

HABIB BANK LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2010

2010 (US \$ in '000)	2009		Note	2010 (Rupees in '000)	2009
ASSETS					
953,332	932,309	Cash and balances with treasury banks	5	81,640,246	79,839,836
436,883	471,371	Balances with other banks	6	37,413,185	40,366,687
354,280	62,507	Lendings to financial institutions	7	30,339,344	5,352,873
2,976,634	2,527,743	Investments	8	254,909,116	216,467,532
5,368,610	5,309,202	Advances	9	459,750,012	454,662,499
188,649	195,788	Operating fixed assets	10	16,155,290	16,766,668
111,777	107,500	Deferred tax asset	11	9,572,203	9,205,944
407,769	481,835	Other assets	12	34,920,007	41,262,754
<u>10,797,934</u>	<u>10,088,255</u>			<u>924,699,403</u>	<u>863,924,793</u>
LIABILITIES					
114,146	117,257	Bills payable	13	9,775,093	10,041,542
472,459	612,744	Borrowings from financial institutions	14	40,459,860	52,542,978
8,727,272	7,972,634	Deposits and other accounts	15	747,374,799	682,750,079
50,000	50,000	Sub-ordinated loans	16	4,281,835	4,212,080
-	-	Liabilities against assets subject to finance lease		-	-
-	-	Deferred tax liability		-	-
310,112	350,414	Other liabilities	17	26,557,045	30,008,316
<u>9,673,989</u>	<u>9,103,049</u>			<u>828,448,632</u>	<u>779,554,995</u>
<u>1,123,945</u>	<u>985,206</u>	NET ASSETS		<u>96,250,771</u>	<u>84,369,798</u>
REPRESENTED BY:					
Shareholders' equity					
116,992	106,356	Share capital	18	10,018,800	9,108,000
342,792	321,444	Reserves		29,355,555	27,527,380
554,293	449,554	Unappropriated profit		47,467,704	38,498,335
1,014,077	877,354	Total equity attributable to the equity holders of the Bank		86,842,059	75,133,715
14,161	13,350	Minority interest		1,212,656	1,143,241
95,707	94,502	Surplus on revaluation of assets - net of deferred tax	19	8,196,056	8,092,842
<u>1,123,945</u>	<u>985,206</u>			<u>96,250,771</u>	<u>84,369,798</u>
CONTINGENCIES AND COMMITMENTS					
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The annexed notes 1 to 52 and annexures I to IV form an integral part of these consolidated financial statements.

President and Chief Executive Officer

Director

Director

Director

HABIB BANK LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2010

2010 (US \$ in '000)	2009 (US \$ in '000)		Note	2010 (Rupees in '000)	2009 (Rupees in '000)
949,652	888,361	Mark-up / return / interest earned	22	81,325,028	76,076,347
400,883	390,088	Mark-up / return / interest expensed	23	34,330,255	33,405,813
<u>548,769</u>	<u>498,273</u>	Net mark-up / interest income		<u>46,994,773</u>	<u>42,670,534</u>
88,775	102,696	Provision against non-performing loans and advances - net	9.4 / 9.5.1	7,602,440	8,794,560
361	(600)	Charge / (reversal) against off-balance sheet obligations	17.1	30,895	(51,396)
(557)	4,046	(Reversal) / charge against diminution in the value of investments	8.8	(47,671)	346,495
-	-	Bad debts written off directly		-	-
<u>88,579</u>	<u>106,142</u>			<u>7,585,664</u>	<u>9,089,659</u>
<u>460,190</u>	<u>392,131</u>	Net mark-up / interest income after provisions		<u>39,409,109</u>	<u>33,580,875</u>
Non mark-up / interest income					
63,439	62,082	Fee, commission and brokerage income		5,432,706	5,316,479
16,116	6,972	Income / gain on investments	24	1,380,162	597,018
37,243	22,340	Income from dealing in foreign currencies		3,189,333	1,913,115
32,232	38,920	Other income	25	2,760,230	3,333,000
<u>149,030</u>	<u>130,314</u>	Total non mark-up / interest income		<u>12,762,431</u>	<u>11,159,612</u>
<u>609,220</u>	<u>522,445</u>			<u>52,171,540</u>	<u>44,740,487</u>
Non mark-up / interest expense					
283,208	265,610	Administrative expenses	26	24,252,960	22,745,955
2,080	2,454	Other provisions / write offs - net		178,148	210,190
2,087	41	Other charges	27	178,700	3,540
6,092	4,661	Workers welfare fund	28	521,702	399,166
<u>293,467</u>	<u>272,766</u>	Total non mark-up / interest expenses		<u>25,131,510</u>	<u>23,358,851</u>
<u>315,753</u>	<u>249,679</u>	Profit before taxation		<u>27,040,030</u>	<u>21,381,636</u>
Taxation					
113,255	94,535	- current	29	9,698,783	8,095,642
7,353	(12,791)	- prior years		629,721	(1,095,355)
(3,769)	11,450	- deferred		(322,854)	980,600
<u>116,839</u>	<u>93,194</u>			<u>10,005,650</u>	<u>7,980,887</u>
<u>198,914</u>	<u>156,485</u>	Profit after taxation		<u>17,034,380</u>	<u>13,400,749</u>
Attributable to:					
196,366	156,353	Equity holders of the Bank		16,816,179	13,389,452
1,360	1,054	Minority interest		116,475	90,230
1,188	(922)	Minority investor of HBL Funds		101,726	(78,933)
<u>198,914</u>	<u>156,485</u>			<u>17,034,380</u>	<u>13,400,749</u>
<u>0.196</u>	<u>0.156</u>	Basic and diluted earnings per share	30	<u>16.78</u>	<u>13.36</u>

The annexed notes 1 to 52 and annexures I to IV form an integral part of these consolidated financial statements.

President and Chief Executive Officer

Director

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HABIB BANK LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

2010 (US \$ in '000)	2009		2010 (Rupees in '000)	2009
198,914	156,484	Profit for the year	17,034,380	13,400,749
		Other comprehensive income		
(1,188)	922	Minority share of HBL funds transferred to other liabilities	(101,726)	78,933
2,586	31,474	Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	221,465	2,695,330
<u>200,312</u>	<u>188,880</u>	Comprehensive income transferred to equity	<u>17,154,119</u>	<u>16,175,012</u>
		Components of comprehensive income not reflected in equity		
1,786	22,013	Surplus on revaluation of fixed assets	152,905	1,885,159
(144)	(4,400)	Deferred tax on revaluation of fixed assets	(12,340)	(376,827)
150	74,307	Surplus on revaluation of investments	12,828	6,363,436
906	(20,943)	Deferred tax on revaluation of investments	77,573	(1,793,471)
<u>203,010</u>	<u>259,857</u>		<u>17,385,085</u>	<u>22,253,309</u>
		Attributable to:		
200,552	257,682	Equity holders of the Bank	17,174,632	22,066,998
1,270	3,097	Minority interest	108,727	265,244
1,188	(922)	Minority investor	101,726	(78,933)
<u>203,010</u>	<u>259,857</u>		<u>17,385,085</u>	<u>22,253,309</u>

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President and Chief Executive Officer

Director

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HABIB BANK LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2010

2010 (US \$ in '000)	2009		Note	2010 (Rupees in '000)	2009
315,753	249,679	CASH FLOWS FROM OPERATING ACTIVITIES		27,040,030	21,381,636
(12,342)	(8,777)	Profit before taxation		(1,056,930)	(751,599)
(3,700)	1,957	Dividend income and share of profit of associates and joint venture		(316,823)	167,618
(16,042)	(6,820)	(Gain) / loss on sale of securities		(1,373,753)	(583,981)
299,711	242,859			25,666,277	20,797,655
		Adjustment for:			
20,091	20,280	Depreciation / amortisation		1,720,510	1,736,708
(557)	4,046	(Reversal) / charge against diminution in the value of investments		(47,671)	346,495
88,775	102,696	Provision against non-performing loans and advances - net		7,602,440	8,794,560
(75)	(152)	Unrealised gain on held for sale securities		(6,409)	(13,037)
815	3,003	Exchange loss on sub-ordinated loans		69,755	257,155
(209)	(343)	Gain on sale of property and equipment		(17,865)	(29,410)
2,441	1,854	Miscellaneous provisions		209,043	158,794
111,281	131,384			9,529,803	11,251,265
410,992	374,243			35,196,080	32,048,920
		(Increase) / decrease in operating assets			
(291,773)	9,820	lendings to financial institutions		(24,986,471)	840,914
(148,184)	(82,927)	Advances		(12,689,953)	(7,101,552)
66,364	(13,175)	Other assets		5,683,203	(1,128,283)
(373,593)	(86,282)			(31,993,221)	(7,388,921)
		Increase / (decrease) in operating liabilities			
754,638	1,000,267	Deposits and other accounts		64,624,720	85,659,534
(141,097)	65,180	Borrowings from financial institutions		(12,083,118)	5,581,813
(3,111)	2,493	Bills payable		(266,449)	213,460
(42,749)	54,198	Other liabilities		(3,660,878)	4,641,308
567,681	1,122,138			48,614,275	96,096,115
605,080	1,410,099			51,817,134	120,756,114
(113,993)	(151,839)	Income tax paid - net		(9,761,948)	(13,002,981)
491,087	1,258,260	Net cash flows from operating activities		42,055,186	107,753,133
		CASH FLOWS FROM INVESTING ACTIVITIES			
(436,077)	(938,532)	Net investments in securities, associates and joint ventures company		(37,344,175)	(80,372,778)
4,118	3,144	Dividend income received		352,646	269,200
(11,639)	(22,752)	Fixed capital expenditure		(996,693)	(1,948,372)
681	1,227	Proceeds from sale of fixed assets		58,331	105,051
2,737	30,464	Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates		234,182	2,608,858
(440,180)	(926,449)	Net cash flows used in investing activities		(37,695,709)	(79,338,041)
		CASH FLOWS FROM FINANCING ACTIVITIES			
(148)	1,011	Minority interest impact of exchange adjustment on translation of balances in subsidiaries etc.		(12,717)	86,472
(64,224)	(48,955)	Dividend paid		(5,499,852)	(4,192,472)
(64,372)	(47,944)	Net cash flows used in financing activities		(5,512,569)	(4,106,000)
(13,465)	283,867	(Decrease) / increase in cash and cash equivalents during the year		(1,153,092)	24,309,092
1,400,805	1,044,548	Cash and cash equivalents at beginning of the year		119,960,295	89,451,959
2,875	75,265	Effects of exchange rate changes on cash and cash equivalents		246,228	6,445,472
1,403,680	1,119,813			120,206,523	95,897,431
1,390,215	1,403,680	Cash and cash equivalents at end of the year	31	119,053,431	120,206,523

The annexed notes 1 to 52 and annexures I to IV form an integral part of these consolidated financial statements.

President and Chief Executive Officer

Director

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HABIB BANK LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

	Attributable to shareholders of the Group						Sub Total	Minority interest	Total
	Share capital	Exchange translation reserve	Reserves		Other reserves				
			Statutory requirement	Bank	General	Unappropriated profit			
------(Rupees in '000)-----									
Balance as at December 31, 2008	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
Total comprehensive income for the year									
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
- Other comprehensive income									
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
Transactions with owners, recorded directly in equity									
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 - net of tax	-	-	-	-	-	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
Total comprehensive income for the year									
Profit for the year ended December 31, 2010	-	-	-	-	-	16,917,905	16,917,905	116,475	17,034,380
Minority share of HBL funds transferred to other liabilities	-	-	-	-	-	(101,726)	(101,726)	-	(101,726)
- Other comprehensive income									
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	-	234,182	-	-	-	-	234,182	(12,717)	221,465
	-	234,182	-	-	-	16,816,179	17,050,361	103,758	17,154,119
Transactions with owners, recorded directly in equity									
Cash dividend paid at Rs. 6 per share	-	-	-	-	-	(5,464,800)	(5,464,800)	-	(5,464,800)
Issued as bonus shares	910,800	-	-	-	-	(910,800)	-	-	-
Cash dividend paid at Rs. 1.10 per certificate by modaraba	-	-	-	-	-	-	-	(39,312)	(39,312)
	910,800	-	-	-	-	(6,375,600)	(5,464,800)	(39,312)	(5,504,112)
Transferred from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	122,783	122,783	-	122,783
Transferred to statutory reserve	-	-	32,688	1,561,305	-	(1,593,993)	-	-	-
Minority share of surplus on revaluation of securities of subsidiaries	-	-	-	-	-	-	-	4,969	4,969
Balance as at December 31, 2010	10,018,800	9,216,986	254,641	13,810,116	6,073,812	47,467,704	86,842,059	1,212,656	88,054,715

The annexed notes 1 to 52 and annexures I to IV form an integral part of these consolidated financial statements.

President and Chief Executive Officer

Director

Director

Director

HABIB BANK LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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 1,459 (2009: 1,454) branches inside Pakistan and 42 (2009: 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
- HBL Currency Exchange (Private) Limited, Pakistan – wholly owned
- HBL Asset Management Limited, Pakistan – wholly owned
- First Habib Bank Modaraba, Pakistan
- HBL Stock Fund – shareholding 82.14%
- HBL Multi Asset Fund - shareholding 76.32%
- HBL Income Fund - shareholding 59.80%

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.

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. 85.6367 per US Dollar has been used for both December 31, 2010 and 2009.

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.

- 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

Murabaha

The group has adopted Islamic Financial Accounting Standard 1 – Murabaha issued by the Institute of Chartered Accountant of Pakistan . This policy is stated in note 4.1. The application of this standard did not have any effect on these financial statements. The financing under murabaha mode is disclosed in note 48.

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.

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 are effective for accounting periods beginning on or after January 1, 2011:

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 1, 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 1, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on Group's financial statements.
- IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after January 1, 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 1, 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 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 1, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.
- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 1, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The amendment has no impact on financial statements of the Group.

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.

Murabaha

Murabaha transactions are reflected as receivable at the invoiced amount. Actual sale and purchase are not reflected as the goods are purchased by the customer as agent of the Group and all documents relating to purchase are in customer name. However, the profit on that sale revenue not due for payment is deferred by recording a credit to the "Deferred Murabaha Income" account.

