

Directors' Report

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

2009: Review

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

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

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

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

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

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

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

Corporate Reporting Framework

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

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

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

Corporate Social Responsibility

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

Change in Accounting Policies

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

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

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

Dividend

The Directors approved payment of Cash Dividend of 55% (Rs. 5.50 per share) and 20% bonus shares (2 shares for every 10 shares held) to Shareholders entitled at close of business on March 13, 2009.

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

Earnings per Share

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

Pattern of Shareholding

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

Meetings of the Board

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

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

Credit Rating

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

Value of investments in employee retirement benefits fund

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

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

Auditors

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

Appreciation and Acknowledgement

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

On behalf of the Board

R. Zakir Mahmood

President and Chief Executive Officer

Karachi: February 19, 2010



KPMG Taseer Hadi & Co.

In our opinion the consolidated financial statements present fairly the financial position of Habib Bank Limited as at December 31, 2009 and except for the effect of the matter reported in the preceding paragraph, relating to identification of periods to which write downs relate, present fairly, the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Date: 19 FEB 2010

Karachi

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.

Chartered Accountants

Syed Iftikhar Anjum

Consolidated Balance Sheet

As at December 31, 2009

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

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

President and Chief Executive Officer

Director

Director

Director

Consolidated Balance Sheet

As at December 31, 2009

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

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

President and Chief Executive Officer

Director

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Director

Consolidated Profit and Loss Account

For the Year Ended December 31, 2009

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

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

President and Chief Executive Officer

Director

Director

Director

Consolidated Statement of Comprehensive Income

For the Year Ended December 31, 2009

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

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

President and Chief Executive Officer

Director

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

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

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

President and Chief Executive Officer

Director

Director

Director

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

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

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

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2009

1 THE GROUP AND ITS OPERATIONS

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

Holding company

Habib Bank Limited, Pakistan

Subsidiaries

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

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

2 BASIS OF PRESENTATION

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

2.1 Basis of measurement

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

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

2.2 Use of estimates and judgments

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

i) Classification of investments

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

iv) **Income taxes**

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

v) **Fair value of derivatives**

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

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

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

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

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

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

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

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

2.3 **Change in accounting policies**

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

Customer Loyalty Programmes

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

Notes to the Consolidated Financial Statements

Accounting for Ijarah contracts

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

Determination and Presentation of Operating Segments

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

Presentation of Financial Statements

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

3 STATEMENT OF COMPLIANCE

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

Notes to the Consolidated Financial Statements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Revenue recognition

Advances and investments

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

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

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

Lease financing

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

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

Letters of credit and guarantees

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

Customer Loyalty Programmes

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

4.2 Taxation

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

Current

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

Deferred

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

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

4.3 Investments

The Group classifies its investment portfolio into the following categories:

Held-for-trading

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

Held-to-maturity

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

Notes to the Consolidated Financial Statements

Available-for-sale

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

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

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

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

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

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

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

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

4.4 Basis of consolidation

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

4.5 Lendings to / borrowings from financial institutions

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

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

4.6 Advances

Loans and advances

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

Notes to the Consolidated Financial Statements

Finance lease receivables

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

Ijarah

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

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

4.7 Operating fixed assets and depreciation

4.7.1 Tangible

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

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

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

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

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

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

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

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

4.7.2 Intangible

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

Notes to the Consolidated Financial Statements

4.8 Employee benefits

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

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

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

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

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

Post retirement medical benefits

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

Other post retirement benefits

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

Employees' compensated absences

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

Benevolent fund

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

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

Surplus / deficit on retirement funds / schemes

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

Other schemes

Employee benefits offered by subsidiary companies are as follows:

