   | 948          | N/A                       |
| Attock Petroleum Limited                   | 10,200                | 10                               | 102                                  | 3,546        | N/A                       |
| Pakistan State Oil Company Limited         | 279,535               | 10                               | 2,795                                | 83,144       | A1+                       |
| Shell Pakistan Limited                     | 11,047                | 10                               | 110                                  | 2,766        | N/A                       |
| Pakistan Telecommunication Company Limited | 213,401               | 10                               | 2,134                                | 3,766        | N/A                       |
| Engro Chemical Pakistan Limited            | 66,636                | 10                               | 666                                  | 12,212       | A1+                       |
| Fauji Fertilizer Bin Qasim Limited         | 86,854                | 10                               | 869                                  | 2,270        | N/A                       |
| Engro Polymer Pakistan Limited             | 172,000               | 10                               | 1,720                                | 3,086        | N/A                       |
| PACE (Pakistan) Limited                    | 12,000                | 10                               | 120                                  | 70           | A1                        |
| Allied Bank Limited                        | 82,766                | 10                               | 828                                  | 4,860        | A1+                       |
| Askari Commercial Bank Limited             | 197,555               | 10                               | 1,976                                | 5,393        | A1+                       |
| Bank Al-Habib Limited                      | 247,152               | 10                               | 2,472                                | 8,097        | A1+                       |
| Habib Bank Limited                         | 1,070,829             | 10                               | 10,708                               | 132,184      | A1+                       |
| MCB Bank Limited                           | 65,600                | 10                               | 656                                  | 14,411       | A1+                       |
| Mezan Bank Limited                         | 163,842               | 10                               | 1,638                                | 2,579        | A1                        |