Letters of credit and guarantees

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

Customer Loyalty Programmes

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

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.

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.

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 10.3 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 10.2. Amortization on additions and deletions of intangible assets during the year is charged in proportion to the period of use. The useful lives and amortization method are reviewed and adjusted, if appropriate at each balance sheet date. Intangible assets having an indefinite useful life are stated at acquisition cost less impairment, if any.

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. Provision is made in the financial statements for this benefit based on actuarial advice using the Projected Unit Credit method. The employees under officers and executives cadre are entitled to receive lump sum payments in lieu of post retirement medical facilities as a full and final settlement.

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 with different options to avail the benefit including lump sum and monthly bases.

Provision is made in the financial statements for this benefit based on actuarial advice using the Projected Unit Credit method.

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.

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 i.e., 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 securitization.

- *Treasury*
Involves the businesses of proprietary trading, fixed income, equity and foreign exchanges.
- *International Banking Group*
It represents Group's operations in 25 countries and is considered a separate segment for monitoring purposes.
- *Head Office*
This includes balances held at Head Office level for regulatory requirements or other operational reasons and business segments not shown separately. This also includes some non performing loans not managed by other business segments, statutory liquidity and shareholders equity related balances and their associated cost / income.

Geographical segments

The group operates in five geographic regions, being:

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

	Note	2010	2009
	(Rupees in '000)		
5. CASH AND BALANCES WITH TREASURY BANKS			
In hand including National Prize Bonds			
Local currency		10,380,118	8,505,736
Foreign currency		<u>2,100,498</u>	<u>2,135,519</u>
		12,480,616	10,641,255
With State Bank of Pakistan in			
Local currency current account		<u>27,100,923</u>	<u>26,047,420</u>
Foreign currency deposit account		<u>9,490,429</u>	<u>9,125,330</u>
		36,591,352	35,172,750
With other Central Banks in	5.1		
Foreign currency current account		<u>11,611,037</u>	<u>13,522,953</u>
Foreign currency deposit account		<u>12,743,642</u>	<u>15,223,023</u>
		24,354,679	28,745,976
With National Bank of Pakistan in			
Local currency current account		<u>8,213,599</u>	<u>5,279,855</u>
		<u>81,640,246</u>	<u>79,839,836</u>

The above balances include remunerative accounts amounting to Rs. 15,788.255 million (2009: Rs. 22,426.060 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.

	Note	2010	2009
	(Rupees in '000)		
6. BALANCES WITH OTHER BANKS			
In Pakistan			
On current account		367,172	358,198
On deposit account		<u>-</u>	<u>10,853</u>
		367,172	369,051
Outside Pakistan			
On current account	6.1	<u>3,670,357</u>	<u>3,530,197</u>
On deposit account		<u>33,375,656</u>	<u>36,467,439</u>
		<u>37,046,013</u>	<u>39,997,636</u>
		<u>37,413,185</u>	<u>40,366,687</u>

- 6.1 This includes remunerative current account balance amounting to Rs. 547.077 million (2009: Rs. 580.818 million).

	Note	2010	2009
	(Rupees in '000)		
7. LENDINGS TO FINANCIAL INSTITUTIONS			
7.1. In local currency			
Call money lendings		900,000	560,000
Repurchase agreement lendings (reverse repo)	7.2	<u>29,439,344</u>	<u>4,792,873</u>
		<u>30,339,344</u>	<u>5,352,873</u>

7.2 Securities held as collateral against lendings to financial institutions	2010			2009		
	Held by Group	Further given as collateral	Total	Held by Group	Further given as collateral	Total
----- (Rupees in '000) -----						
Market treasury bills	29,439,344	-	29,439,344	3,850,151	942,722	4,792,873
	<u>29,439,344</u>	<u>-</u>	<u>29,439,344</u>	<u>3,850,151</u>	<u>942,722</u>	<u>4,792,873</u>

Market value of securities held as collateral against lendings to financial institutions as at December 31, 2010 amounted to Rs. 29,558.401 million (2009 Rs. 4,830.115 million).

8. INVESTMENTS	Note	2010			2009		
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		66,845	-	66,845	387,191	-	387,191
- Shares		2,499	-	2,499	-	-	-
- Investments of mutual funds		138,916	-	138,916	245,913	-	245,913
		<u>208,260</u>	<u>-</u>	<u>208,260</u>	<u>642,756</u>	<u>-</u>	<u>642,756</u>
Held-to-Maturity Securities (HTM) 8.3							
<i>Federal Government Securities</i>							
- Pakistan Investment Bonds	8.9 / 8.11	8,260,726	-	8,260,726	8,428,352	-	8,428,352
<i>Overseas Government securities</i>							
		-	-	-	78,963	-	78,963
<i>Debentures and Corporate Debt Instruments</i>							
		225,554	-	225,554	48,182	-	48,182
		<u>8,486,280</u>	<u>-</u>	<u>8,486,280</u>	<u>8,555,497</u>	<u>-</u>	<u>8,555,497</u>
Available-for-Sale Securities (AFS)							
<i>Federal Government Securities</i>							
- Market Treasury Bills	8.9 / 8.11	115,398,461	-	115,398,461	84,407,507	3,559,326	87,966,833
- Pakistan Investment Bonds		11,737,563	709,392	12,446,955	8,840,806	-	8,840,806
- Government of Pakistan Guaranteed Bonds		425,000	-	425,000	5,522,370	-	5,522,370
- Government of Pakistan Bonds / Sukuk / (US Dollar / Euro)		8,317,811	-	8,317,811	6,784,749	-	6,784,749
<i>Overseas Government Securities</i>							
		11,122,209	-	11,122,209	14,601,416	-	14,601,416
<i>Fully paid-up ordinary shares</i>							
- Listed companies		1,457,073	-	1,457,073	1,090,273	-	1,090,273
- Unlisted companies		719,787	-	719,787	730,244	-	730,244
<i>Debentures and Corporate Debt Instruments</i>							
- Listed securities		4,722,625	-	4,722,625	4,482,005	-	4,482,005
- Unlisted securities	8.9	82,637,559	-	82,637,559	69,095,974	-	69,095,974
<i>NIT Units</i> 8.12							
		22,492	-	22,492	21,839	-	21,839
<i>Preference shares</i>							
		125,000	-	125,000	170,000	-	170,000
<i>Other investments</i>							
		1,581,864	-	1,581,864	1,523,641	-	1,523,641
<i>Investments of mutual funds</i>							
		3,174,654	-	3,174,654	3,041,384	-	3,041,384
		<u>241,442,098</u>	<u>709,392</u>	<u>242,151,490</u>	<u>200,312,208</u>	<u>3,559,326</u>	<u>203,871,534</u>
Investment in Associates and Joint Venture 8.4							
		4,063,086	-	4,063,086	3,397,745	-	3,397,745
		<u>254,199,724</u>	<u>709,392</u>	<u>254,909,116</u>	<u>212,908,206</u>	<u>3,559,326</u>	<u>216,467,532</u>

8.2 Investments by segments	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
Federal Government Securities			
- Market Treasury Bills		115,621,316	88,258,937
- Pakistan Investment Bonds		21,868,288	17,979,865
- Government of Pakistan Guaranteed Bonds		425,000	5,522,753
- Government of Pakistan Bonds / Sukuk / (US Dollar / Euro)		8,559,129	7,322,125
Overseas Government Securities		11,103,120	14,589,448
Fully paid-up Ordinary Shares			
- Listed companies		1,700,263	1,383,147
- Unlisted companies		760,936	756,455
Debentures and Corporate Debt Instruments			
- Listed securities		4,441,876	4,752,851
- Unlisted securities		83,578,662	70,166,252
Preference Shares		200,000	200,000
NIT Units		11,529	11,529
Investments of mutual funds		3,201,122	3,420,302
Other Investments		1,784,360	1,819,409
Investment in Associates and Joint Venture		4,636,346	3,733,008
		<u>257,891,947</u>	<u>219,916,081</u>
Less: Provision for diminution / impairment in the value of investments including associates	8.8	<u>(2,122,286)</u>	<u>(2,572,470)</u>
Net investment		255,769,661	217,343,611
Surplus / (deficit) on revaluation of held for trading securities		6,409	(1,266)
Surplus / (deficit) on revaluation of available for sale securities	19.2	<u>(866,954)</u>	<u>(874,813)</u>
		<u>254,909,116</u>	<u>216,467,532</u>

8.3 The market value of securities classified as "held-to-maturity" as at December 31, 2010 amounted to Rs. 7,194.986 million (2009: Rs. 7,067.141 million).

8.4 Investment in associates and joint venture company	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
Bank PHB Plc., - Holding - 6.28% (2009: 6.28%) - Listed		-	-
Kyrgyz Investment and Credit Bank, Kyrgyz Republic - Holding - 18% (2009: 18%) - Unlisted			
Opening balance		301,322	235,435
Share of profit for the year - net of tax		28,462	46,679
Exchange translation reserve for the year		5,752	19,208
		335,536	301,322
Diamond Trust Bank Limited, Kenya - Holding - 10% (2009: 10%) - Listed	8.5		
Opening balance		1,288,367	1,139,122
Share of profit for the year - net of tax		275,100	138,557
Exchange translation reserve for the year		(33,420)	34,786
Dividend received during the year		(27,806)	(24,098)
		1,502,241	1,288,367
Himalayan Bank Limited, Nepal, - Holding - 20% (2009: 20%) - Listed			
Opening balance		819,046	660,994
Share of profit for the year - net of tax		152,853	151,630
Exchange translation reserve for the year		66,545	58,532
Dividend received during the year		(33,273)	(52,110)
		1,005,171	819,046
New Jubilee Insurance Company Limited, - Holding - 9.64% (2009: 9.64%) - Listed	8.5		
Opening balance		767,886	1,114,317
Impairment loss	8.5.1	(238,000)	(335,261)
Share of profit for the year - net of tax		50,972	(1,636)
Dividend received during the year		(19,068)	(9,534)
		561,790	767,886

	Note	2010	2009
		(Rupees in '000)	
New Jubilee Life Insurance Company Limited, Holding - 17.95% (2009: 8.91%) - Listed	8.5		
Opening balance		221,124	223,850
Investment during the year		254,772	-
Share of profit for the year - net of tax		12,565	(2,726)
Dividend received during the year		(5,590)	-
		482,871	221,124
HBL Money Market Fund, Holding - 12.46% (2009: nil) - Unlisted			
Opening balance		-	-
Investment during the year		165,000	-
Share of profit for the year		10,477	-
		175,477	-
		<u>4,063,086</u>	<u>3,397,745</u>

- 8.4.1 The market value of shares of above investments in listed associates at December 31, 2010 amounted to Rs. 6,861.508 million (2009: Rs. 6,737.033 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 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 4% and terminal value is determined based on long term earning multiples. The cash flows are discounted using a post-tax discount rate of 20%. Based on this calculation, impairment of Rs. 238 million has been accounted for.
- 8.6 **Summary of financial information of associates and joint venture company**

		2010				
	Based on the financial statements as on	Assets	Liabilities	Equity	Revenue	Profit / (loss)
------(Rupees in '000)-----						
Bank PHB Plc., Nigeria	March 31, 2010	300,787,828	407,788,941	(107,001,113)	7,636,524	1,544,594
Diamond Trust Bank Limited, Kenya	June 30, 2010	80,687,182	70,884,325	9,802,857	3,864,156	1,310,830
Himalayan Bank Limited, Nepal	July 16, 2010	52,858,090	48,474,926	4,383,164	3,673,539	609,916
Kyrgyz Investment and Credit Bank	December 31, 2009	8,991,854	7,075,475	1,916,379	923,933	270,727
New Jubilee Life Insurance Co. Ltd.	September 30, 2010	9,986,776	9,432,444	554,332	26,483	70,539
New Jubilee Insurance Co. Ltd.	September 30, 2010	7,959,237	5,316,316	2,642,921	2,174,403	219,659
HBL Money Market Fund	September 30, 2010	350,926	5,353	345,573	13,657	3,044

2009

Based on the financial statements as on		Assets	Liabilities	Equity	Revenue	Profit / (loss)
------(Rupees in '000)-----						
Bank PHB 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

8.7 Investment in associated undertakings - as per statute

	2010		2009	
	Cost (Rupees in '000)	Holding %	Cost (Rupees in '000)	Holding %
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	2010 (Rupees in '000)	2009 (Rupees in '000)
Opening balance		2,572,470	2,143,709
(Reversal) / charge for the year - net		(186,489)	435,427
Impairment reversal on listed securities - net		(99,182)	(424,193)
Impairment loss on associate		238,000	335,261
Total charge - net		(47,671)	346,495
Amount written off		(3,293)	(78,116)
Transfer to advances		(260,665)	27,529
Transfer to other liability		(138,555)	-
Transfer of provision on consolidation of open end funds		-	131,019
Exchange adjustment		-	1,834
Closing balance	8.8.1	<u>2,122,286</u>	<u>2,572,470</u>

8.8.1 Particulars of provision in respect of type and segment

Available-for-sale securities (AFS)

Fully paid-up ordinary shares

- Listed companies	451,566	541,814
- Unlisted companies	41,149	26,211
Debentures and corporate debt instruments	356,848	980,040
Preference shares	100,000	68,300
Other investments	276,040	284,060
Investments of mutual funds	323,422	336,784
Associate	573,261	335,261
	<u>2,122,286</u>	<u>2,572,470</u>

8.9 Investments held for maintaining the liquidity requirements of the State Bank of Pakistan amounted to Rs. 176,152.911 million as at December 31, 2010 (2009: Rs. 113,323.610 million).

8.10 Investments include Rs. 544.701 million as at December 31, 2010 (2009: Rs. 491.470 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. 10.610 million as at December 31, 2010 (2009: Rs. 9.043 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. 15.695 million as at December 31, 2010 (2009: Rs. 15.225 million) are pledged with Multan High Court.

8.13 Investments include strategic investments amounting to Rs. 2.897 million as at December 31, 2010 (2009: Rs. 3.133 million) under BPD circular letter No. 16 of 2006 dated August 1, 2006.

8.14 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.