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

4.9 Foreign currency

Foreign currency transactions

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

Notes to the Consolidated Financial Statements

Foreign operations

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

Translation gains and losses

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

Commitments

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

4.10 Cash and cash equivalents

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

4.11 Off setting

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

4.12 Impairment

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

4.13 Provision for guarantee claim

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

4.14 Other provisions

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

4.15 Derivative financial instruments

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

4.16 Dividend distribution

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

4.17 Segment reporting

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

Business segments

- *Retail Banking*

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

- *Corporate / Commercial Banking*

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

Notes to the Consolidated Financial Statements

- *Treasury*

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

- *International Banking Group*

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

- *Head Office*

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

Geographical segments

The group operates in five geographic regions, being:

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

Held for Trading Securities (HFT)

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

Held-to-Maturity Securities (HTM)

8.3

Federal Government Securities

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

Available-for-Sale Securities (AFS)

Federal Government Securities

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

Fully paid-up ordinary shares

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

Debentures and Corporate Debt Instruments

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

NIT Units

8.12

		21,839	-	21,839	23,948	-	23,948
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Preference shares

		170,000	-	170,000	181,700	-	181,700
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Other investments

		1,523,641	-	1,523,641	782,003	-	782,003
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Investments of mutual funds

		3,041,384	-	3,041,384	740,246	-	740,246
		<u>200,312,208</u>	<u>3,559,326</u>	<u>203,871,534</u>	<u>106,796,030</u>	<u>8,754,798</u>	<u>115,550,828</u>

Investment in Associates and Joint Venture

8.4

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

Notes to the Consolidated Financial Statements

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

The financial impacts are as follows:

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

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

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

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

8.6 Summary of financial information of associates and joint venture company

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

Notes to the Consolidated Financial Statements

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

8.7 Investment in associated undertakings - as per statute

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

8.8.1 Particulars of provision in respect of type and segment

Available-for-sale securities (AFS)

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

	2009			2008		
	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	1,077,137	3,078,150	4,155,287	1,298,779	3,711,539	5,010,318
Residual value	15,222	76,841	92,063	13,292	67,096	80,388
Gross investment in finance lease	1,092,359	3,154,991	4,247,350	1,312,071	3,778,635	5,090,706
Unearned finance income	(35,607)	(448,187)	(483,794)	(40,681)	(512,045)	(552,726)
Net investment in finance lease	<u>1,056,752</u>	<u>2,706,804</u>	<u>3,763,556</u>	<u>1,271,390</u>	<u>3,266,590</u>	<u>4,537,980</u>

Notes to the Consolidated Financial Statements

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

Category of classification	2009								
	Non-performing advances			Provision required and held			Net non-performing loans		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
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	-	-	-
	<u>32,678,206</u>	<u>16,760,049</u>	<u>49,438,255</u>	<u>23,272,494</u>	<u>12,075,590</u>	<u>35,348,084</u>	<u>9,751,053</u>	<u>5,063,065</u>	<u>14,814,118</u>

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

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

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

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

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

Notes to the Consolidated Financial Statements

	Note	2009 (Rupees in '000)	2008 (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		11,976,479	11,909,930
Reversal		(471,543)	(483,463)
Transferred from / to during the year	9.4	1,645,782	1,562,183
Write off	9.6	(235,920)	(1,012,171)
		<u>12,914,798</u>	<u>11,976,479</u>
9.6 Particulars of write-offs			
9.6.1 Against provisions		<u>1,786,607</u>	<u>2,065,681</u>
9.6.2 Analysis of write-offs			
Rs 500,000 and above in Pakistan (Note 9.7)		317,224	1,030,120
Below Rs 500,000 in Pakistan and overseas		<u>1,469,383</u>	<u>1,035,561</u>
		<u>1,786,607</u>	<u>2,065,681</u>