|  | Number of shares held | Paid-up value per share (Rupees) | Total paid-up value (Rupees in '000) | Market value     | Credit Ratings Short Term |
|--|-----------------------|----------------------------------|--------------------------------------|------------------|---------------------------|
| National Bank of Pakistan                      | 261,591               | 10                               | 2,616                                | 19,455           | A1+                       |
| Habib Metropolitan Bank Limited                | 126,922               | 10                               | 1,269                                | 3,953            | A1+                       |
| Samba Bank Limited                             | 224,500               | 10                               | 2,245                                | 743              | A1                        |
| Standard Chartered Bank (Pakistan) Limited     | 38,600                | 10                               | 386                                  | 345              | A1+                       |
| United Bank Limited                            | 814,477               | 10                               | 8,145                                | 47,606           | A1+                       |
| New Jubilee Life Insurance Company Limited     | 134,000               | 10                               | 1,340                                | 5,924            | N/A                       |
| Adamjee Insurance Company Limited              | 20,000                | 10                               | 200                                  | 2,466            | N/A                       |
| Nishat Mills Limited                           | 246,800               | 10                               | 2,468                                | 17,251           | A1                        |
| Attock Cement Pakistan Limited                 | 36,384                | 10                               | 364                                  | 1,892            | N/A                       |
| D. G. Khan Cement Company Limited              | 328,145               | 10                               | 3,281                                | 10,685           | N/A                       |
| Lucky Cement Limited                           | 169,100               | 10                               | 1,691                                | 11,201           | N/A                       |
| Maple Leaf Cement Limited                      | 230,300               | 10                               | 2,303                                | 866              | N/A                       |
| Attock Refinery Limited                        | 21,840                | 10                               | 218                                  | 3,012            | A1+                       |
| Pakistan Refinery Limited                      | 19,200                | 10                               | 192                                  | 2,317            | N/A                       |
| National Refinery Limited                      | 29,700                | 10                               | 297                                  | 5,251            | A1+                       |
| Hub Power Company Limited                      | 2,778,850             | 10                               | 27,789                               | 86,366           | N/A                       |
| Kot Addu Power Company Limited                 | 392,725               | 10                               | 3,927                                | 18,015           | N/A                       |
| Nishat Chunian Power Limited                   | 3,250,000             | 10                               | 32,500                               | 33,475           | A1+                       |
| Pakistan State Oil Company Limited             | 26,500                | 10                               | 265                                  | 7,882            | A1+                       |
| Shell Pakistan Limited                         | 56,650                | 10                               | 567                                  | 14,183           | N/A                       |
| Sui Northern Gas PipeLines Limited             | 372,255               | 10                               | 3,723                                | 9,232            | A1+                       |
| Mari Gas Company Limited                       | 245,408               | 10                               | 2,454                                | 33,580           | N/A                       |
| Oil and Gas Development Company Limited        | 1,182,430             | 10                               | 11,824                               | 130,788          | A1+                       |
| Pakistan Oilfields Limited                     | 421,099               | 10                               | 4,211                                | 97,177           | N/A                       |
| Pakistan Petroleum Limited                     | 688,119               | 10                               | 6,881                                | 130,461          | N/A                       |
| International Industries Limited               | 99,355                | 10                               | 994                                  | 5,831            | N/A                       |
| Indus Motor Company Limited                    | 25,556                | 10                               | 256                                  | 5,022            | N/A                       |
| Pak Suzuki Motor Company                       | 127,994               | 10                               | 1,280                                | 11,387           | N/A                       |
| Pakistan Telecommunication Company Limited-A   | 1,354,793             | 10                               | 13,548                               | 23,913           | N/A                       |
| Dawood Hercules                                | 50,365                | 10                               | 504                                  | 9,056            | N/A                       |
| Engro Chemical Pakistan Limited                | 426,480               | 10                               | 4,265                                | 78,161           | A1+                       |
| Fauji Fertilizer Bin Qasim Limited             | 1,381,850             | 10                               | 13,819                               | 36,108           | N/A                       |
| Fauji Fertilizer Company Limited               | 1,454,530             | 10                               | 14,545                               | 149,714          | N/A                       |
| Abbott Laboratories (Pakistan)                 | 105,149               | 10                               | 1,051                                | 12,746           | N/A                       |
| GlaxoSmithKline                                | 218,114               | 10                               | 2,181                                | 23,834           | N/A                       |
| BOC Pakistan Limited                           | 72,221                | 10                               | 722                                  | 9,240            | N/A                       |
| ICI Pakistan Limited                           | 22,400                | 10                               | 224                                  | 3,774            | N/A                       |
| Clariant Pakistan Limited                      | 29,542                | 10                               | 295                                  | 5,162            | N/A                       |
| Lotte Pakistan PTA Limited                     | 480,100               | 10                               | 4,801                                | 3,841            | N/A                       |
| Century Paper and Board Mills Packages Limited | 52,323                | 10                               | 523                                  | 693              | A2                        |
|  | 173,700               | 10                               | 1,737                                | 25,013           | A1+                       |
|  |                       |                                  | <b>228,240</b>                       | <b>1,511,058</b> |                           |