9. ADVANCES	Note	2010 (Rupees in '000)	2009
Loans, cash credits, running finances, etc.			
In Pakistan		383,960,649	384,534,667
Outside Pakistan		74,796,103	68,435,996
		<u>458,756,752</u>	<u>452,970,663</u>
Net investment in finance lease - in Pakistan	9.1.3	3,857,452	3,763,556
Bills discounted and purchased (excluding Government treasury bills)			
Payable in Pakistan		9,120,283	8,319,104
Payable outside Pakistan		30,711,150	24,957,260
		39,831,433	33,276,364
Provision against non-performing advances	9.4	(42,695,625)	(35,348,084)
		<u>459,750,012</u>	<u>454,662,499</u>
Fully provided non-performing advances classified as loss for more than five years			
In Pakistan		12,527,683	12,914,798
Provision	9.5.1	(12,527,683)	(12,914,798)
		<u>-</u>	<u>-</u>
9.1 Particulars of advances			
9.1.1 In local currency		355,981,339	369,766,494
In foreign currency including foreign currency financing by domestic branches amounting to Rs. 26,424.400 million (2009: Rs. 16,328.404 million)		103,768,673	84,896,005
		<u>459,750,012</u>	<u>454,662,499</u>
9.1.2 Short term (for upto one year)		320,313,649	313,361,615
Long term (for over one year)		139,436,363	141,300,884
		<u>459,750,012</u>	<u>454,662,499</u>
9.1.3 Net investment in finance lease			

	2010			2009		
	Not later than one year	Later than one and less than five years	Total	Not later than one year	Later than one and less than five years	Total
	----- (Rupees in '000) -----					
Lease rentals receivable	1,314,697	3,047,593	4,362,290	1,077,137	3,078,150	4,155,287
Residual value	7,970	104,438	112,408	15,222	76,841	92,063
Gross investment in finance lease	1,322,667	3,152,031	4,474,698	1,092,359	3,154,991	4,247,350
Unearned finance income	(23,209)	(594,037)	(617,246)	(35,607)	(448,187)	(483,794)
Net investment in finance lease	<u>1,299,458</u>	<u>2,557,994</u>	<u>3,857,452</u>	<u>1,056,752</u>	<u>2,706,804</u>	<u>3,763,556</u>

- 9.2 Advances include Rs. 53,607.643 million (2009: Rs. 49,438.255 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 9.3, as detailed below:

Category of classification	2010								
	Non-performing advances			Provision required and held			Net non-performing advances		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Specific provision									
Other assets especially mentioned	1,370,212	-	1,370,212	530	-	530	1,369,682	-	1,369,682
Substandard	2,846,786	3,915,683	6,762,469	684,433	636,643	1,321,076	2,162,353	3,279,040	5,441,393
Doubtful	7,277,208	2,194,403	9,471,611	3,638,295	1,448,400	5,086,695	3,638,913	746,003	4,384,916
Loss	25,242,271	10,761,080	36,003,351	24,449,037	10,320,311	34,769,348	793,234	440,769	1,234,003
	36,736,477	16,871,166	53,607,643	28,772,295	12,405,354	41,177,649	7,964,182	4,465,812	12,429,994
General provision	-	-	-	1,153,477	364,499	1,517,976	-	-	-
	36,736,477	16,871,166	53,607,643	29,925,772	12,769,853	42,695,625	7,964,182	4,465,812	12,429,994
Category of classification	2009								
	Non-performing advances			Provision required and held			Net non-performing advances		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Specific provision									
Other assets especially mentioned	1,760,738	-	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
General provision	-	-	-	345,341	378,606	723,947	-	-	-
	32,678,206	16,760,049	49,438,255	23,272,494	12,075,590	35,348,084	9,751,053	5,063,065	14,814,118

- 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.
- 9.2.2 This includes general provision for agri loans amounting to Rs. 775 million. The Group is analyzing the impact of flood effected portfolio on account by account level, however, on prudent basis a general provision has been created.
- 9.3 The Group monitors non-performing advances classified as loss for more than five years and fully provided as a separate category as shown in note 9.5.1. 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	2010			2009		
		Specific	General	Total	Specific	General	Total
		(Rupees in '000)					
Opening balance		34,624,137	723,947	35,348,084	27,226,948	869,449	28,096,397
Exchange adjustment / other movements		173,611	3,577	177,188	1,126,460	55,593	1,182,053
Charge for the year		8,689,492	842,094	9,531,586	10,044,991	26,750	10,071,741
Reversals		(910,513)	(51,642)	(962,155)	(577,793)	(227,845)	(805,638)
		7,778,979	790,452	8,569,431	9,467,198	(201,095)	9,266,103
Write offs	9.6	(483,511)	-	(483,511)	(1,550,687)	-	(1,550,687)
Transferred to over 5 years category	9.5.1	(915,567)	-	(915,567)	(1,645,782)	-	(1,645,782)
Closing balance		41,177,649	1,517,976	42,695,625	34,624,137	723,947	35,348,084
In local currency		28,772,295	1,153,477	29,925,772	22,927,153	345,341	23,272,494
In foreign currency		12,405,354	364,499	12,769,853	11,696,984	378,606	12,075,590
		41,177,649	1,517,976	42,695,625	34,624,137	723,947	35,348,084

- 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 Group has further availed the benefit of FSV against the non-performing advances (excluding consumer housing finance portfolio). Had this benefit of FSV not been taken by the Group, the specific provision against non-performing advances would have been higher by Rs. 778.636 million and profit before taxation for the year ended December 31, 2010 would have been higher by approximately Rs. 72.05 million (after taking into account the effect of discounting of FSV taken in previous year). Increase in profits net of tax amounting to Rs. 506.113 million would not be available for the distribution of cash and stock dividend to share holders.

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
9.5.1 Particulars of provision against fully provided non-performing advances classified as loss for more than five years			
Opening balance		12,914,798	11,976,479
Reversal		(966,991)	(471,543)
Transferred during the year	9.4	915,567	1,645,782
Write offs	9.6	(335,691)	(235,920)
		<u>12,527,683</u>	<u>12,914,798</u>
9.6 Particulars of write-offs			
9.6.1 Against provisions		<u>819,202</u>	<u>1,786,607</u>
9.6.2 Analysis of write-offs			
Rs. 500,000 and above in Pakistan (Note 9.7)		325,087	317,224
Below Rs. 500,000 in Pakistan and overseas		494,115	1,469,383
		<u>819,202</u>	<u>1,786,607</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, 2010 is given in Annexure II.

9.8 Particulars of loans and advances to directors, associated companies, etc.	2010				2009			
	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)	933,700	1,277,800	384,860	489,160	1,038,000	1,054,700	155,890	123,466
- in respect of key management personnel / Companies in which key management personnel or their spouse are interested	339,458	381,128	85,228	126,354	380,584	392,484	97,511	299,296
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	605,998	1,157,647	292,616	842,118	1,155,500	1,155,500	1,657,401	1,393,532
Debts due by associated companies in which key management personnel are interested								
- Guaranteed by Government	10,367,955	13,628,965	10,000,217	12,296,727	12,664,465	14,055,572	20,143,120	9,577,800
- Others	193,797	202,729	178,349	187,281	202,729	1,004,840	1,193,707	1,164,741

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

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

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

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
10. OPERATING FIXED ASSETS			
Capital work-in-progress	10.1	466,176	805,463
Intangible assets	10.2	38,128	235,123
Tangible fixed assets	10.3	15,650,986	15,726,082
		<u>16,155,290</u>	<u>16,766,668</u>
10.1 Capital work-in-progress			
Civil works		439,627	534,366
Others		26,549	271,097
		<u>466,176</u>	<u>805,463</u>

10.2 Intangible assets

Description	2010								Book value as at December 31, 2010	Rate of amortization %
	COST				AMORTISATION					
	As at January 1, 2010	Additions / (deletions) during the year	Adjustments	As at December 31, 2010	As at January 1, 2010	Charge for the year / (Amortisation on deletions)	Adjustments	As at December 31, 2010		
Computer software	1,428,478	3,862 (3,283)	(1,197)	1,427,860	1,193,355	199,653 (3,276)	-	1,389,732	38,128	33.33

Description	2009								Book value as at December 31, 2009	Rate of amortization %
	COST				AMORTISATION					
	As at January 1, 2009	Additions / (deletions) during the year	Adjustments	As at December 31, 2009	As at January 1, 2009	Charge for the year / (Amortisation on deletions)	Adjustments	As at December 31, 2009		
Computer software	1,402,405	26,180 (107)	-	1,428,478	954,507	238,942 (94)	-	1,193,355	235,123	33.33

10.3 Tangible fixed assets

Description	2010								Book value as at December 31, 2010	Rate of depreciation %
	COST / REVALUATION				DEPRECIATION					
	As at January 1, 2010	Additions / (deletions) / Adjustments during the year	Surplus / (deficit) on revaluation during the year	As at December 31, 2010	As at January 1, 2010	Charge for the year / (depreciation on deletions) / adjustments	Surplus / (deficit) on revaluation reversed during the year	As at December 31, 2010		
Land	8,667,541	2,178 (216,954)	15,711	8,468,476	-	-	-	-	8,468,476	-
Building including related machinery	4,832,143	444,823 (7,738)	125,296	5,646,792	557,498	360,711 (1,862)	(11,898)	906,660	4,740,132	2.5-10
Furniture, fixture and office equipment	8,345,632	252,268	-	8,768,017	5,736,432	2,211	-	6,488,882	2,279,135	20-33
Vehicles	404,842	805,784 (364,536)	-	8,768,017	230,146	1,104,809 (331,081)	-	238,412	163,243	20
		(18,863)	-			(21,278)				
		-	-			-				
		43,907 (33,972)	-	401,655	230,146	55,337 (32,844)	-	238,412	163,243	20
		(13,122)	-			(14,227)				
	22,250,158	1,296,692 (406,246)	141,007	23,284,940	6,524,076	1,520,857 (365,787)	(11,898)	7,633,954	15,650,986	
		3,329				(33,294)				

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

10.4 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 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. Same has been recorded in the books in 2009. HBL properties of Srilanka and Singapore branches were revalued on October 1, 2010 and December 30, 2010 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. 152.905 million. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

(Rupees in '000)

Land	7,236,714
Building including related machinery	2,993,562

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

10.5 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.

10.6 At December 31, 2010 carrying value of properties and equipment retired from active service and held for disposal purposes amounted to Rs. 154,291 million (2009: Rs. 0.682 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. 4,023.830 million (2009: Rs. 2,531.919 million).

11. DEFERRED TAX ASSET

Note 2010 2009
(Rupees in '000)

Deductible temporary differences on

- recognised tax losses	720,579	851,147
- provision against investments	1,303,749	1,232,262
- provision against doubtful debts	6,818,153	6,403,229
- provision against others	1,236,596	1,305,184
- revaluation of investments	457,129	379,556
- provision against off balance sheet obligations	139,413	139,413
	10,675,619	10,310,791

Taxable temporary differences on

- fixed assets	(912,894)	(976,218)
- others	(190,522)	(128,629)
	(1,103,416)	(1,104,847)
	9,572,203	9,205,944

Net deferred tax asset recognised by the Group

11.1 Movement in temporary differences during the year

	Balance As at January 1, 2009	Recognised in profit or loss	Recognised in equity	Balance As at December 31, 2009	Recognised in profit or loss	Recognised in equity	Balance As at December 31, 2010
	(Rupees in '000)						
Deductible temporary differences on							
- recognised tax losses	551,103	130,320	169,724	851,147	(108,740)	(21,828)	720,579
- provision against investments	1,383,922	(151,660)	-	1,232,262	71,487	-	1,303,749
- provision against doubtful debts	7,098,785	(695,556)	-	6,403,229	414,924	-	6,818,153
- provision against others	1,580,550	(275,366)	-	1,305,184	(68,588)	-	1,236,596
- provision against off balance sheet obligations	139,413	-	-	139,413	-	-	139,413
- on revaluation of investments	2,173,027	-	(1,793,471)	379,556	-	77,573	457,129
Taxable temporary differences on							
- fixed assets	(641,764)	42,103	(376,557)	(976,218)	75,664	(12,340)	(912,894)
- others	(98,188)	(30,441)	-	(128,629)	(61,893)	-	(190,522)
	12,186,848	(980,600)	(2,000,304)	9,205,944	322,854	43,405	9,572,203

12. OTHER ASSETS

Note 2010 2009
(Rupees in '000)

Income / mark-up accrued in local currency	15,697,468	14,866,545
Income / mark-up accrued in foreign currency	838,033	757,179
Advances, deposits, advance rent and other prepayments	1,452,229	1,122,910
Advances against murabaha	57,686	-
Advance taxation (payments less provisions)	8,041,881	8,608,437
Receivable from defined benefit plans	-	7,919,870
Stationery and stamps on hand	37,986	23,224
Accrued income	155,303	93,404
Unrealised gain on forward foreign exchange contract	869,966	248,248
Non-banking assets acquired in satisfaction of claims (market value Rs. 2,808.221 million (2009: Rs. 2,908.279 million))	2,512,230	2,475,566
Receivable from National Savings Centre / Clearing in transit	4,561,473	4,743,943
Other non banking assets *	405,340	-
Dividend receivable	30,407	39,801
Others	260,005	363,627
	34,920,007	41,262,754

* Non banking assets on which buy back option period has not yet expired.

12.1 Provision against other assets

Opening balance	528,527	402,005
Charge for the year	105,422	428,024
Write off	(208,847)	(605,545)
Other movement	29,500	295,353
Exchange adjustment	1,286	8,690
Closing balance	455,888	528,527

12.2 Unrealised loss on foreign exchange contracts amounting to Rs. 385.633 (2009: Rs. 146.172 million) has been grossed up from unrealised gain on foreign exchange contracts and shown as part of other liability.