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

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

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

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

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

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

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

10. OTHER ASSETS

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

Notes to the Consolidated Financial Statements

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

11.2 Intangible assets

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

11.3 Tangible fixed assets

Description	2009								Book value as at December 31, 2009	Rate of depreciation %
	COST / REVALUATION			DEPRECIATION						
	As at January 1, 2009	Additions / (deletions) / Adjustment 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		
Rupees in 000										
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) 206,923	78,047	4,832,143	1,160,627	356,304 (137) 39,304	(998,600)	557,498	4,274,645	2.5-10
Furniture, fixture and office equipment	7,638,315	864,929 (246,297) 88,685	-	8,345,632	4,818,704	1,089,506 (230,852) 59,074	-	5,736,432	2,609,200	20-33
Vehicles	360,201	82,179 (40,256) 2,718	-	404,842	214,355	51,956 (39,829) 3,664	-	230,146	174,696	20
	<u>19,666,489</u>	<u>1,810,107</u> <u>(346,446)</u> <u>239,215</u>	<u>880,793</u>	<u>22,250,158</u>	<u>6,193,686</u>	<u>1,497,766</u> <u>(270,818)</u> <u>102,042</u>	<u>(998,600)</u>	<u>6,524,076</u>	<u>15,726,082</u>	

Notes to the Consolidated Financial Statements

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

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

(Rupees in '000)

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

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

11.5 **Details of disposal of fixed assets**

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

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

12. **DEFERRED TAX ASSET**

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

Deductible temporary differences on

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

Taxable temporary differences on

- fixed assets
- others

Net deferred tax asset recognised by the Group

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

Notes to the Consolidated Financial Statements

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

17.1 Provision against off-balance sheet obligations

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

17.2 Provision for contingencies

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

18. SHARE CAPITAL

18.1 Authorised capital

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

18.2 Issued, subscribed and paid-up capital

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

18.3 Exchange translation reserve

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

18.4 Statutory reserves

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

18.5 Dividends

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

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

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

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

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

Note

Surplus arising on revaluation of:

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

19.1 Surplus on revaluation of fixed assets

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

Less: related deferred tax liability on

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

19.2 Surplus / (deficit) on revaluation of investments

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

20. CONTINGENCIES AND COMMITMENTS

20.1 Direct credit substitutes - financial guarantees

Guarantees in favour of:

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

Notes to the Consolidated Financial Statements

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

20.5 Commitments in respect of forward lending

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

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

21 DERIVATIVE INSTRUMENTS

21.1 Product Analysis

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
	2008			
	Interest Rate Swaps		FX Options	
	No. of Contracts	Notional Principal* (Rupees in '000)	No. of Contracts	Notional Principal * (Rupees in '000)
Counterparties				
With Banks for				
Hedging	-	-	-	-
Market Making	1	35,000	4	64,762
With FIs other than banks for				
Hedging	-	-	-	-
Market Making	-	-	-	-
With other entities for				
Hedging	-	-	-	-
Market Making	1	35,000	4	64,762
Total				
Hedging	-	-	-	-
Market Making	2	70,000	8	129,524

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

Notes to the Consolidated Financial Statements

21.2 Maturity Analysis

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

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

22. MARK-UP / RETURN / INTEREST EARNED

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

23. MARK-UP / RETURN / INTEREST EXPENSED

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

24. INCOME / GAIN ON INVESTMENTS

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

24.1 (LOSS) / GAIN ON SALE OF SECURITIES

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

25. OTHER INCOME

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

Notes to the Consolidated Financial Statements

26. ADMINISTRATIVE EXPENSES

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

26.1 Auditors' remuneration

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

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

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

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

Notes to the Consolidated Financial Statements

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

28 WORKERS WELFARE FUND

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

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

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

29.1 Relationship between tax expense and accounting profit

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

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

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

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

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

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

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

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

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

	Note	2009 (Rupees in '000)	2008 (Rupees in '000)
30. BASIC AND DILUTED EARNINGS PER SHARE			
Profit for the year attributable to equityholders of the Bank		13,389,452	10,774,584
		(Number)	
Weighted average number of ordinary shares		910,800,000	910,800,000
		(Rupees)	
Basic and diluted earnings per share		14.70	11.83