**Annexure I - Details of Domestic Investments**
**1.3 Units**

|                                    | Number of units held | Paid-up value per share (Rupees) | Total paid-up value (Rupees in '000) | Market value   | Credit Ratings Short Term (Refer Note) |
|------------------------------------|----------------------|----------------------------------|--------------------------------------|----------------|--|
| <b>Mutual Funds</b>                |                      |                                  |                                      |                |  |
| PICIC Investment Fund              | 11,104,508           | 10                               | 111,045                              | 64,628         | N/A                                    |
| Meezan Balanced Fund               | 2,454,000            | 10                               | 24,540                               | 14,969         | N/A                                    |
| First Dawood Mutual Fund.          | 699,998              | 10                               | 7,000                                | 1,183          | N/A                                    |
| JS - Growth Fund.                  | 13,381,363           | 10                               | 133,814                              | 66,104         | N/A                                    |
| PICIC Growth Fund                  | 214,453              | 10                               | 2,145                                | 3,058          | N/A                                    |
| Pakistan Strategic Allocation Fund | 7,500,000            | 10                               | 75,000                               | 33,300         | N/A                                    |
| First Habib Income Fund            | 152,250              | 100                              | 15,225                               | 15,724         | N/A                                    |
| IGI Income Fund                    | 100,109              | 100                              | 10,011                               | 10,563         | N/A                                    |
| Askari Asset Allocation Fund       | 254,955              | 100                              | 25,496                               | 16,047         | N/A                                    |
| Nafa Islamic Income Fund           | 1,500,000            | 10                               | 15,000                               | 10,590         | N/A                                    |
| Nafa Islamic Multi Asset Fund      | 2,500,000            | 10                               | 25,000                               | 23,475         | N/A                                    |
| KASB Balanced Fund                 | 499,201              | 50                               | 24,960                               | 22,529         | N/A                                    |
| Nafa Income Fund                   | 2,500,000            | 10                               | 25,000                               | 26,175         | N/A                                    |
| Pakistan Income Fund               | 533,860              | 50                               | 26,693                               | 28,198         | *****                                  |
| Meezan Islamic Fund                | 158,034              | 50                               | 7,902                                | 7,377          | N/A                                    |
| South Asia Regional Fund           | 5,000                | 563                              | 2,814                                | 279            | N/A                                    |
| NIT Government Bond Fund           | 5,000,000            | 10                               | 50,000                               | 50,650         | N/A                                    |
| National Investment Trust          | 716,466              | 10                               | 7,165                                | 21,839         | N/A                                    |
|                                    |                      |                                  | <b>588,808</b>                       | <b>416,689</b> |  |

**1.4 Preference Shares**

|                          | Number of Shares Held | Paid-up value per share (Rupees) | Total Paid-up value (Rupees in '000) | Market value   | Credit Ratings Short Term |
|--------------------------|-----------------------|----------------------------------|--------------------------------------|----------------|---------------------------|
| Chenab Ltd               | 10,000,000            | 10                               | 100,000                              | 70,000         | N/A                       |
| Masood Textile Mills Ltd | 10,000,000            | 10                               | 100,000                              | 100,000        | N/A                       |
|                          |                       |                                  | <b>200,000</b>                       | <b>170,000</b> |                           |

**1.5 Term finance certificates (TFCs)**

|                            | Number of certificates held | Paid-up value per certificate (Rupees) | Total paid-up value (Rupees in '000) | Market value     | Credit Ratings Short Term |
|----------------------------|-----------------------------|--|--------------------------------------|------------------|---------------------------|
| Allied Bank Ltd            | 14,277                      | 5,000                                  | 71,385                               | 63,813           | N/A                       |
| Askari Commercial Bank Ltd | 16,990                      | 5,000                                  | 84,950                               | 81,518           | N/A                       |
| Bank Al Falah Ltd          | 10,000                      | 5,000                                  | 50,000                               | 243,669          | N/A                       |
| Bank Al Habib Ltd          | 33,000                      | 5,000                                  | 165,000                              | 464,640          | N/A                       |
| Kashf Foundation           | 3,000                       | 5,000                                  | 15,000                               | 6,324            | N/A                       |
| Faysal Bank Ltd            | 15,000                      | 5,000                                  | 75,000                               | 71,627           | N/A                       |
| United Bank Ltd            | 41,525                      | 5,000                                  | 207,625                              | 182,999          | N/A                       |
| NIB Bank Ltd               | 34,950                      | 5,000                                  | 174,750                              | 160,285          | N/A                       |
| Pak Arab Fertilizer Ltd    | 165,080                     | 5,000                                  | 825,400                              | 2,652,518        | N/A                       |
| Worldcall Telecom Ltd      | 96,000                      | 5,000                                  | 480,000                              | 452,371          | N/A                       |
| Tele Card Ltd              | 50,000                      | 5,000                                  | 250,000                              | 102,242          | N/A                       |
|                            |                             |  | <b>2,399,110</b>                     | <b>4,482,005</b> |                           |