12.3 Others have been re-arranged and reclassified into appropriate heads for better comparison.

13. BILLS PAYABLE	Note	2010	2009
(Rupees in '000)			
In Pakistan		9,326,503	9,434,879
Outside Pakistan		448,590	606,663
		<u>9,775,093</u>	<u>10,041,542</u>
14. BORROWINGS FROM FINANCIAL INSTITUTIONS			
In Pakistan		32,416,997	39,978,533
Outside Pakistan		8,042,863	12,564,445
		<u>40,459,860</u>	<u>52,542,978</u>
14.1 Particulars of borrowings from financial institutions			
In local currency		32,416,997	39,978,533
In foreign currency		8,042,863	12,564,445
		<u>40,459,860</u>	<u>52,542,978</u>
14.2 Details of borrowings from financial institutions			
Secured			
Borrowings from State Bank of Pakistan under:			
- Export refinance scheme	} 14.3	20,515,415	22,267,455
- Long term financing facility - locally manufactured and imported plant & machinery		4,212,938	1,575,542
- Long term finance - export oriented projects		3,224,605	5,196,466
Repurchase agreement borrowings		714,039	4,497,374
		<u>28,666,997</u>	<u>33,536,837</u>
Unsecured			
In Pakistan			
- Interbank call money borrowing including borrowing by domestic subsidiaries		3,750,000	6,441,696
Outside Pakistan			
- Overdrawn nostro accounts		261,601	434,821
- Borrowings of overseas branches and subsidiaries		7,781,262	12,129,624
		8,042,863	12,564,445
		<u>11,792,863</u>	<u>19,006,141</u>
		<u>40,459,860</u>	<u>52,542,978</u>
14.3 Borrowings from State Bank of Pakistan (SBP) under the export and export oriented projects refinance schemes of SBP are secured by the bank's cash and security balances held by SBP.			
15. DEPOSITS AND OTHER ACCOUNTS		2010	2009
(Rupees in '000)			
Customers			
Fixed deposits		203,018,996	208,459,070
Savings chequing account		341,086,487	314,040,743
Current accounts - remunerative		1,725,974	1,811,833
Current accounts - non-remunerative		186,234,235	149,221,644
		<u>732,065,692</u>	<u>673,533,290</u>
Financial institutions			
Remunerative deposits		9,302,286	1,616,443
Non-remunerative deposits		6,006,821	7,600,346
		<u>15,309,107</u>	<u>9,216,789</u>
		<u>747,374,799</u>	<u>682,750,079</u>
15.1 Particulars of deposits			
In local currency		593,694,426	530,788,868
In foreign currency {including foreign currency deposits of domestic branches of Rs. 50,183.957 million (2009: Rs. 48,530.820 million)}		153,680,373	151,961,211
		<u>747,374,799</u>	<u>682,750,079</u>
16 SUB-ORDINATED LOAN			

The Group has obtained loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million (2009: 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.

17. OTHER LIABILITIES	Note	2010 (Rupees in '000)	2009
Mark-up / return / interest payable in local currency		11,004,627	11,093,544
Mark-up / return / interest payable in foreign currency		381,067	556,964
Security deposits		344,435	288,552
Accrued expenses		3,522,495	3,173,141
Unrealised loss on forward foreign exchange contracts	12.2	385,633	146,172
Unclaimed dividends		49,185	44,137
Dividend payable		-	788
Provision for employees' compensated absences	33.2.8	1,591,125	1,513,413
Provision for post retirement medical benefits	33.2.3	2,162,309	2,072,460
Provision against off-balance sheet obligations	17.1	771,756	741,033
Provision for contingencies	17.2	507,625	581,221
Branch adjustment account		1,109,561	4,139,134
Provision for staff retirement benefits		485,524	1,115,486
Payable to defined benefit plan		170,882	266,245
Amounts due to minority investors in funds consolidated by HBL		1,037,855	1,325,075
Provision for workers welfare fund		740,451	722,741
Unearned income		353,616	203,205
Qarza-e-Hasna Fund		349,106	351,142
Duties and taxes payable		798,929	712,085
Insurance payable		24,986	25,968
Reward points payable		23,067	11,971
Others	17.3	742,811	923,839
		<u>26,557,045</u>	<u>30,008,316</u>

17.1 Provision against off-balance sheet obligations

Opening balance	741,033	792,429
Charge / (reversal) for the year	30,895	(51,396)
Exchange adjustment	(172)	-
Closing balance	<u>771,756</u>	<u>741,033</u>

17.2 Provision for contingencies

Opening balance	581,221	658,432
(Reversal) / charge for the year	(11,430)	47,600
Write off	(66,701)	(5,732)
Other movement	-	(133,300)
Exchange adjustment	4,535	14,221
Closing balance	<u>507,625</u>	<u>581,221</u>

17.3 Others have been re-arranged and reclassified into appropriate heads for better comparison.

18. SHARE CAPITAL

18.1 Authorised capital

2010	2009		2010	2009
Number of shares in '000			(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

2010	2009		2010	2009
Number of shares in '000			(Rupees in '000)	
690,000	690,000	Ordinary shares of Rs. 10 each	6,900,000	6,900,000
311,880	220,800	Fully paid in cash	3,118,800	2,208,000
<u>1,001,880</u>	<u>910,800</u>	Issued as bonus shares	<u>10,018,800</u>	<u>9,108,000</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	Note	2010	2009
(Rupees in '000)			
The following cash dividends and bonus shares were declared and paid / issued by the Bank:			
Cash dividend: Rs. 6 per share (2009: Rs. 5.50 per share)		5,464,800	4,174,500
Bonus share: 1 shares for every 10 shares held (2009: 2 share for every 10 shares held)		910,800	1,518,000
After December 31, 2010 the following dividends were proposed by the Directors for 2010. The dividends have not been provided for and, there are no income tax consequences.			
Cash dividend: Rs. 6.5 per share		6,512,220	
Bonus share: 1 share for every 10 shares held		1,001,880	
19. SURPLUS ON REVALUATION OF ASSETS - net of deferred tax	Note	2010	2009
(Rupees in '000)			
Surplus arising on revaluation of:			
- fixed assets	19.1	8,605,881	8,588,099
- investments	19.2	(409,825)	(495,257)
Surplus on revaluation of assets - net of deferred tax		8,196,056	8,092,842
19.1 Surplus on revaluation of fixed assets			
Surplus on revaluation of fixed assets as at January 1		9,512,531	7,809,013
Surplus on revaluation of bank's properties recognised during the year		152,905	1,879,393
Surplus realised on disposal of revalued properties during the year		-	(46,754)
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax		(122,783)	(83,929)
Related deferred tax liability of incremental depreciation charged during the year		(66,114)	(45,192)
Surplus on revaluation of fixed assets as at December 31		9,476,539	9,512,531
Less: related deferred tax liability on			
- revaluation as at January 1		924,432	593,067
- revaluation of bank's properties recognised during the year		12,340	376,827
- surplus realised on disposal of revalued properties during the year		-	(270)
- incremental depreciation charged during the year transferred to profit and loss account		(66,114)	(45,192)
		870,658	924,432
		8,605,881	8,588,099
19.2 Surplus / (deficit) on revaluation of investments			
Market Treasury Bills		(156,017)	94,651
Pakistan Investment Bonds		(1,160,607)	(700,540)
Sukuk and Euro Bonds		(241,318)	(532,377)
Listed Securities		583,555	314,408
NIT Units		10,963	10,311
Other Investments		96,470	(61,266)
		(866,954)	(874,813)
Related deferred tax asset		457,129	379,556
		(409,825)	(495,257)
20. CONTINGENCIES AND COMMITMENTS			
20.1 Direct credit substitutes - financial guarantees			
Guarantees in favour of:			
- Government		359,428	7,220,955
- Financial institutions		23,776	641,533
- Others		37,786,477	50,716,165
		38,169,681	58,578,653

	2010	2009
	(Rupees in '000)	
20.2 Transaction-related contingent liabilities		
Guarantees in favour of:		
- Government	1,644,786	2,153,320
- Financial institutions	94,145	112,588
- Others	28,455,811	20,437,508
	<u>30,194,742</u>	<u>22,703,416</u>
20.3 Trade-related commitments		
Credit cash	80,891,494	97,707,388
Credit documentary acceptances	8,048,267	10,085,276
Credit acceptances	16,042,474	28,852,010
	<u>104,982,235</u>	<u>136,644,674</u>
20.4 Other contingencies		
Claims against the Group not acknowledged as debts	<u>82,648,725</u>	<u>80,967,499</u>
20.5 Commitments in respect of forward lending		
The Group makes commitments to extend credit in the normal course of its business but none of these commitments are irrevocable and do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
20.6 Commitments in respect of forward foreign and local exchange contracts	2010	2009
	(Rupees in '000)	
Purchase	90,133,552	43,970,316
Sale	89,948,906	43,978,039
The above commitments have maturities falling within one year.		
Commitments in respect of foreign currency options		
Purchase	-	2,556,777
Sale	-	2,556,777
Commitments in respect of foreign and local currency interest rate swaps		
Purchase	371,092	456,208
Sale	371,092	456,208
20.7 Commitments for acquisition of operating fixed assets / intangibles	422,502	548,975

21 DERIVATIVE INSTRUMENTS

21.1 Product Analysis

Counterparties	2010			
	Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal* (Rupees in '000)	No. of Contracts	Notional Principal * (Rupees in '000)
With Banks for				
Hedging	-	-	-	-
Market Making	1	371,092	-	-
With FIs other than banks for				
Hedging	-	-	-	-
Market Making	-	-	-	-
With other entities for				
Hedging	-	-	-	-
Market Making	1	371,092	-	-
Total				
Hedging	-	-	-	-
Market Making	2	742,184	-	-
Counterparties	2009			
	Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal* (Rupees in '000)	No. of Contracts	Notional Principal * (Rupees in '000)
With Banks for				
Hedging	-	-	-	-
Market Making	2	456,208	49	2,556,777
With FIs other than banks for				
Hedging	-	-	-	-
Market Making	-	-	-	-
With other entities for				
Hedging	-	-	-	-
Market Making	2	456,208	49	2,556,777
Total				
Hedging	-	-	-	-
Market Making	4	912,416	98	5,113,554

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

21.2 Maturity Analysis

2010					
Remaining Maturity	No. of Contracts	Notional Principal (Rupees in '000)	Mark to Market		
			Negative (Rupees in '000)	Positive (Rupees in '000)	Net (Rupees in '000)
5 to 10 years	2	742,184	(9,496)	10,396	900
	<u>2</u>	<u>742,184</u>	<u>(9,496)</u>	<u>10,396</u>	<u>900</u>

2009					
Remaining Maturity	No. of Contracts	Notional Principal (Rupees in '000)	Mark to Market		
			Negative (Rupees in '000)	Positive (Rupees in '000)	Net (Rupees in '000)
6 to 12 months	2	70,000	(482)	521	39
5 to 10 years	2	842,416	(1,103)	2,224	1,121
	<u>4</u>	<u>912,416</u>	<u>(1,585)</u>	<u>2,745</u>	<u>1,160</u>

22. MARK-UP / RETURN / INTEREST EARNED

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)
<i>On loans and advances to</i>			
- Customers		54,385,837	55,841,646
- Financial institutions		371,165	260,162
<i>On investments</i>			
- Held-for-trading		60,192	42,822
- Available-for-sale		22,779,461	16,746,655
- Held-to-maturity		473,810	547,808
On deposits with financial institutions		690,287	834,666
On lendings to financial institutions		2,564,276	1,802,588
		<u>81,325,028</u>	<u>76,076,347</u>

23. MARK-UP / RETURN / INTEREST EXPENSED

Deposits		30,793,996	30,581,174
Securities sold under repurchase agreement borrowings		324,847	511,897
Other short term borrowings		2,672,691	1,859,233
Long term borrowings		538,721	453,509
		<u>34,330,255</u>	<u>33,405,813</u>

24. INCOME / GAIN ON INVESTMENTS

Dividend income		343,252	264,109
Share of profit of associates and joint venture		713,678	487,490
Gain / (loss) on sale of securities	24.1	316,823	(167,618)
Unrealised gain on held for sale securities		6,409	13,037
		<u>1,380,162</u>	<u>597,018</u>

24.1 GAIN / (LOSS) ON SALE OF SECURITIES

<i>Federal Government Securities</i>			
- Market treasury bills		107,094	228,630
- Pakistan investment bonds		25,826	(73,560)
- Other securities		1,150	(29,147)
Listed shares		182,753	(290,714)
Associates		-	(2,827)
		<u>316,823</u>	<u>(167,618)</u>

25. OTHER INCOME

Incidental charges		2,105,707	2,330,318
Rent on lockers		270,247	254,318
Gain on sale of property and equipment		17,865	29,410
Rent on property		72,093	68,040
Bad debts recovered		151,892	12,629
Miscellaneous earnings	25.1	142,426	638,285
		<u>2,760,230</u>	<u>3,333,000</u>

25.1 Miscellaneous earnings have been re-arranged and reclassified into appropriate heads for better comparison.

26. ADMINISTRATIVE EXPENSES

	Note	2010	2009
		(Rupees in '000)	
Salaries, allowances, etc.	26.3	12,979,505	13,142,577
Charge for defined benefit / contribution plan and other benefits		781,886	(138,302)
Non-executive directors' fees		14,500	12,880
Brokerage and commission		14,617	11,953
Rent, taxes, insurance, electricity, etc		2,301,375	2,171,057
Legal and professional charges		788,950	982,552
Communications		457,601	430,439
Repairs and maintenance		1,083,379	1,002,018
Stationery and printing		455,745	595,479
Auditors' remuneration	26.1	109,698	98,046
Advertisement and publicity		833,590	228,045
Amortisation	10.2	199,653	238,942
Depreciation	10.3	1,520,857	1,497,766
Entertainment		99,389	93,393
Travelling		291,899	280,738
Conveyance and motor car		103,893	96,014
Training		168,247	128,195
Security charges		694,099	684,470
Remittance charges		82,139	99,859
Donations	26.4	395,153	48,179
Documentation and processing charges		404,861	352,735
Others	26.5	471,924	688,920
		<u>24,252,960</u>	<u>22,745,955</u>
26.1 Auditors' remuneration			
Audit fee		3,682	3,273
Fee for interim review		3,350	2,979
Fee for audit of local branches of Habib Bank Limited		8,159	7,252
Special certifications / examinations and sundry advisory services		5,564	1,390
Out of pocket expenses		3,022	2,745
		<u>23,777</u>	<u>17,639</u>
Overseas subsidiaries / branches and domestic subsidiaries		<u>85,921</u>	<u>80,407</u>
		<u>109,698</u>	<u>98,046</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. 524.883 million (2009: Rs. 512.950 million) and Rs. 376.988 million (2009: Rs. 366.630 million) respectively.		
26.3	The bank has paid in addition to payments under the staff retirement funds, an amount of Rs. 210.782 million (2009: Rs. 1,720.420 million) to the staff retrenched during the year and in previous years.		
26.4	Details of the donations in excess of Rs. 100,000 and above are given in Annexure IV.		
26.5	Others have been re-arranged and reclassified into appropriate heads for better comparison.		
26.6 Benazir Employees' Stock Option Scheme			
	There is no liability of the Group to grant shares under this scheme and no impact on current or future cash flows of the Group. The details of scheme are as under:		
	On August 14, 2009, the Government of Pakistan (GoP) launched Benazir Employees' Stock Option Scheme ["the Scheme"] for employees of certain State Owned Enterprises (SOEs) and non-State Owned Enterprises where GoP holds significant investments (non-SOEs). The scheme is applicable to permanent and contractual employees who were in employment of these entities on the date of launch of the Scheme, subject to completion of five years vesting period by all contractual employees and by permanent employees in certain instances.		
	The Scheme provides for a cash payment to employees on retirement or termination based on the price of shares of respective entities. To administer this scheme, GoP shall transfer 12% of its investment in such SOEs and non-SOEs to a Trust Fund created for the purpose by each of such entities. The eligible employees would be allotted units by each Trust Fund in proportion to their respective length of service and on retirement or termination such employees would be entitled to receive such amounts from Trust Funds in exchange for the surrendered units as would be determined based on market price for listed entities or break-up value for non-listed entities. The shares relating to the surrendered units would be transferred back to GoP.		

