

هَذَا مِنْ فَضْلِ رَبِّي



## **VISION STATEMENT**

TO BE A QUALITY FINANCIAL SERVICE PROVIDER  
MAINTAINING THE HIGHEST STANDARDS IN  
BANKING PRACTICES

## **MISSION STATEMENT**

TO BE A STRONG AND STABLE FINANCIAL INSTITUTION  
OFFERING INNOVATIVE PRODUCTS AND  
SERVICES WHILE CONTRIBUTING  
TOWARDS THE NATIONAL ECONOMIC AND  
SOCIAL DEVELOPMENT

هَذَا مِنْ فَضْلِ رَبِّي



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## Corporate Information

<b>Board of Directors</b>	Ali Raza D. Habib Abbas D. Habib Anwar Haji Karim Hasnain A. Habib Imtiaz Alam Hanfi Murtaza H. Habib Qumail R. Habib Shameem Ahmed Syed Mazhar Abbas Wazir Ali Khoja	<i>Chairman</i> <i>Chief Executive &amp; Managing Director</i>     <i>Executive Director</i>
<b>Audit Committee</b>	Syed Mazhar Abbas Ali Raza D. Habib Anwar Haji Karim Shameem Ahmed Murtaza H. Habib	<i>Chairman</i> <i>Member</i> <i>Member</i> <i>Member</i> <i>Member</i>
<b>Company Secretary</b>	A. Saeed Siddiqui	
<b>Statutory Auditors</b>	Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants	
<b>Legal Advisor</b>	Liaquat Merchant Associates Advocates and Corporate Legal Consultants	
<b>Registered Office</b>	126-C, Old Bahawalpur Road, Multan	
<b>Principal Office</b>	2nd Floor, Mackinnons Building, I.I. Chundrigar Road, Karachi	
<b>Share Registrar</b>	M/s. Gangjees Registrar Services (Pvt) Ltd. 516, Clifton Centre, Khayaban-e-Roomi, Block - 5, Clifton, Karachi-75600.	
<b>Website</b>	<a href="http://www.bankalhabib.com">www.bankalhabib.com</a>	



## Directors' Report

The Directors are pleased to present the Twentieth Annual Report together with the audited financial statements of the Bank for the year ended December 31, 2010.

The operating results and appropriations, as recommended by the Board, are given below:

	(Rupees in '000)
Profit for the year before tax	5,656,211
Taxation	<u>(2,054,050 )</u>
Profit for the year after tax	3,602,161
Unappropriated profit brought forward	<u>2,520,579</u>
Transfer from surplus on revaluation of fixed assets – net of tax	<u>30,713</u>
	<u>2,551,292</u>
Profit available for appropriations	6,153,453
Appropriations:	
Transfer to Statutory Reserve	<u>(720,432 )</u>
Cash Dividend – 2009	<u>(1,220,273 )</u>
Issue of Bonus Shares – 2009	<u>(1,220,273 )</u>
	<u>(3,160,978 )</u>
Unappropriated profit carried forward	<u>2,992,475</u>
	<u><u>Rs. 4.92</u></u>

For the year ended December 31, 2010, the Directors propose a cash dividend of 20%, i.e., Rs.2/- per share and bonus shares of 20%, i.e., 20 shares for every 100 shares held.

### Performance Review

Alhamdulillah, the performance of your Bank continued to be satisfactory during the year. Deposits rose to Rs. 249,774 million against Rs. 189,280 million a year earlier, while advances increased to Rs. 125,773 million from Rs. 105,985 million. Foreign Trade Business handled by the Bank during the year was Rs. 392,556 million. Profit before tax for the year increased to Rs. 5,656 million as compared to Rs. 4,512 million last year, while profit after tax increased to Rs. 3,602 million against Rs. 2,856 million last year. It may be mentioned that the net profit for the year 2010 was arrived at after making a general provision of Rs. 450 million, which is over and above what is required in terms of Prudential Regulations of State Bank of Pakistan. This is being done in line with the Bank's prudent policies and serves to provide further strength to the Bank.