**1.6 TFCs held by HBL mutual funds**

|                                     | Number of certificates held | Paid-up value per certificate (Rupees) | Total paid-up value (Rupees in '000) | Market value   | Credit Ratings Short Term |
|-------------------------------------|-----------------------------|--|--------------------------------------|----------------|---------------------------|
| Orix Leasing Pakistan Limited       | 28,300                      | 5,000                                  | 141,500                              | 117,244        | N/A                       |
| Jahangir Siddiqui & Company Limited | 2,000                       | 5,000                                  | 10,000                               | 10,093         | N/A                       |
| Saudi Pak Leasing Company Limited   | 8,000                       | 5,000                                  | 40,000                               | 30,938         | N/A                       |
| Bank Alfalah Limited                | 4,000                       | 5,000                                  | 20,000                               | 19,519         | N/A                       |
| Bank Al Habib Limited               | 5,000                       | 5,000                                  | 25,000                               | 24,975         | N/A                       |
| Faysal Bank Limited                 | 12,758                      | 5,000                                  | 63,790                               | 60,921         | N/A                       |
| NIB Bank Limited                    | 41,000                      | 5,000                                  | 205,000                              | 186,591        | N/A                       |
| United Bank Limited                 | 34,000                      | 5,000                                  | 170,000                              | 149,807        | N/A                       |
| World Call Telecom Limited          | 23,750                      | 5,000                                  | 118,750                              | 110,429        | N/A                       |
|                                     |                             |  | <b>794,040</b>                       | <b>710,517</b> |                           |

**2 Particulars of Investment held in unlisted companies**
**2.1 Ordinary shares**

|  | Percentage of holding | Number of shares / units Held | Paid-up value per share (Rupees) | Total Paid-up value (Rupees in '000) | Break up value / NAV | Based on accounts as at | Name of Chief Executive    | Credit Ratings Short Term |
|--|-----------------------|-------------------------------|----------------------------------|--------------------------------------|----------------------|-------------------------|----------------------------|---------------------------|
| SME Bank Ltd                                       | 0.83%                 | 1,987,501                     | 10                               | 19,875                               | 19,575               | December 31, 2008       | Mr. R.A. Chughtai          | A-3                       |
| First Women Bank                                   | 26.78%                | 7,596,000                     | 10                               | 75,960                               | 304,161              | December 31, 2008       | Ms. Zarine Aziz            | A2                        |
| Khushali Bank (Micro Finance Bank)                 | 17.60%                | 30,000,000                    | 10                               | 300,000                              | 326,514              | December 31, 2008       | Mr. M. Ghalib Nishtar      | A-2                       |
| N I T Shares                                       | 8.33%                 | 52,800                        | 100                              | 5,280                                | 166,382              | June 30, 2009           | Mr. Tariq Iqbal Khan       | N/A                       |
| Central Depository Company of Pakistan Ltd         | 10.50%                | 3,173,001                     | 10                               | 31,730                               | 99,265               | June 30, 2009           | Mr. Muhammad Hanif Jhakura | N/A                       |
| National Inst. Facilitation Technologies (PVT) Ltd | 9.07%                 | 985,485                       | 10                               | 9,855                                | 50,030               | June 30, 2008           | Mr. M. M. Khan             | N/A                       |
| Saif Power Limited                                 | 16.64%                | 29,262,500                    | 10                               | 292,625                              | 476,012              | December 31, 2008       | Mr. Omar Saifullah Khan    |                           |
|  |                       |                               |                                  | <b>735,325</b>                       | <b>1,441,938</b>     |                         |                            |                           |