The Scheme also provides that 50% of dividend related to shares transferred to the respective Trust Fund would be distributed amongst the unit-holder employees. The balance 50% dividend would be transferred by the respective Trust Fund to the Central Revolving Fund managed by the Privatization Commission of Pakistan for payment to employees against surrendered units. The deficit, if any, in Trust Funds to meet the re-purchase commitment would be met by GoP.

An employees trust to administer the scheme for Bank's employees was formed on October 26, 2010. However, the shares have not yet been transferred to the Trust.

The Scheme, developed in compliance with the stated GoP policy of empowerment of employees of State Owned Enterprises, needs to be accounted for by the covered entities, including the Bank, under the provisions of amended International Financial Reporting Standard 2 Share Based Payments (IFRS 2). However, keeping in view the special nature of the Scheme, various entities covered under the scheme have requested the Securities and Exchange Commission of Pakistan to grant an exemption from application of IFRS 2 to the Scheme. The exemption is currently awaited.

	Note	2010	2009
		(Rupees in '000)	
27. OTHER CHARGES			
Penalties imposed by State Bank of Pakistan		178,700	3,540

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.

	2010	2009
	(Rupees in '000)	
29. TAXATION		
For Pakistan - for the year - current	8,461,106	6,878,293
- deferred	(441,060)	(698,263)
For Pakistan - prior year - current	694,898	(1,173,853)
- deferred	8,693	1,778,743
For Overseas - for the year - current	1,237,677	1,217,349
- deferred	51,019	152,924
For Overseas - prior year - current	(65,177)	78,498
- deferred	58,494	(252,804)
	<u>10,005,650</u>	<u>7,980,887</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	27,040,030	21,381,636
Tax on income @ 35% (2009: 35%)	9,464,011	7,483,573
- Reduced rate income	(505,948)	(152,100)
- Others	1,047,587	649,414
Tax charge for the current year	<u>10,005,650</u>	<u>7,980,887</u>

29.2 The income tax returns of Habib Bank Limited have been submitted upto and including the bank's financial year 2009. The tax authorities have concluded the audit of years 2002 through 2009.

While amending the assessment under section 122(5A) of the Income Tax Ordinance, 2001 for the tax year 2006 the tax authorities have disallowed double income tax relief relating to Azad Jammu & Kashmir (AJK) branches amounting to Rs. 2,923 million.

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

Appeal against this issue is pending at appellate stage. Although the bank has made partial payment of tax assessed, under protest, no provision has been made in the financial statements for the above liability, as the management is confident that the eventual outcome of this issue will be in the favor of the bank.

Through Finance Act, 2010 certain amendments have been introduced in Seventh Schedule to the Income Tax Ordinance, 2001. The provision for advances & off balance sheet items will now be allowed at 5% of total gross advances for consumer and SMEs (as defined in SBP prudential Regulation). The provision for advances and off balance sheet items other than those falling in definition of consumer & SMEs will be allowed upto 1% of such total gross advances.

Further a new Rule 8(A) has been introduced 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.

With reference to allowability of provision, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognized deferred tax asset on such provision amounting to Rs. 2.849 billion.

	Note	2010	2009
		(Rupees in '000)	
30. BASIC AND DILUTED EARNINGS PER SHARE			
Profit for the year attributable to equityholders of the Bank		16,816,179	13,389,452
		(Number)	
Weighted average number of ordinary shares		1,001,880,000	1,001,880,000
		(Rupees)	
Basic and diluted earnings per share		16.78	13.36

31. CASH AND CASH EQUIVALENTS	Note	2010	2009
		(Rupees in '000)	
Cash and balance with treasury banks	5	81,640,246	79,839,836
Balance with other banks	6	37,413,185	40,366,687
		<u>119,053,431</u>	<u>120,206,523</u>

32. STAFF STRENGTH	(Number)	
	Permanent	13,251
Others	18	21
Total staff strength	<u>13,269</u>	<u>13,211</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, 2010 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:

	2010	2009
	-----Per annum-----	
Valuation discount rate	13%	13%
Expected rate of increase in salary level	11%	11%
Expected rate of return on funds invested	13%	13%

33.2 Pension, gratuity and benevolent fund schemes

33.2.1 Fair value of plan assets and present value of defined benefits obligations of these schemes as at December 31, 2010 are as follows:

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2010	2009	2010	2009	2010	2009	2010	2009
	----- (Rupees in '000) -----							
Fair value of plan assets	3,629,930	11,308,988	314,910	770,148	1,281,248	1,170,236	-	-
Present value of defined benefit obligation	(3,752,486)	(3,823,669)	(363,236)	(335,598)	(1,405,002)	(1,432,930)	-	-
Surplus / (deficit)	(122,556)	7,485,319	(48,326)	434,550	(123,754)	(262,694)	-	-
Present value of unfunded obligation	-	-	-	-	-	-	(2,244,246)	(2,180,320)
Unrecognised past service cost	-	-	-	-	138,027	188,760	81,937	107,860
Asset / (provision) recognised in the balance sheet	(122,556)	7,485,319	(48,326)	434,550	14,273	(73,934)	(2,162,309)	(2,072,460)

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

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

Note	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2010	2009	2010	2009	2010	2009	2010	2009
	----- (Rupees in '000) -----							
Current service cost	40,648	32,440	620	496	18,389	14,645	20,475	16,799
Mark-up cost	497,077	554,190	43,628	50,003	186,281	174,921	283,442	339,212
Expected return on plan assets	(497,077)	(1,432,985)	(41,812)	(91,150)	(152,131)	(178,696)	-	-
Other movements	81,908	(361,860)	31,922	(66,373)	(92,898)	294,148	(54,334)	(276,607)
Contributions - employees	-	-	-	-	(23,924)	(18,881)	-	-
Charge / (reversal) for the year	<u>122,556</u>	<u>(1,208,215)</u>	<u>34,358</u>	<u>(107,024)</u>	<u>(64,283)</u>	<u>286,137</u>	<u>249,583</u>	<u>79,404</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	
	2010	2009	2010	2009	2010	2009	2010	2009
	----- (Rupees in '000) -----							
Opening balance	(7,485,319)	(6,277,104)	(434,550)	(293,909)	73,934	(193,322)	2,072,460	2,349,341
Charge / (credit) for the year	122,556	(1,208,215)	34,358	(107,024)	(64,283)	286,137	249,583	79,404
Refund / (contributions) during the year	7,485,319	-	448,518	(33,617)	(23,924)	(18,881)	-	-
Benefits paid	-	-	-	-	-	-	(159,734)	(356,285)
Closing balance	<u>122,556</u>	<u>(7,485,319)</u>	<u>48,326</u>	<u>(434,550)</u>	<u>(14,273)</u>	<u>73,934</u>	<u>2,162,309</u>	<u>2,072,460</u>

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

33.2.5 Movement of present value of defined benefit obligation

	Pension		Gratuity		Benevolent		Post-employment medical benefits	
	2010	2009	2010	2009	2010	2009	2010	2009
	----- (Rupees in '000) -----							
Opening balance	(3,823,669)	(3,958,503)	(335,598)	(357,163)	(1,432,930)	(1,249,439)	(2,180,320)	(2,422,945)
Current service cost	(40,648)	(32,440)	(620)	(496)	(18,389)	(14,645)	(20,475)	(16,799)
Mark-up cost	(497,077)	(554,190)	(43,628)	(50,003)	(186,281)	(174,921)	(283,442)	(339,212)
Benefits paid	257,657	851,763	26,931	57,483	95,635	279,433	159,734	356,285
Other movements	351,251	(130,299)	(10,321)	14,581	136,963	(273,358)	80,257	242,351
Closing balance	(3,752,486)	(3,823,669)	(363,236)	(335,598)	(1,405,002)	(1,432,930)	(2,244,246)	(2,180,320)

33.2.6 Movement of fair value of plan assets

	Pension		Gratuity		Benevolent	
	2010	2009	2010	2009	2010	2009
	----- (Rupees in '000) -----					
Opening balance	11,308,988	10,235,607	770,148	651,072	1,170,236	1,276,397
Expected return on plan assets	497,077	1,432,985	41,812	91,150	152,131	178,696
Employer (excess contributions refund) / contribution	(7,485,319)	-	(448,518)	33,617	23,924	18,881
Employee contributions	-	-	-	-	23,924	18,881
Benefits paid	(257,657)	(851,763)	(26,931)	(57,483)	(95,635)	(279,433)
Actuarial gain / (loss) on plan assets	(433,159)	492,159	(21,601)	51,792	6,668	(43,186)
Closing balance	3,629,930	11,308,988	314,910	770,148	1,281,248	1,170,236

33.2.7 Actual return on plan assets

	Pension		Gratuity		Benevolent	
	2010	2009	2010	2009	2010	2009
	----- (Rupees in '000) -----					
Expected return on plan assets	497,077	1,432,985	41,812	91,150	152,131	178,696
Actuarial gain / (loss) on plan assets	(433,159)	492,159	(21,601)	51,792	6,668	(43,186)
Actual return on plan assets	63,918	1,925,144	20,211	142,942	158,799	135,510

33.2.8 Other benefits - Employee compensated absences

The liability of the Bank in respect of employee compensated absences as at December 31, 2010, amounted to Rs. 1,591.125 million (2009: Rs. 1,513.413 million). Provision for this balance is held by Bank.

The charge for the year amounting to Rs. 137.943 million (2009: Rs. 229.694 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 January 1, 2002 and for those who did not opt for the Bank's Pension scheme introduced in 1977, the bank operates an approved Provident Fund under which both the Bank and employees contribute at following rates:

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

The staff who are covered by the Bank's Pension plan now also eligible for Provident fund benefits effective from April 01, 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.

35. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Group President / Chief Executive		Directors		Executives	
	2010	2009	2010	2009	2010	2009
	(Rupees in '000)					
Remuneration / fee of non executives directors *	-	-	23,211	14,814	-	-
Managerial remuneration (including allowances)	19,888	10,320	-	-	3,053,294	2,387,725
Contribution to provident and benevolent fund	1,755	900	-	-	75,574	56,964
Medical	140	156	-	-	134,221	96,182
House maintenance	613	1,689	-	-	-	-
Utilities	347	288	-	-	-	-
Conveyance	251	195	-	-	-	-
	<u>22,994</u>	<u>13,548</u>	<u>23,211</u>	<u>14,814</u>	<u>3,263,089</u>	<u>2,540,871</u>
Number of persons	<u>1</u>	<u>1</u>	<u>7</u>	<u>7</u>	<u>1,576</u>	<u>1,206</u>

* As approved by the shareholders in the annual general meeting held on March 27, 2010.

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	2010	2009
		(Rupees in '000)	
Balances outstanding as at the year end			
- Borrowings / Deposits from			
- Joint venture and associates		1,925,497	2,774,917
- Retirement benefit funds		1,959,736	7,841,600
- Companies in which directors are interested		2,940,247	34,573
- Companies in which key management personnel are interested		125,447	104,424
- AKFED Group Companies		1,068,516	1,572,335
- Investment in associates and joint venture	8.4	4,063,086	3,397,745
- Investments in companies in which directors are interested		459,033	216,460
- Investment in companies in which key management personnel are interested		28,613	34,113
- Receivable from defined benefit schemes	12	-	7,919,870
- Payable to defined benefit schemes	17	170,882	266,245
- Mark-up / Other Payables to:			
- AKFED Group Companies		1	2
- Companies in which key management personnel are interested		703	429
- Companies in which directors are interested		32,041	1,290
- Associates		9,742	529
- Retirement benefit funds		27,496	347,068
- Mark-up / Other Receivables from:			
- Companies in which key management personnel are interested / Companies in which directors are interested		33,692	590,571
- Placements with associate		238,513	-
- Overdrawn nostro balances with joint venture and associates / companies in which key management personnel are interested / AKFED Group Companies		1,186,499	210,208
- Acceptances		-	7,966
- Payable to HBL Foundation		349,512	-
Profit / expense for the year			
- Interest paid			
- Joint venture and associates		62,081	160,237
- Retirement benefit funds		457,595	483,559
- Companies in which Directors are interested		34,806	26,686
- Companies in which key management personnel are interested		3,651	6,910
- AKFED Group Companies		11,347	1,908
- Premium paid to companies in which directors are interested		233,697	184,471
- Interest income			
- Joint venture and associates		72	64,485
- Companies in which Directors are interested		115,212	126,484
- Companies in which key management personnel are interested		1,082,419	815,122
- In respect of debts due by key management personnel		22,940	27,800
- Other income from associates		549,254	746,467
- Impairment provision on investment in associate	8.8.1	573,261	335,261
- Share of profit of associates and joint venture company - net of tax	8.4	530,429	348,432
- Donations paid on behalf of HBL Foundation		88,500	-
- Dividend income			
- Companies in which Directors are interested		5,500	3,783
- Companies in which key management personnel are interested		29,229	9,855

36.1 **Key Management Personnel**

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

	2010	2009
	(Rupees in '000)	
Managerial remuneration (including allowances)	1,034,657	966,854
Contribution to provident and benevolent fund	18,689	16,953
Medical	26,384	25,168
	<u>1,079,730</u>	<u>1,008,975</u>
Number of persons	<u>153</u>	<u>148</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 internal risk rating system to supplement the credit risk measurement procedure for exposures exceeding a certain threshold. Consequently exposure amounting to over 90% is rated. Risk rating of counterparties is an essential requirement of credit approval process. The 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 initiate.