Notes to the Consolidated Financial Statements

31. CASH AND CASH EQUIVALENTS	Note	2009		2008	
		(Rupees in '000)			
Cash and balance with treasury banks	5	79,839,836	56,533,134		
Balance with other banks	6	40,366,687	39,364,297		
		<u>120,206,523</u>	<u>95,897,431</u>		

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

33. DEFINED BENEFIT PLANS AND OTHER BENEFITS

33.1 Principal actuarial assumptions

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

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

33.2 Pension, gratuity and benevolent fund schemes

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

33.2.5 Movement of present value of defined benefit obligation

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

33.2.6 Movement of fair value of plan assets

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

33.2.7 Actual return on plan assets

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

33.2.8 Other benefits - Employee compensated absences

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

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

34. DEFINED CONTRIBUTION PLAN

HABIB BANK LIMITED (BANK)

34.1 Provident Fund

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

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

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

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

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

34.2 Subsidiary companies

34.3 Habib Finance International Limited, Hongkong

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

Provident Fund

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

Long Service Payment

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

34.4 Habib Allied International Bank plc., United Kingdom

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

Notes to the Consolidated Financial Statements

35. REMUNERATION OF DIRECTORS AND EXECUTIVES

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

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

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

36. RELATED PARTY TRANSACTIONS

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

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

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

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

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

Notes to the Consolidated Financial Statements

36.1 Key Management Personnel

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

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

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

37. RISK MANAGEMENT FRAMEWORK

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

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

Risk Management Principles

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

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

Credit Risk Management

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

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

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

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

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

Salient features of our Risk approval process are delineated below:

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

Country Risk

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

Market Risk Management

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

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

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

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

Derivatives

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

Interest Rate Risk

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

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

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

Foreign Exchange Risk

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

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

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

Liquidity Risk Management

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

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

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

Operational Risk

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

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

Risk Management alignment with Basel II project

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

Notes to the Consolidated Financial Statements

38. CAPITAL ADEQUACY

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

38.1 Regulatory Capital Base

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

38.2 Risk-Weighted Exposures

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

Notes to the Consolidated Financial Statements

38.3 Types of Exposures and ECAI's used

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

38.4 Credit Exposures subject to Standardised approach

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

38.5 Capital management

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

41. YIELD / INTEREST RATE RISK

41.1 Interest rate risk management

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

Effective yield / interest rate	2009										Not exposed to yield / interest risk
	Exposed to yield / interest risk										
	Total	Upto one month	Over one to three months	Over three to six months	Over six months to one year	Over one to two years	Over two to three years	Over three to five years	Over five to ten years	Over ten years	
(Rupees in '000)											
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
Advances	11.43%	454,662,499	52,848,777	206,415,791	143,631,304	19,452,927	4,742,968	4,541,976	5,920,673	5,261,827	2,819,597
Other assets		31,385,235	-	-	-	-	-	-	-	-	31,385,235
		828,074,662	124,534,164	277,076,448	207,170,474	54,177,610	9,320,025	10,013,534	21,182,534	13,411,800	4,080,285
Financial liabilities											
Bills payable		10,041,542	-	-	-	-	-	-	-	-	10,041,542
Borrowings from financial institutions	6.43%	52,542,978	17,374,095	14,013,595	14,512,165	354,688	708,659	1,363,820	2,224,105	1,991,851	-
Deposits and other accounts	4.79%	682,750,079	68,080,119	67,111,030	332,941,907	38,310,026	7,910,516	8,947,712	40,765,685	21,399,467	19,958,774
Sub-ordinated loans	2.25%	4,212,080	-	-	4,212,080	-	-	-	-	-	-
Other liabilities		29,139,403	-	-	-	-	-	-	-	-	29,139,403
		778,686,082	85,454,214	81,124,625	351,666,152	38,664,714	8,619,175	10,311,532	42,989,790	23,391,318	19,958,774
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)
Non - financial net assets		34,981,218	-	-	-	-	-	-	-	-	(9,398,000)
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)	-	-	-	-	-	-	-
Off-balance sheet gap		(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