**2.2 Term finance certificates (TFCs)**

|                                       | No. of certificates | Paid-up value per certificate (Rupees) | Total Paid-up value (Rupees in '000) | Name of Chief Executive | Credit Ratings Short Term |
|---------------------------------------|---------------------|--|--------------------------------------|-------------------------|---------------------------|
| Lahore Electric Supply Company Ltd    | 40                  | 100,000,000                            | 4,000,000                            | Mr. Munavar Baseer      | N/A                       |
| Islamabad Electric Supply Company Ltd | 40                  | 100,000,000                            | 4,000,000                            | Mr. Raja Abdul Ghafoor  | N/A                       |
| Pakistan International Airline        |                     | 594,976                                | 5,000                                | Ch. Ahmed Mukhtar       | N/A                       |
| NTDC Limited                          |                     | 4,182,756                              | 5,000                                | Mr. Tariq Qazi          | N/A                       |
| Power Holding Pvt Ltd                 |                     | 4,396,800                              | 5,000                                | Mr. Fazeel Asif         | N/A                       |
|                                       |                     |  | <b>53,872,660</b>                    |                         |                           |

**2.3 TFCs held by HBL mutual funds**

|                                       | Number of certificates held | Paid-up value per certificate (Rupees) | Total paid-up value (Rupees in '000) | Market value   | Credit Ratings Short Term |
|---------------------------------------|-----------------------------|--|--------------------------------------|----------------|---------------------------|
| Al-Abbas Sugar Mills Limited          | 7,000                       | 5,000                                  | 35,000                               | 26,880         | N/A                       |
| Pakistan Mobile Communication Limited | 38,000                      | 5,000                                  | 190,000                              | 177,558        | N/A                       |
| Engro Chemical Limited                | 58,600                      | 5,000                                  | 293,000                              | 274,071        | N/A                       |
| Pak American Fertilizers Limited      | 2,000                       | 5,000                                  | 10,000                               | 9,800          | N/A                       |
| Kashf Foundation                      | 6,000                       | 5,000                                  | 30,000                               | 12,608         | N/A                       |
| Eden Housing Limited                  | 4,000                       | 5,000                                  | 20,000                               | 9,887          | N/A                       |
| Orix leasing                          | 220                         | 100,000                                | 22,000                               | 19,470         | N/A                       |
|                                       |                             |  | <b>600,000</b>                       | <b>530,274</b> |                           |

**Note: Credit Rating of Funds**

|       |          |
|-------|----------|
| ***** | Superior |
| ****  | Good     |
| ***   | Average  |
| **    | Weak     |
| *     | Poor     |

## Annexure I - Details of Domestic Investments

### 3 Particulars of investments held in bonds

|   | Terms of Redemption               |                   |                           | Principal<br>(Rupees in '000) |
|---|-----------------------------------|-------------------|---------------------------|-------------------------------|
|   | Principal                         | Interest / Profit | Rate of Interest / Profit |                               |
| <b>3.1 Bonds (Guaranteed by Government) - denominated in Pak Rupees</b> |                                   |                   |                           |                               |
| Low Yield Bonds   | Repayable in full on maturity     | Semi - Annual     | 9.58%                     | 3,523,940                     |
| Pakistan International Airline  | Repayable in full on maturity     | Semi - Annual     | 14.40%                    | 425,000                       |
|   |                                   |                   |                           | <b>3,948,940</b>              |
| <b>3.2 Bonds - denominated in Pak Rupees</b>                            |                                   |                   |                           |                               |
| Century Paper   | Repayable in full on maturity     | Semi - Annual     | 6 Months Kibor + 135BPS   | 400,000                       |
| Sitara Energy   | Repayable in full on maturity     | Semi - Annual     | 6 Months Kibor + 115 BPS  | 28,182                        |
| Arzoo Textile   | Repayable in full on maturity     | Semi - Annual     | 6 Months Kibor + 200 BPS  | 20,000                        |
| Quetta Textile  | Repayable in full on maturity     | Semi - Annual     | 15.78%                    | 100,000                       |
| Dawood Hercules   | Repayable in full on maturity     | Semi - Annual     | 6 Months Kibor + 120BPS   | 3,000,000                     |
|   |                                   |                   |                           | <b>3,548,182</b>              |
| <b>3.3 Sukuk bond held by HBL mutual fund</b>                           |                                   |                   |                           |                               |
| Sui Southern Gas Company Limited  | Repayable on 10 equal instalments | Quarterly         | 3 Months Kibor + 20BPS    | 30,000                        |
|   |                                   |                   |                           | <b>30,000</b>                 |
| <b>3.4 Government guaranteed bonds- denominated in US Dollars</b>       |                                   |                   |                           |                               |
| Government of Pakistan - GOP Construction Bonds                         | Annual                            | Annual            | 3 Months Libor +1%        | 750,529                       |
|   |                                   |                   |                           | <b>750,529</b>                |
| <b>3.5 Government of Pakistan bonds (US Dollar / Euro)</b>              |                                   |                   |                           |                               |
| Government of Pakistan US Dollar / Euro Bonds                           | Annual                            | Semi Annual       | 6.875%                    | 2,675,264                     |
| Government of Pakistan - Sukuk Bonds                                    | Repayable in full on maturity     | Semi Annual       | 6 Months Libor +2.2%      | 3,745,345                     |
|   |                                   |                   |                           | <b>6,420,609</b>              |