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

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 the Group level 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. The Group has recently strengthened its Derivative platform through acquisition of sophisticated systems and skilled HR to acquire the Authorised Derivative Dealer(ADD). This will allow the bank to take position on its books, however very restricted limits have been approved which is reflective of prudent policy of the group for new activities.

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 part of its assets and liabilities. The major portion related to this risk is reflected in the banking book owing to the retail activities and investments qualifying for statutory reserve requirements. The overall potential impact of the mismatches on the earnings in short term and economic value of the portfolio in the long term is not material and is being managed 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 Management (ORM)

In line with the approved Operational Risk Management Policy, Group has instituted an Operational Risk Management department. Operational Risk Management Policy and a detailed ORM Framework has been prepared 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). Both ORM policy and the framework have been approved by the Board. Based on overall ORM developments, bank has also obtained approval from SBP to carry out a parallel run under ASA approach.

The ORM Framework addresses 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 has been conducted within the Bank, the results of which are being continually evaluated against the losses. Key Risk Indicators (KRI) have also been finalized in coordination with various units of the bank.

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.

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

	2010	2009
	(Rupees in '000)	
Tier 1 Capital		
1.1 Fully Paid-up capital	10,018,800	9,108,000
1.2 General Reserves as disclosed on the Balance Sheet	20,138,569	18,544,576
1.3 Un-appropriated / un-remitted profits (net of accumulated losses, if any)	47,467,704	38,498,335
1.4 Minority interest	1,212,656	1,143,241
	78,837,729	67,294,152
Deductions:		
1.5 Book value of intangibles	46,266	235,123
1.6 Other deductions (50% of the amount) Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	534,236	441,173
	580,502	676,296
Total eligible Tier 1 capital	78,257,227	66,617,856
Supplementary Capital		
Tier 2 Capital		
2.1 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets	1,517,976	723,947
2.2 Revaluation Reserves up to 45%	3,874,313	3,886,973
2.3 Foreign Exchange Translation Reserves	9,216,986	8,982,804
2.4 Subordinated debt -upto maximum of 50% of Total eligible Tier 1 capital	2,569,101	4,212,080
Total tier 2 Capital	17,178,376	17,805,804
Deductions:		
2.5 Other deductions (50% of the amount as calculated on CAP 2) Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	534,236	441,173
	534,236	441,173
Total eligible Tier 2 Capital	16,644,140	17,364,631
Tier 3 Capital		
Eligible Tier 3 Capital	-	-
Committed Tier II Capital		
Total Eligible Capital (1+2+3)	94,901,367	83,982,487

38.2 Risk-Weighted Exposures

	Capital Requirements		Risk Weighted Assets	
	2010	2009	2010	2009
Note	------(Rupees in '000)-----			
Credit Risk				
Claims on:				
Other sovereigns, GOP, PG, SBP other than PKR	2,988,274	3,421,913	29,882,739	34,219,132
PSE's	1,456,274	1,890,641	14,562,738	18,906,405
Banks	2,425,629	1,768,183	24,256,286	17,681,834
Corporates	31,507,887	32,481,675	315,078,869	324,816,755
Retail Portfolio	4,702,956	4,310,382	47,029,559	43,103,823
Secured by residential property	213,245	256,513	2,132,447	2,565,128
Past due loans	1,249,783	1,524,111	12,497,834	15,241,113
Listed Equity investments	616,212	659,640	6,162,115	6,596,405
Unlisted equity investment:	212,500	195,257	2,125,000	1,952,569
Investments in fixed assets:	1,610,902	1,653,155	16,109,024	16,531,545
Other assets	2,352,750	2,819,635	23,527,497	28,196,353
	49,336,412	50,981,105	493,364,108	509,811,062
Market Risk				
Interest Rate Risk	853,798	20,289	10,672,480	253,612
Equity Position Risk	288,554	39,346	3,606,923	491,826
Foreign Exchange Risk	3,267,978	2,730,826	40,849,727	34,135,319
	4,410,330	2,790,461	55,129,130	34,880,757
Operational Risk	8,069,813	7,149,095	100,872,660	89,363,690
	61,816,555	60,920,661	649,365,898	634,055,509
Capital Adequacy Ratio				
Total eligible regulatory capital held	38.1	94,901,367	83,982,487	
Total risk weighted assets	38.2	649,365,898	634,055,509	
Capital adequacy ratio		14.61%	13.25%	

38.3 Types of Exposures and ECAI's used

Exposures	JCR-VIS	PACRA	MOODYs	STANDARD & POOR	ECA SCORES
PSE's	✓	✓			
Banks	✓	✓	✓		
Corporates	✓	✓			
Sovereigns and GoP other than PKR			✓	✓	✓

38.4 Credit Exposures subject to Standardised approach

Exposures	Rating Category	2010			2009		
		Amount Outstanding	Deduction CRM	Net exposure	Amount Outstanding	Deduction CRM	Net exposure
							(Rupees in '000)
Cash and cash equivalent		12,480,615	-	12,480,615	10,641,255	-	10,641,255
Claims on GoP in PKR		83,883,374	31,709,220	52,174,154	168,903,957	27,123,265	141,780,692
Claims on SBP arising out of statutory obligations		9,479,805	-	9,479,805	9,115,279	-	9,115,279
Claims on other sovereigns and GoP other than PKR	1	3,104,908	-	3,104,908	6,093,287	-	6,093,287
Claims on other sovereigns and GoP other than PKR	2	6,294,105	-	6,294,105	17,501,791	-	17,501,791
Claims on other sovereigns and GoP other than PKR	3	11,009,351	-	11,009,351	3,345,595	-	3,345,595
Claims on other sovereigns and GoP other than PKR	4,5	13,274,603	-	13,274,603	20,041,330	-	20,041,330
Claims on other sovereigns and GoP other than PKR	6	5,767,872	-	5,767,872	6,073,636	-	6,073,636
Claims on other sovereigns and GoP other than PKR	Unrated	1,204,601	-	1,204,601	-	-	-
PSE	1	1,794,695	104,852	1,689,843	12,196,037	746	12,195,291
PSE	Unrated	174,127,227	100,697,329	73,429,898	209,210,437	115,588,220	93,622,217
Banks	1	47,660,274	2,779,361	44,880,913	31,805,872	784,156	31,021,716
Banks	2,3	6,675,189	956,065	5,719,124	5,015,390	2,891	5,012,499
Banks	Unrated	11,073,358	-	11,073,358	4,268,369	7,787	4,260,582
Bank - three months or less	1,2,3	59,475,350	28,853,279	30,622,071	43,728,930	9,959,245	33,769,685
Bank - three months or less	Unrated	11,988,084	-	11,988,084	7,345,048	-	7,345,048
Corporate	1	21,974,907	-	21,974,907	31,128,241	130	31,128,111
Corporate	2	19,673,107	1,500	19,671,607	9,342,578	137,760	9,204,818
Corporate	3,4	2,062,568	-	2,062,568	1,590,954	2,429	1,588,525
Corporate	Unrated	338,798,593	6,706,338	332,092,255	360,218,224	9,343,493	350,874,731
Retail		66,090,330	2,395,287	63,695,043	60,899,153	2,628,324	58,270,829
Residential mortgage		6,092,707	-	6,092,707	7,328,936	-	7,328,936
Past due loans		12,429,994	-	12,429,994	14,814,118	-	14,814,118
Listed equity and regulatory capital instruments		6,162,115	-	6,162,115	6,596,405	-	6,596,405
Unlisted equity		1,416,667	-	1,416,667	1,301,713	-	1,301,713
Fixed assets		16,109,024	-	16,109,024	16,531,545	-	16,531,545
Other assets		23,527,497	-	23,527,497	28,196,353	-	28,196,353
		973,630,920	174,203,231	799,427,689	1,093,234,433	165,578,446	927,655,987

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).

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.

		2010										Not exposed to yield / interest risk
Effective yield / interest rate	Total	Exposed to yield / interest risk										
		Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years		
(Rupees in '000)												
On-balance sheet assets												
Financial assets												
Cash and balances with treasury banks	1.38%	81,640,246	16,316,173	4,308,126	1,517,783	91,989	-	-	-	-	-	59,406,175
Balances with other banks		37,413,185	20,111,050	8,556,812	4,424,624	283,170	-	-	-	-	-	4,037,529
Lendings to financial institutions	12.97%	30,339,344	4,220,830	12,335,638	11,327,389	2,455,487	-	-	-	-	-	-
Investments	11.48%	254,909,116	10,447,054	106,877,566	58,763,778	29,459,360	10,170,238	11,967,576	5,934,256	3,201,628	9,629,470	8,458,190
Advances	13.15%	459,750,012	58,740,076	203,211,378	143,929,883	20,397,614	5,722,833	3,780,754	6,935,599	5,963,778	2,425,578	8,642,519
Other assets		25,425,897	-	-	-	-	-	-	-	-	-	25,425,897
		889,477,800	109,835,183	335,289,520	219,963,457	52,687,620	15,893,071	15,748,330	12,869,855	9,165,406	12,055,048	105,970,310
Financial liabilities												
Bills payable		9,775,093	-	-	-	-	-	-	-	-	-	9,775,093
Borrowings from financial institutions	8.04%	40,459,860	11,972,291	9,666,336	11,342,878	367,946	807,266	823,468	2,718,827	2,759,970	878	-
Deposits and other accounts	4.56%	747,374,799	71,380,922	85,109,034	354,275,636	48,836,265	8,104,215	8,213,207	43,146,940	23,047,191	18,794,076	86,467,313
Sub-ordinated loans	2.03%	4,281,835	-	-	4,281,835	-	-	-	-	-	-	-
Other liabilities		25,816,594	-	-	-	-	-	-	-	-	-	25,816,594
		827,708,181	83,353,213	94,775,370	369,900,349	49,204,211	8,911,481	9,036,675	45,865,767	25,807,161	18,794,954	122,059,000
On-balance sheet gap		61,769,619	26,481,970	240,514,150	(149,936,892)	3,483,409	6,981,590	6,711,655	(32,995,912)	(16,641,755)	(6,739,906)	(16,088,690)
Non - financial net assets		34,481,152	-	-	-	-	-	-	-	-	-	-
Total net assets		96,250,771	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments												
Foreign currency forward purchases		90,133,552	41,800,918	34,323,173	10,907,751	3,073,220	28,490	-	-	-	-	-
Foreign currency forward sales		(89,948,906)	(41,856,951)	(34,177,209)	(10,857,527)	(3,057,219)	-	-	-	-	-	-
Interest rate swaps - long position		371,092	-	-	-	-	-	-	-	371,092	-	-
Interest rate swaps - short position		(371,092)	-	-	-	-	-	-	-	(371,092)	-	-
		184,646	(56,033)	145,964	50,224	16,001	28,490	-	-	-	-	-
Total yield / interest risk sensitivity gap		-	26,425,937	240,660,114	(149,886,668)	3,499,410	6,953,100	6,711,655	(32,995,912)	(16,641,755)	(6,739,906)	(16,088,690)
Cumulative yield / interest risk sensitivity gap		-	26,425,937	267,086,051	117,199,383	120,698,793	127,651,893	134,363,548	101,367,636	84,725,881	77,985,975	61,897,285

		2009										Not exposed to yield / interest risk
Effective yield / interest rate	Total	Exposed to yield / interest risk										
		Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years		
(Rupees in '000)												
On-balance sheet assets												
Financial assets												
Cash and balances with treasury banks	1.30%	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	7,316,011
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	9,026,659
Other assets		31,531,407	-	-	-	-	-	-	-	-	-	31,531,407
		828,220,834	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	107,253,960
Financial liabilities												
Bills payable		10,041,542	-	-	-	-	-	-	-	-	-	10,041,542
Borrowings from financial institutions	6.43%	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	77,324,843
Sub-ordinated loans	2.25%	4,212,080	-	4,212,080	-	-	-	-	-	-	-	-
Other liabilities		29,285,575	-	-	-	-	-	-	-	-	-	29,285,575
		778,832,254	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	116,651,960
On-balance sheet gap		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)	(9,398,000)
Non - financial net assets		34,981,218	-	-	-	-	-	-	-	-	-	-
Total net assets		84,369,798	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments												
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)	-	-	-	-	-	-	-	-
		(7,723)	(2,409,811)	4,751,425	(2,958,747)	609,410	-	-	-	-	-	-
Total yield / interest risk sensitivity gap		-	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)
Cumulative yield / interest risk sensitivity gap		-	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

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 loans, other assets and other liabilities cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Group's accounting policy as stated in note 4.6.