During the year, the Bank opened 22 branches, 25 sub-branches, and a Representative Office in Dubai, U.A.E. bringing our network to 303, which includes a Wholesale Branch in the Kingdom of Bahrain and eight Islamic Banking Branches. As before, the Bank will continue to open more branches and sub-branches in various parts of the country. During 2010, the Bank also completed the process of voluntary closure of its subsidiary, AL Habib Financial Services Limited.



We are pleased to advise that your Bank has received an “Award of Recognition” from International Finance Corporation (IFC) as the Most Active GTFP (Global Trade Finance Program) Issuing Bank in Middle East & North Africa. Another distinction which your Bank earned was its inclusion in the list of Top 25 Companies Award for the year 2009 by the Karachi Stock Exchange. This award is based on comprehensive criteria, which include dividend payout, return on equity, compliance with the listing regulations, and good corporate governance.

During the year, the country suffered massive devastation and loss of precious lives caused by the recent floods. We express our deepest grief and sorrow on this unprecedented tragedy, and pray to Almighty Allah that He may grant relief and early rehabilitation to the affected people. The Bank and its staff have, as always, contributed to the relief efforts.

During the year, four meetings of the Board were held and the attendance of each Director was as follows:

<u>Name of Director</u>	<u>Total Number of Board Meetings</u>	<u>Number of Meetings Attended</u>
Mr. Ali Raza D. Habib	4	2
Mr. Abbas D. Habib	4	4
Mr. Anwar Haji Karim	4	4
Mr. Hasnain A. Habib	4	2
Mr. Imtiaz Alam Hanfi	4	4
Mr. Murtaza H. Habib	4	4
Mr. Qumail R. Habib	4	4
Mr. Shameem Ahmed	4	3
Syed Mazhar Abbas	4	4
Mr. Tariq Iqbal Khan	4	1
Mr. Wazir Ali Khoja	4	2

Consequent upon his appointment as Chairman/Managing Director of NIT, Mr. Wazir Ali Khoja replaced Mr. Tariq Iqbal Khan as a nominee Director of NIT with effect from August 9, 2010. We welcome Mr. Wazir Ali Khoja on the Board, and record our appreciation of the invaluable contribution of Mr. Tariq Iqbal Khan as a Director.

### **Credit Rating**

Alhamdollilah, Pakistan Credit Rating Agency Limited (PACRA) has maintained the Bank’s long term and short term entity ratings at **AA+** (Double A plus) and **A1+** (A One plus), respectively. The ratings of our unsecured, subordinated TFCs have also been maintained at **AA** (Double A). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

### **Future Outlook**

The country’s economic growth targets for FY 2010-11 are likely to be missed, mainly due to the devastation caused by the floods. Other challenges include energy supply, revenue mobilization, and oil and food prices. At the same time, the country is endowed with natural resources and has the potential to grow enough food for its own needs as well as for exports. Rise in agricultural prices has resulted in significant increase in rural income, which is having a positive impact on the development of rural areas and the national economy. Thus, the future presents both opportunities and challenges. As always, we will Inshallah continue to strive for the growth and progress of the Bank.



## **Audit Committee**

The Audit Committee of the Bank comprises the following members:

Syed Mazhar Abbas	Chairman
Mr. Ali Raza D. Habib	
Mr. Anwar Haji Karim	
Mr. Shameem Ahmed	
Mr. Murtaza H. Habib	

## **Auditors**

The present auditors Messrs Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, retire and offer themselves for reappointment. As suggested by the Audit Committee, the Board of Directors has recommended their reappointment as auditors of the Bank for the year ending December 31, 2011, at a fee to be mutually agreed.

## **Risk Management Framework**

The Bank always had a risk management framework commensurate with the size of the Bank and the nature of its business. This framework has developed over the years and continues to be refined and improved. Its salient features are summarized below:

- Credit risk is managed through the credit policies approved by the Board; a well-defined credit approval mechanism; use of internal risk ratings; prescribed documentation requirements; post-disbursement administration, review, and monitoring of credit facilities; and continuous assessment of credit worthiness of counterparties. Decisions regarding the credit portfolio are taken mainly by the Central Credit Committee. Credit Risk Management Committee of the Board provides overall guidance in managing the Bank's credit risk.
- Market risk is managed through the market risk policy approved by the Board; approval of counterparty limits and dealer limits; specific senior management approval for each investment; and regular review and monitoring of the investment portfolio by the Bank's Asset Liability Management Committee (ALCO). In addition, the liquidity risk policy provides guidance in managing the liquidity position of the Bank, which is monitored on daily basis by the Treasury and the Middle Office. Risk Management Committee of the Board provides supervision and guidance in managing the Bank's market and liquidity risks.
- Operational risk is managed through the audit policy and the operational risk policy approved by the Board, along with the policy on prevention of frauds and forgeries; operational manuals and procedures issued from time to time; a system of internal controls and dual authorization for important transactions and safe-keeping; a Business Continuity Plan, including a Disaster Recovery Plan for I. T.; and regular audit of the branches. Audit Committee of the Board provides overall guidance in managing the Bank's operational risk.

In order to comply with SBP's guidelines on risk management, the Bank has established a separate Risk Management Division, including a Middle Office that independently monitors and analyses the risks inherent in our Treasury operations. The steps taken by the Division include: sensitivity testing of Government Securities portfolio; computation of portfolio duration and modified duration; analysis of forward foreign exchange gap positions; more detailed reporting of TFCs and equities portfolios; development of improved procedures for trading in equities and settlements; and monitoring of off-market foreign exchange rates and foreign exchange earnings. During the year, the Division has further reviewed and updated existing policies covering treasury and investment, market risk, and operational risk.



## **Corporate Social Responsibility (CSR)**

Your Bank is fully committed to the concept of Corporate Social Responsibility and fulfills this responsibility by engaging in a wide range of activities which include:

- corporate philanthropy amounting to Rs. 77.4 million by way of donations during the year for social and educational development, welfare of under-privileged classes, and national-cause donations for relief and rehabilitation of victims of disasters;
- energy conservation, environmental protection, and occupational safety and health by restricting unnecessary lighting, implementing tobacco control law and “No Smoking Zone”, and providing a safe and healthy work environment;
- business ethics and anti-corruption measures, requiring all staff members to sign and comply with the Bank’s “Statement of Ethics and Business Practices”;
- consumer protection measures, requiring disclosure of the schedule of charges and terms and conditions that apply to the Bank’s products and services;
- amicable staff relations, recognition of merit and performance, and on-going opportunities for learning and growth of staff, both on-the-job and through formal training programmes;
- employment through a transparent procedure, without discrimination on the basis of religion, caste, language, etc., including employment of special persons in the Bank;
- expansion of the Bank’s branch network to rural areas, which helps in rural development;
- contribution to the national exchequer by the Bank by way of direct taxes of over Rs. 1.9 billion paid to the Government of Pakistan during the year; furthermore, an additional amount of over Rs. 3.7 billion was deducted/collected by the Bank on account of withholding taxes and federal excise duties and paid to the Government of Pakistan.

We are also pleased to advise that on December 6, 2010 the Pakistan Centre for Philanthropy awarded a “Certificate of Recognition” to the Bank for its philanthropic contribution to social development in Pakistan for the year 2009.

## **Statement on Corporate and Financial Reporting Framework**

1. The financial statements, prepared by the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of account have been maintained by the Bank.
3. Appropriate accounting policies have been consistently applied in preparation of the financial statements; changes, if any, have been adequately disclosed and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure therefrom, if any, has been adequately disclosed.
5. The system of internal controls is sound in design and has been effectively implemented and monitored.
6. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
7. There are no doubts upon the Bank’s ability to continue as a going concern.



8. Key operating and financial data for last six years are summarized below:

(Rupees in million)

	2010	2009	2008	2007	2006	2005
Total customer deposits	249,774	189,280	144,390	114,819	91,420	75,796
Total advances	125,773	105,985	100,197	79,224	70,796	55,304
Profit before tax	5,656	4,512	3,579	3,052	2,689	2,022
Profit after tax	3,602	2,856	2,425	2,211	1,761	1,464
Shareholders' Equity	14,706	12,287	9,967	8,014	6,186	4,745
Earnings per share *	(Rs) 4.92	3.90	3.31	3.02	2.41	2.00
Cash Dividend	(%) 20	20	12.50	15	15	15
Stock Dividend – Interim	(%) –	–	–	–	–	20
Final	(%) 20	20	27.50	30	40	20
	20	20	27.50	30	40	40

\* Earnings per share from 2005 to 2009 have been recalculated based on the existing paid-up capital.