**Annexure II -** Details of Loans written-off (referred to Annexure II of Unconsolidated Financial Statements) which also form part of the audited Consolidated Financial Statements

**Annexure III - Details of Disposal of Operating Fixed Assets**

For the year ended December 31, 2009

Consolidated

| Description  | Original cost  | Accumulated depreciation | Book value    | Sale proceeds  | Mode of disposal | Particulars of buyer                           |
|--|----------------|--------------------------|---------------|----------------|------------------|--|
| ----- (Rupees in '000) -----   |                |                          |               |                |                  |  |
| <b>Land &amp; Building</b>   | <b>59,855</b>  | <b>100</b>               | <b>59,755</b> | <b>56,000</b>  |                  |  |
|  | 56,700         | -                        | 56,700        | 48,250         | Sale             | Syed Ghayas-ud-din s/o Syed Noor Kazim         |
|  | 2,645          | 100                      | 2,545         | 7,750          | Sale             | Mr. Nazir-ud-din & Mr. Muhammad Anas           |
|  | 510            | -                        | 510           | -              | Surrendered      | Messrs Sindh Industrial Trading Estate Limited |
| <b>Furniture &amp; Fixtures</b>  | <b>23,990</b>  | <b>23,990</b>            | <b>-</b>      | <b>568</b>     |                  |  |
|  | 22,705         | 22,705                   | -             | 36             | Sale             | Scrape Trader                                  |
|  | 1,285          | 1,285                    | -             | 532            | Sale             | Al futtaim Electronic                          |
| <b>Motor Vehicle</b>   | <b>10,292</b>  | <b>10,292</b>            | <b>-</b>      | <b>5,242</b>   |                  |  |
|  | 1,169          | 1,169                    | -             | 815            | Sale             | Mr. Khuram Nawaz                               |
|  | 1,869          | 1,869                    | -             | 675            | Sale             | Mr. Abdul Wajid                                |
|  | 1,634          | 1,634                    | -             | 1,380          | Sale             | Mr. Abdul Wajid                                |
|  | 1,580          | 1,580                    | -             | 1,260          | Sale             | Mr. Muhamad Kamran                             |
|  | 1,377          | 1,377                    | -             | 195            | Sale             | Mr. Abdul Hayee Ex Country Manager             |
|  | 1,438          | 1,438                    | -             | 212            | Sale             | Mr. Sarfaraz Mazher (Staff)                    |
|  | 1,225          | 1,225                    | -             | 705            | Sale             | Mr. Mohamed Farook                             |
| Assets having cost of less than Rs. 1 million and book value of less than Rs.250,000 | 253,701        | 237,815                  | 15,886        | 43,242         |                  |  |
|  | <b>346,553</b> | <b>270,912</b>           | <b>75,641</b> | <b>105,052</b> |                  |  |

**Annexure IV -** Details of Donations (referred to Annexure IV of Unconsolidated Financial Statements) which also form part of audited Consolidated Financial Statements