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. 889,477,800 million, financial assets which were subject to credit risk amounted to Rs. 876,997,184 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:

		2010	
		(Rupees in '000)	
Guaranteed by the Government of Pakistan			
Investments		205,472,512	
Loans and advances		40,087,928	
Mark-up receivable		5,231,379	
		250,791,819	
Financial assets receivable from enterprises owned / controlled by government			
Loans and advances		48,969,463	
Financial assets receivable from State Bank of Pakistan		36,591,352	
Financial assets receivable from National Bank of Pakistan		8,213,599	
Mark-up receivable		144,087	
		93,918,501	
Guaranteed by Overseas Governments			
Financial assets receivable from other central banks		11,122,209	
		24,354,679	
		380,187,208	

43.2 Segment by class of business

	2010					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	24,639,500	4.90	5,754,618	0.77	7,704,472	4.44
Agribusiness	32,335,926	6.44	7,093,765	0.95	1,715,940	0.99
Textile	84,017,429	16.72	4,688,963	0.63	16,272,470	9.39
Cement	14,560,022	2.90	384,852	0.05	1,888,252	1.09
Sugar	3,013,868	0.60	579,819	0.08	1,183,454	0.68
Shoes and leather garments	2,276,177	0.45	887,277	0.12	325,469	0.19
Automobile and transportation equipment	8,852,286	1.76	3,142,829	0.42	2,891,860	1.67
Financial	24,008,590	4.78	5,657,334	0.76	39,926,907	23.03
Insurance	815,942	0.16	2,857,477	0.38	332	-
Electronics and electrical appliances	13,673,347	2.72	5,640,262	0.75	2,386,675	1.38
Production and transmission of energy	49,580,234	9.87	11,857,839	1.59	12,363,888	7.13
Education & medical	1,757,766	0.35	3,794,705	0.51	672,985	0.39
Telecommunication	17,618,474	3.51	5,123,549	0.69	1,655,118	0.95
Printing & publishing	3,301,499	0.66	154,755	0.02	774,862	0.45
Construction	2,829,497	0.56	1,877,621	0.25	508,088	0.29
Mining & quarrying	267,196	0.05	84,804	0.01	1,813	-
Food, tobacco and beverages	8,836,289	1.76	1,040,540	0.14	2,680,052	1.55
Public / Government - note 43.2.1	89,057,391	17.72	108,520,694	14.52	52,979,203	30.56
Whole sale & retail trade	44,709,791	8.90	39,940,188	5.34	7,214,024	4.16
Metal and allied	8,275,029	1.65	839,836	0.11	1,412,569	0.81
Individual	34,522,827	6.87	452,445,783	60.54	300,226	0.17
Farming, cattle and dairy	1,309,874	0.26	486,731	0.07	173,200	0.10
Trust funds and non profit organization	1,325,141	0.26	16,967,757	2.27	7,633	-
Others	30,861,542	6.15	67,552,801	9.03	18,307,166	10.58
	502,445,637	100.00	747,374,799	100.00	173,346,658	100.00

	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
	490,010,583	100.00	682,750,079	100.00	217,926,743	100.00

43.2.1 Public / Government sector

	2010					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Chemical and pharmaceuticals	-	-	408,599	0.38	-	-
Agribusiness	55,101,195	61.87	1,643,113	1.51	1,989,455	3.76
Textile	-	-	2	-	-	-
Cement	-	-	97	-	-	-
Sugar	141,585	0.16	-	-	-	-
Automobile and transportation equipment	9,543,557	10.72	2,824,538	2.60	889,548	1.68
Financial	4,510,918	5.07	2,269,361	2.09	-	-
Insurance	-	-	7,968,832	7.34	3,193	0.01
Production and transmission of energy	9,869,277	11.08	21,714,052	20.01	5,814,293	10.97
Education & medical	119,341	0.13	24,426,271	22.51	25,720	0.05
Telecommunication	55,651	0.06	2,710,124	2.50	3,479	0.01
Printing & publishing	-	-	21,850	0.02	-	-
Construction	30,000	0.03	58,967	0.05	-	-
Foods, tobacco & beverages	-	-	342	-	-	-
Whole sale & retail trade	288,453	0.32	-	-	31,910	0.06
Metal and allied	1,119,746	1.26	794,993	0.73	-	-
Farming, cattle and dairy	-	-	92	-	-	-
Defence	1,500,000	1.68	3,113,730	2.87	41,772,563	78.85
Ports and shipping	-	-	3,573,872	3.29	641,356	1.21
Others	6,777,668	7.62	36,991,859	34.10	1,807,686	3.40
	89,057,391	100.00	108,520,694	100.00	52,979,203	100.00

	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
	101,076,558	100.00	115,234,701	100.00	83,998,398	100.00

43.2.2 Segment by sector	2010					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	89,057,391	17.72	108,520,694	14.52	52,979,203	30.56
Private	413,388,246	82.28	638,854,105	85.48	120,367,455	69.44
	502,445,637	100.00	747,374,799	100.00	173,346,658	100.00

43.3 Details of non-performing advances and specific provisions by class of business segment	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
	490,010,583	100.00	682,750,079	100.00	217,926,743	100.00

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

	2010		2009	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	------(Rupees in '000)-----			
Chemical and pharmaceuticals	645,996	511,949	483,920	397,684
Agribusiness	3,156,736	1,894,460	3,744,163	1,791,545
Textile	18,509,138	14,433,726	15,279,587	13,511,947
Cement	700,057	700,057	500,000	500,000
Sugar	432,604	388,385	431,881	344,003
Shoes and leather garments	312,110	256,190	218,981	156,012
Automobile and transportation equipment	1,318,736	1,298,751	1,283,544	1,163,837
Financial	4,516,249	4,516,249	3,164,665	3,127,971
Electronics and electrical appliances	2,801,640	2,449,721	2,707,489	2,400,840
Production and transmission of energy	1,808,972	1,790,617	1,613,915	879,108
Education & medical	759	759	972	486
Telecommunication	261,457	261,457	261,470	260,729
Printing & publishing	199,507	155,164	117,414	72,471
Construction	1,418,109	662,835	1,804,673	893,531
Mining & quarrying	425,002	423,823	434,954	387,766
Food, tobacco and beverages	443,495	342,310	445,767	407,475
Whole sale & retail trade	4,876,944	4,212,370	3,705,306	2,741,624
Metal and allied	678,406	604,201	490,893	376,315
Individual	2,841,863	1,387,976	2,794,372	1,367,049
Farming, cattle and dairy	245,820	101,624	256,097	115,388
Trust funds and non profit organization	5,174	5,174	967	481
Others	8,008,869	4,779,851	9,697,225	3,727,875
	53,607,643	41,177,649	49,438,255	34,624,137

43.3.1 Segment by sector	2010		2009	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	------(Rupees in '000)-----			
Private	48,614,107	36,184,113	46,212,929	31,580,671
Public / Government	4,993,536	4,993,536	3,225,326	3,043,466
	53,607,643	41,177,649	49,438,255	34,624,137

44. SEGMENT DETAIL WITH RESPECT TO BUSINESS ACTIVITIES

	2010					Total
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	
	------(Rupees in million)-----					
Net interest income - External	(15,802)	44,367	13,575	4,247	608	46,995
Inter segment revenue - net	47,105	(36,369)	(12,555)	-	1,819	-
Non-funded income	4,101	2,678	2,162	3,430	391	12,762
Net interest and non-mark-up income	35,404	10,676	3,182	7,677	2,818	59,757
Total expenses including provision (excluding impairment)	12,457	6,531	145	5,508	7,937	32,578
Impairment against investments	-	-	(136)	-	275	139
Inter segment administrative cost	6,557	1,311	189	722	(8,779)	-
Total expenses including provision	19,014	7,842	198	6,230	(567)	32,717
Profit before tax	16,390	2,834	2,984	1,447	3,385	27,040
Segment assets (gross)	105,022	430,553	204,722	183,656	46,020	969,973
Segment non-performing loans	8,587	27,928	-	16,871	222	53,608
Segment provision required including general provision	6,636	22,726	498	12,867	2,547	45,274
Segment liabilities including equity	560,160	105,357	9,776	113,979	135,427	924,699
Segment return on net liability / asset %	11.89%	12.76%	9.84%	4.95%	4.55%	-
Segment cost of funds (%)	5.03%	10.21%	8.01%	1.08%	0.57%	-

	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	7,534	32,538
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	2,835	32,449
Profit / (loss) before tax	16,576	3,475	2,458	1,633	(2,761)	21,381
Segment assets (gross)	96,577	421,574	135,539	184,632	64,052	902,374
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	114,503	863,925
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	-

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

	2010			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	------(Rupees in '000)-----			
Pakistan	24,087,140	750,589,721	56,021,703	150,208,735
Asia Pacific (including South Asia)	782,452	46,374,081	13,080,131	5,808,845
Europe	712,051	60,020,902	10,908,195	6,748,219
North America	100,599	1,843,541	1,633,210	1,579,758
Middle East	708,129	53,643,465	10,945,894	7,853,778
Others	649,659	12,227,693	3,661,638	1,147,323
	<u>27,040,030</u>	<u>924,699,403</u>	<u>96,250,771</u>	<u>173,346,658</u>
	------(Rupees in '000)-----			
	2009			
	<u>19,552,019</u>	<u>691,352,163</u>	<u>50,195,383</u>	<u>190,703,427</u>
Pakistan	(107,367)	46,722,438	9,860,056	5,989,963
Asia Pacific (including South Asia)	599,490	58,409,776	9,877,230	10,046,806
Europe	20,539	5,765,555	1,506,161	499,933
North America	617,907	49,469,276	8,797,550	10,373,681
Middle East	699,048	12,205,585	4,133,418	312,933
Others	<u>21,381,636</u>	<u>863,924,793</u>	<u>84,369,798</u>	<u>217,926,743</u>

47. NET ASSETS OF SUBSIDIARY COMPANIES - Share of the Group (before intra-group elimination)	2010 (Rupees in '000)	2009
Habib Allied International Bank Plc., United Kingdom	5,990,510	5,504,471
Habib Finance International Limited, Hong Kong	447,939	447,533
Habib Bank Financial Services (Private) Limited	40,176	35,692
HBL Currency Exchange (Private) Limited	528,472	471,660
First Habib Bank Modaraba	64,869	63,307
HBL Asset Management Limited	188,454	163,006
HBL Multi Asset Fund	287,472	248,481
HBL Income Fund	912,159	826,251
HBL Stock Fund	1,542,767	1,309,572
	<u>10,002,818</u>	<u>9,069,973</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	2010 (Rupees in '000)	2009
ASSETS			
Cash and balances with treasury banks		327,375	8,748
Balances with other banks		16,400	6,585
Lending to Financial Institution		100,000	-
Investments - net		6,670,855	167,283
Murabaha	48.1	51,727	434,455
Ijarah	48.2	829,663	1,024,023
Musharaka		79,167	100,000
Other assets		403,367	29,786
Operating fixed assets		1,024	610
		<u>8,479,578</u>	<u>1,771,490</u>
LIABILITIES			
Bills payable		60	-
Borrowings from financial institutions		1,500,000	41,696
Deposit and other accounts		5,726,476	60,320
Other liabilities		403,938	832,777
		<u>7,630,474</u>	<u>934,793</u>
NET ASSETS		<u>849,104</u>	<u>836,697</u>
REPRESENTED BY			
Islamic Banking Fund / Certificate Capital		647,072	497,072
Reserves		208,568	190,924
Unappropriated profit		110,974	143,538
		<u>966,614</u>	<u>831,534</u>
(Deficit) / surplus on revaluation of assets		(117,510)	5,163
		<u>849,104</u>	<u>836,697</u>

The commitment in respect of letters of credit of Islamic Banking branch of Habib Bank Limited amounted to Rs. 50.966 million (2009: Rs. 136.303 million).

48.1 This represents assets sold under Murabaha agreement.

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

	2010	2009
	(Rupees in '000)	
49. PROFIT AND LOSS ACCOUNT OF ISLAMIC BANKING BRANCH AND FIRST HABIB BANK MODARABA		
Mark-up / return / profit earned	724,257	651,383
Mark-up / return / profit expensed	136,575	19,429
Net mark-up / interest income	<u>587,682</u>	<u>631,954</u>
Provision against doubtful lease rentals	16,203	29,164
Depreciation on assets given on lease	224,273	304,292
Loss on impairment of assets given on lease	126,737	133,814
Provision against diminution in value of investments	-	9,375
	<u>367,213</u>	<u>476,645</u>
Net mark-up / interest income after depreciation and provisions	<u>220,469</u>	<u>155,309</u>
Non mark-up / interest income		
Fee, commission and brokerage income	3,119	1,486
Dividend income	1,337	886
Other income	14,133	5,086
Total non-mark-up / interest income	<u>18,589</u>	<u>7,458</u>
	239,058	162,767
Non mark-up / interest expense		
Administrative expenses	92,825	19,214
Other charges	7,389	3,993
Total non mark-up / interest expenses	<u>100,214</u>	<u>23,207</u>
Net profit for the year	<u><u>138,844</u></u>	<u><u>139,560</u></u>
50. CHARITY FUND		
Opening balance	-	2
Additions during the year	23	-
Payments / Utilization during the period	-	(2)
Closing balance	<u><u>23</u></u>	<u><u>-</u></u>
50.1 Remuneration to Shariah Advisor / Board	1,254	1,075
51. DATE OF AUTHORISATION FOR ISSUE		
These consolidated financial statements were authorised for issue in the Board of Directors meeting held on February 18, 2011.		
52. GENERAL		
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

HABIB BANK LIMITED
DETAIL OF DOMESTIC INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010
CONSOLIDATED

ANNEXURE I

Amounts in 000

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	Market value	Credit Ratings Short Term
United Bank Limited	500,000	10	5,000	34,115	A1+
NIB Bank Limited	13,000,000	10	130,000	38,350	A1+
Bank Al-Falah Limited	1,250,000	10	12,500	14,013	A1+
Faysal Bank Limited	600,000	10	6,000	9,354	A1+
Nishat Mills Limited	250,000	10	2,500	16,043	A1
Attock Petroleum Limited	400,000	10	4,000	133,808	N/A
Fauji Fertilizer Bin Qasim Limited	2,000,000	10	20,000	71,460	N/A
ICI Pakistan Limited	600,000	10	6,000	86,544	N/A
Pak Oilfields Limited	100,000	10	1,000	29,596	N/A
Arif Habib Investments Limited	452,304	10	4,523	8,033	A1
Adamjee Insurance Company Limited	100,000	10	1,000	8,750	N/A
Lucky Cement Limited	1,275,000	10	12,750	96,632	N/A
Habib Sugar Mills Limited	4,694	5	23	156	N/A
Mehran Sugar Mills Limited	174	10	2	10	N/A
Nishat Power Limited	500,000	10	5,000	8,115	A1+
Mari Gas Company Limited	20,000	10	200	2,499	N/A
Hub Power Company Limited	9,250,000	10	92,500	346,043	A1+
TRG Pakistan Limited	16,017,000	10	160,170	57,181	N/A
Kot Addu Power Company Limited	4,046,739	10	40,467	164,621	N/A
Engro Corporation Limited	750,300	10	7,503	145,416	A1+
Dawood Hercules Limited	210	10	2	44	N/A
Fauji Fertilizer Company Limited	1,500,000	10	15,000	188,790	N/A
			526,141	1,459,572	