Value of investments of Provident Fund and Gratuity Fund Schemes based on latest audited financial statements as at December 31, 2009 was as follows:

	<i>(Rupees in '000)</i>
Provident Fund	774,272
Gratuity Fund	251,576

9. The pattern of shareholding and additional information regarding pattern of shareholding is given on pages 87-88.
10. No trade in the shares of the Bank was carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children.

### General

Finally, we wish to thank our customers for their continued support and confidence, the State Bank of Pakistan for their guidance, and local and foreign correspondents for their cooperation. We also thank all our staff members for their sincere and dedicated services, which enabled the Bank to achieve these satisfactory results.

On behalf of the Board of Directors

ALI RAZA D. HABIB  
**Chairman**

Karachi: February 17, 2011





## **Statement of Compliance with the Code of Corporate Governance For the year ended December 31, 2010**

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the Code in the following manner:

1. The Bank encourages representation of non-executive directors on its Board of Directors. At present the Board includes eight (8) non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Bank, except for the nominee director of National Investment Trust (NIT).
3. All the directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurred in the Board during the year and was filled up by the directors within the prescribed time.
5. The Bank's "Statement of Ethics and Business Practices", has been signed by all the directors and employees.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Bank. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and Executive Director, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors of the Bank are well conversant with their duties and responsibilities.
10. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by CEO and CFO before approval of the Board.



13. The directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee comprising five (5) non-executive directors as members including the Chairman of the Committee.
16. Meetings of the Audit Committee were held at least once in every quarter prior to approval of interim and final results of the Bank as required by the Code. The terms of reference of the committee were revised in accordance with the requirement of the Code and advised to the committee for compliance.
17. The Bank has an effective internal audit division that is manned by experienced and qualified personnel. The audit team is conversant with the policies and procedures of the Bank and is involved in the internal audit function on a full time basis.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all the other material principles contained in the code have been complied with.

On behalf of the Board of Directors

Karachi: February 17, 2011

ALI RAZA D. HABIB  
**Chairman**



## **Review Report to the Members on Statement of Compliance with the Best Practices of the Code of Corporate Governance**

We have reviewed the Statement of Compliance (the statement) with the best practices contained in the Code of Corporate Governance (the Code) for the year ended 31 December 2010 prepared by the Board of Directors of Bank AL Habib Limited (The Bank) to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges, where the Bank is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control systems to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub-Regulation (Xiii a) of Listing Regulation 35 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular number KSE/N-269 dated 19 January 2009 requires the Bank to place before the Board of Directors for their consideration and approval related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedure to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code, as applicable to the Bank for the year ended 31 December 2010.

Karachi: February 17, 2011

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



## Statement on Internal Controls

The Management of the Bank is responsible for establishing the Internal Control System with the main objectives of ensuring effectiveness and efficiency of operations; reliability of financial reporting; safeguarding of assets; and compliance with applicable laws and regulations. The Internal Control System has evolved over the years, as it is an ongoing process and is included in the Bank's policies, procedures, financial limits, etc., as detailed in various manuals, circulars and instructions issued by the Bank. This system continues to be reviewed, refined and improved from time to time and immediate corrective action is taken to minimize risks which are inherent in banking business and operations.

The Internal Control System is reviewed by the Internal Auditors as well as External Auditors and their findings and recommendations are reported to the management and to the Audit Committee of the Board, and corrective action is taken to address control deficiencies and for improving procedures and systems as they are identified. The Board, acting through the Audit Committee, provides supervision and overall guidance in improving the effectiveness of the Internal Control System.

While the Internal Control System is effectively implemented and monitored, there are inherent limitations in the effectiveness of any system, including the possibility of human error or system failure and circumvention or overriding of controls. Accordingly, even an effective Internal Control System can only provide reasonable but not absolute assurance that the system's objectives will be achieved.