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

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

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

43. CONCENTRATION OF CREDIT AND DEPOSITS

43.1 Concentration of credit risk

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

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

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

Notes to the Consolidated Financial Statements

43.2 Segment by class of business

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

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

Notes to the Consolidated Financial Statements

43.2.1 Public / Government sector

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

Notes to the Consolidated Financial Statements

44. SEGMENT DETAIL WITH RESPECT TO BUSINESS ACTIVITIES

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

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

45. TRUST ACTIVITIES

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

46. GEOGRAPHICAL SEGMENT ANALYSIS

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

	2009 (Rupees in '000)	2008
49. PROFIT AND LOSS ACCOUNT OF ISLAMIC BANKING BRANCH AND FIRST HABIB BANK MODARABA		
Mark-up / return / profit earned	651,383	608,087
Mark-up / return / profit expensed	19,429	48,687
Net mark-up / interest income	631,954	559,400
Provision against doubtful lease rentals	29,164	54,959
Deprciation on assets given on lease	304,292	203,914
Loss on impairment of assets given on lease	133,814	225,270
Provision against diminution in value of investments	9,375	-
	476,645	484,143
Net mark-up / interest income after depreciation and provisions	155,309	75,257
Non mark-up / interest income		
Fee, commission and brokerage income	1,486	574
Dividend income	886	816
Other income	5,086	9,313
Total non-mark-up / interest income	7,458	10,703
	162,767	85,960
Non mark-up / interest expense		
Administrative expenses	19,214	15,214
Other charges	3,993	3,130
Total non mark-up / interest expenses	23,207	18,344
Net profit for the year	<u>139,560</u>	<u>67,616</u>
50. CHARITY FUND		
Opening balance	2	-
Additions during the period	-	2
Payments / Utilization during the period	(2)	-
Closing balance	<u>-</u>	<u>2</u>
50.1 Remuneration to Shariah Advisor / Board	1,075	210
51. DATE OF AUTHORISATION FOR ISSUE		
These consolidated financial statements were authorised for issue in the Board of Directors meeting held on February 19, 2010.		
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

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

1 Particulars of Investments held in listed companies

1.1 Ordinary shares

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

1.2 Ordinary shares held by HBL mutual funds

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

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

Annexure I - Details of Domestic Investments
1.3 Units

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

1.4 Preference Shares

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

1.5 Term finance certificates (TFCs)

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

1.6 TFCs held by HBL mutual funds

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

2 Particulars of Investment held in unlisted companies
2.1 Ordinary shares

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

2.2 Term finance certificates (TFCs)

	No. of certificates	Paid-up value per certificate (Rupees)	Total Paid-up value (Rupees in '000)	Name of Chief Executive	Credit Ratings Short Term
Lahore Electric Supply Company Ltd	40	100,000,000	4,000,000	Mr. Munavar Baseer	N/A
Islamabad Electric Supply Company Ltd	40	100,000,000	4,000,000	Mr. Raja Abdul Ghafoor	N/A
Pakistan International Airline	594,976	5,000	2,974,880	Ch. Ahmed Mukhtar	N/A
NTDC Limited	4,182,756	5,000	20,913,780	Mr. Tariq Qazi	N/A
Power Holding Pvt Ltd	4,396,800	5,000	21,984,000	Mr. Fazeel Asif	N/A
			53,872,660		

2.3 TFCs held by HBL mutual funds

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

Note: Credit Rating of Funds

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

Annexure I - Details of Domestic Investments

3 Particulars of investments held in bonds

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

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

Annexure III - Details of Disposal of Operating Fixed Assets

For the year ended December 31, 2009

Consolidated

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

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