1.2 Ordinary shares held by HBL mutual funds:

	Number of shares held	Paid-up value per share (Rupees)	Total paid-up value	Market value	Credit Ratings Short Term
Abbot Laboratories Pakistan Limited	42,117	10	421	4,622	N/A
Adamjee Insurance Company Limited	95,989	10	960	8,399	N/A
Allied Bank Limited	163,217	10	1,632	11,450	A1+
Askari Bank Limited	35,111	10	351	621	A1+
Attock Cement Pakistan Limited	55,384	10	554	3,495	N/A
Attock Petroleum Limited	298,795	10	2,988	88,750	N/A
Attock Refinery Limited	91,700	10	917	11,433	A1+
Bank Al-Falah Limited	116,035	10	1,160	1,301	A1+
Bank Al-Habib Limited	289,430	10	2,894	10,495	A1+
BOC Pakistan Limited	47,000	10	470	4,282	N/A
Clariant Pakistan Limited	10,000	10	100	1,830	N/A
D. G. Khan Cement Company Limited	711,749	10	7,117	21,473	N/A
Dawood Herceulus	20,901	10	209	4,146	N/A
Engro Corporation Limited	641,598	10	6,416	124,348	A1+
Engro Polymer Chemicals Limited	50,000	10	500	714	N/A
Fauji Fertilizer Bin Qasim Limited	1,495,000	10	14,950	53,417	N/A
Fauji Fertilizer Company Limited	1,439,179	10	14,392	181,134	N/A
Glaxo Smithkline Pakistan Limited	175,544	10	1,755	15,478	N/A
Habib Bank Limited	1,024,574	10	10,246	124,935	A-1+
Habib Metropolitan Bank Limited	267,816	10	2,678	7,764	A1+
ICI Pakistan Limited	32,500	10	325	4,688	N/A
Indus Motor Company Limited	17,000	10	170	4,292	N/A
Kot Addu Power Company Limited	894,506	10	8,945	36,389	N/A
Lucky Cement Limited	124,293	10	1,243	9,421	N/A
Mari Gas Company Limited	105,937	10	1,059	13,239	N/A
MCB Bank Limited	347,924	10	3,479	79,515	A1+
Meezan Bank Limited	128,734	10	1,287	2,176	A-1
National Bank of Pakistan	76,625	10	766	5,886	A-1+
National Refinery Limited	76,456	10	765	20,933	A1+
New Jubilee Life Insurance Company Limited	122,500	10	1,225	5,645	N/A
Nishat Power Limited	322,900	10	3,229	5,241	A1+
Nishat Chunian Power Limited	2,924,238	10	29,242	47,051	A1+
Nishat Mills Limited	731,750	10	7,318	46,957	A1
Oil and Gas Development Company Limited	144,976	10	1,450	24,767	A-1+
Orix Leasing Pakistan Limited	234,110	10	2,341	1,608	N/A
Packages Limited	139,104	10	1,391	17,891	A1+
Pak Suzuki Motor Company	118,294	10	1,183	8,259	N/A
Pakistan Oilfields Limited	653,471	10	6,535	193,400	N/A
Pakistan Petroleum Limited	940,646	10	9,406	204,261	N/A
Pakistan State Oil Company Limited	261,524	10	2,615	77,196	A1+
Pakistan Telecommunication Company Limited	1,005,000	10	10,050	19,517	N/A
Samba Bank Limited	490,138	10	4,901	961	A-1
Shell Pakistan Limited	54,238	10	542	11,293	N/A
The Hub Power Company Limited	3,184,205	10	31,842	119,121	A1+
United Bank Limited	689,011	10	6,890	47,011	A-1+
			208,912	1,686,805	

1.3	Units	Number of shares held	Paid-up value per share (Rupees)	Total paid-up value	Market value	Credit Ratings Short Term
	Mutual Funds					
	South Asia Regional Funds	5,000	563	2,814	279	N/A
	PICIC Investment Fund	11,104,508	10	111,045	71,180	***
	Meezan Balanced Fund	2,454,000	10	24,540	18,405	N/A
	JS - Growth Fund	13,381,363	10	133,814	74,267	***
	NIT Govt. Bond Fund	5,000,000	10	50,000	52,600	N/A
	PICIC Growth Fund	214,453	10	2,145	2,842	***
	Pakistan Strategic Allocation Fund	7,500,000	10	75,000	55,875	****
	First Habib Income Fund	152,250	100	15,225	15,627	AA-(f)
	IGI Income Fund	100,109	100	10,011	10,300	***
	Askari Asset Allocation Fund	254,955	100	25,496	10,239	**
	Nafa Islamic Aggressive Income Fund	1,500,000	10	15,000	11,910	BBB(f)
	Nafa Income Fund	2,500,000	10	25,000	25,726	A(f)
	Pakistan Income Fund	603,823	50	30,191	32,202	AA-(f)
	National Investment Trust	716,466	10	7,165	22,492	***
				527,444	403,943	

1.4	Preference Shares	Number of Shares Held	Paid-up value per share (Rupees)	Total Paid-up value	Market value	Credit Ratings Short Term
	Masood Textile Mills Ltd	10,000,000	10	100,000	100,000	N/A
				100,000	100,000	

1.5	Term finance certificates (TFC's)	Number of certificates held	Paid-up value per certificate (Rupees)	Total paid-up value	Market value	Credit Ratings Medium to Long term
	Askari commercial Bank Limited	16,990	5,000	84,950	83,051	AA
	Bank Al falah Limited	20,000	5,000	100,000	246,588	AA
	Bank Al Habib Limited	45,000	5,000	225,000	462,052	AA+
	Allied Bank Limited	14,277	5,000	71,385	68,561	AA-
	Faysal Bank Limited	30,000	5,000	150,000	315,091	AA-
	Telecard Limited	50,000	5,000	250,000	87,924	BBB
	NIB Bank Limited	34,950	5,000	174,750	169,898	AA-
	United Bank Limited	96,000	5,000	480,000	197,339	AA
	Pak Arab Fertilizer Limited	1,130,160	5,000	5,650,800	2,692,600	AA
	Worldcall Telecom Limited	96,000	5,000	480,000	399,523	A-
				7,666,885	4,722,625	

1.6 TFC's held by HBL mutual funds	Number of certificates held	Paid-up value per certificate (Rupees)	Total paid-up value	Market value	Credit Ratings Medium to Long Term
Orix Leasing Pakistan Limited	28,300	5,000	141,500	70,131	AA
Saudi Pak Leasing Company Limited	8,000	5,000	40,000	15,339	D
Jahangir Siddiqui & Company Limited	2,000	5,000	10,000	10,030	AA
Bank Alfalah Limited-II	4,000	5,000	20,000	19,722	AA
Bank Al Habib Limited	1,600	5,000	8,000	7,950	AA+
Faysal Bank Limited	12,758	5,000	63,790	61,788	AA-
NIB Bank Limited	36,000	5,000	180,000	175,036	AA-
United Bank Limited	39,000	5,000	195,000	185,336	AA
World Call Telecom Limited	23,750	5,000	118,750	97,915	A-
			777,040	643,247	

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	Break up value / NAV	Based on accounts as at	Name of Chief Executive	Credit Ratings Short Term
SME Bank Limited	0.83%	1,987,501	10	19,875	19,872	December 31, 2009	Mr. R.A. Chughtai	A-3
First Woman Bank Limited	26.78%	7,596,000	10	75,960	283,412	December 31, 2009	Ms. Shafqat Sultana	A-2
Khushhali Bank. Limited	17.60%	30,000,000	10	300,000	361,091	December 31, 2009	Mr. M. Ghalib Nishtar	A-2
N.I.T. Shares	8.33%	79,200	100	7,920	149,480	June 30, 2010	Wazir Ali Khoja	N/A
Central Depository Company of Pakistan Ltd	6.35%	3,173,001	10	31,730	99,265	June 30, 2010	Mr. Muhammad Hanif Jhakura	N/A
National Inst. Facilitation Technologies (PVT) Ltd	9.07%	985,485	10	9,855	149,480	June 30, 2010	Mr. M. M. Khan	N/A
Saif Power Limited (Provided on the basis of Breakup value)	10.14%	32,268,354	10	322,684	312,034	December 31, 2009	Mr. Omar Saifullah Khan	A1+
Sweet Water Diaries Pakistan Ltd	3.63%	2,074,000	10	20,740	23,785	June 30, 2010	Rashid Shuja Butt	N/A
				788,763	1,398,418			

2.2 Term finance certificates (TFC's)

	No. of certificates	Paid-up value per certificate (Rupees)	Total Paid-up value	Based on accounts as at	Name of Chief Executive	Credit Ratings Short Term
Pakistan International Airline		594,976	5,000	2,973,095	Mr. Zafar Ahmed Khan	N/A
Power Holding Pvt Limited (Note 2.2.1)		4,396,800	5,000	56,897,780	Mr. Fazeel Asif	N/A
		5,031,776	15,000	59,870,875		

2.2.1 Represents amount guaranteed by Government of Pakistan and includes partial overdue amounts.

2.3 TFC's held by HBL mutual funds

	Number of certificates held	Paid-up value per certificate (Rupees)	Total paid-up value	Market value	Credit Ratings Short Term
Al-Abbas Sugar Mills Limited	7,000	5,000	35,000	20,660	A
Engro Corporation Limited	48,600	5,000	243,000	217,551	AA
Agri Tech Limited	2,000	5,000	10,000	4,396	D
Maple Leaf Cement Factory Limited -Sukuk	7,000	5,000	35,000	21,931	BB
Sui Southern Gas Company Limited- Sukuk	3,000	5,000	15,000	11,807	A -
Orix Leasing Pakistan Limited	220	100,000	22,000	18,214	AA
				294,559	

3 Particulars of investments held in bonds

		Terms of Redemption			
		Principal	Interest / Profit	Rate of Interest / Profit	Principal
3.1	Bonds (Guaranteed by Government) - denominated in Pak Rupees				
	Pakistan International Airline	Repayable in full on maturity	Semi - Annual	6 Months Kibor +175bps	425,000
					425,000
3.2	Bonds (Private Sector) - denominated in Pak Rupees				
	Century Paper	Repayable in full on maturity	Semi - Annual	6 Months Kibor+135 BPS	320,000
	Arzoo Textile - Note 3.2.1	Repayable in full on maturity	Semi - Annual	6 Months Kibor+200 BPS	10,000
	Quetta Textile	Repayable in full on maturity	Semi - Annual	6 Months Kibor+150 BPS	96,667
	Engro Fertilizers Limited - FHBM	Repayable in full on maturity	Semi - Annual	6 Months Kibor + 150 BPS	49,000
	Dawood Hercules	Repayable in full on maturity	Semi - Annual	6 Months Kibor+120 BPS	2,000,000
					2,475,667
3.2.1	Investment by Islamic Banking Branch				
	Engro Fertilizers Limited	Repayable in full on maturity	Semi - Annual	6 Months Kibor + 150 BPS	25,000
	Engro Fertilizers Limited	Repayable in full on maturity	Semi - Annual	6 Months Kibor + 150 BPS	50,000
	Engro Fertilizers Limited	Repayable in full on maturity	Semi - Annual	6 Months Kibor + 150 BPS	25,000
	Engro Fertilizers Limited	Repayable in full on maturity	Semi - Annual	6 Months Kibor + 150 BPS	41,885
	Sitara Energy	Repayable in full on maturity	Semi - Annual	6 Months Kibor + 115 BPS	24,659
	Dawood Hercules	Repayable in full on maturity	Semi - Annual	6 Months Kibor+120 BPS	714,399
					880,943
					3,356,610
3.2.2	This investment in bonds is overdue.				
3.3	Certificate of Investment				
	UBL Ameen	Repayable in full on maturity	On Maturity	10.40%	50,000

Note

Credit Rating Definitions

Short Term Rating

- A1+** Obligation supported by the highest capacity for timely repayment
- A1** Obligation supported by the strong capacity for timely repayment
- A2** Obligation supported by the satisfactory capacity for timely repayment, although such capacity may be susceptible to adverse changes in business, economic, or financial conditions
- D** Obligation which have a high risk of default or which are currently in default

Long Term Rating

- AA** Low credit risk; strong capacity for timely payment
- A** Low credit risk; strong capacity for timely payment; capacity vulnerable to changes in economic conditions
- BBB** Low credit risk; adequate capacity for timely payment; economic condition are likely to impair the capacity
- BB** Possibility of credit risk; adequate capacity for timely payment; economic condition are likely to impair the capacity

Mutual Fund Rating

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

Fund Stability Rating

- AA (f)** A very strong capacity to maintain relative stability in returns and processes very low exposure to risks
- A (f)** A strong capacity to maintain relative stability in returns and processes very low exposure to risks. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions.
- BBB (f)** An adequate capacity to maintain relative stability in returns and processes very low exposure to risks. This capacity may be impacted adversely by changes in circumstances or in economic conditions.

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

**DETAILS OF DISPOSAL OF OPERATING
FIXED ASSETS as at December 31, 2010
GROUP**

ANNEXURE III

Amounts in 000

Description	Original cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of buyer
Furniture & Fixtures	10,235	10,235	0	106		
	2,134	2,134	0	1	Sale	Sharif Enterprises
	2,742	2,742	0	1	Sale	Sharif Enterprises
	2,571	2,571	0	1	Sale	Sharif Enterprises
	1,386	1,386	0	101	Insurance Claim	NJI
	1,403	1,403	0	2	Sale	KHALID BROTHER
Motor Vehicle	7,037	5,840	1,197	2,294		
	1,239	42	1,197	1,115	Insurance Claim	NJI
	1,162	1,162	0	283	Auction	Tahir Saeed Malik
	1,266	1,266	0	612	Negotiation	Mominul Huq
	1,729	1,729	0	83	Auction	Mustafa Niyaz
	1,641	1,641	0	202	Negotiation	Zulfiqar Ahmed Bhatti
Assets having cost of less than Rs. 1 million and book value of less than Rs.250,000	392,256	352,988	39,269	55,930		
	409,529	369,063	40,466	58,331		

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