During the year under review, we have endeavoured to follow guidelines issued by State Bank of Pakistan on internal controls and to incorporate these guidelines in the Bank's existing Internal Control System for evaluation and management of significant risks and we will endeavor to further improve our Internal Control System during 2011.

A. SAEED SIDDIQUI  
*Company Secretary*

M. SALEEM CHASHMAWALA  
*Head of Internal Audit*

Karachi: February 17, 2011

## Board of Directors' Remarks on the Management's Evaluation of Internal Controls

Keeping in view the feedback received by the Board of Directors from the Audit Committee, and reports submitted as to the business policies and major risk related decisions taken by the management, the Board of Directors endorse management's evaluation of Internal Controls.

On behalf of the Board of Directors

Karachi: February 17, 2011

ALI RAZA D. HABIB  
*Chairman*



## Auditors' Report to the Members

We have audited the annexed statement of financial position of **Bank AL Habib Limited** (the Bank) as at 31 December 2010, and the related profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for fifteen branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
  - i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 5.1 to the financial statements, with which we concur;
  - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- (c) in our opinion, and to the best of our information and according to the explanations given to us the statement of financial position, profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2010 and its true balance of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Karachi: February 17, 2011

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



## Statement of Financial Position As at 31 December 2010

	Note	2010 (Rupees in '000)	2009
<b>ASSETS</b>			
Cash and balances with treasury banks	8	19,000,978	14,377,589
Balances with other banks	9	2,132,403	4,626,726
Lendings to financial institutions	10	1,139,268	–
Investments	11	137,167,680	111,017,701
Advances	12	125,773,064	105,985,319
Operating fixed assets	13	10,213,390	9,561,955
Deferred tax assets		–	–
Other assets	14	6,125,678	4,237,310
		<b>301,552,461</b>	<b>249,806,600</b>
<b>LIABILITIES</b>			
Bills payable	15	2,989,989	3,187,383
Borrowings	16	22,579,348	33,517,109
Deposits and other accounts	17	249,774,212	189,280,062
Sub-ordinated loans	18	4,842,260	4,845,000
Liabilities against assets subject to finance lease		–	–
Deferred tax liabilities	19	642,675	815,728
Other liabilities	20	4,657,866	4,056,360
		<b>285,486,350</b>	<b>235,701,642</b>
<b>NET ASSETS</b>		<b>16,066,111</b>	<b>14,104,958</b>
<b>REPRESENTED BY :</b>			
Share capital	21	7,321,643	6,101,370
Reserves		4,392,264	3,664,925
Unappropriated profit		2,992,475	2,520,579
		<b>14,706,382</b>	<b>12,286,874</b>
Surplus on revaluation of assets - net of tax	22	1,359,729	1,818,084
		<b>16,066,111</b>	<b>14,104,958</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	23		

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

ALI RAZA D. HABIB  
*Chairman*

ABBAS D. HABIB  
*Chief Executive and  
Managing Director*

SYED MAZHAR ABBAS  
*Director*

ANWAR HAJI KARIM  
*Director*



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

	Note	2010 (Rupees in '000)	2009
Mark-up / return / interest earned	25	<b>27,475,443</b>	22,120,105
Mark-up / return / interest expensed	26	<b>(16,678,554)</b>	(13,053,137)
Net mark-up / return / interest income		<b>10,796,889</b>	9,066,968
Provision against non-performing loans and advances	12.6	<b>(946,296)</b>	(1,183,026)
Provision for diminution in the value of investments		–	–
Bad debts written-off directly		–	–
		<b>(946,296)</b>	(1,183,026)
Net mark-up / return / interest income after provisions		<b>9,850,593</b>	7,883,942
<b>NON MARK-UP / INTEREST INCOME</b>			
Fees, commission and brokerage income		<b>1,176,958</b>	1,011,349
Dividend income		<b>236,399</b>	87,733
Income from dealing in foreign currencies		<b>339,730</b>	308,021
Gain on sale / redemption of securities - net	27	<b>50,068</b>	153,399
Unrealised gain / (loss) on revaluation of investments classified as held for trading		–	–
Other income	28	<b>326,391</b>	275,580
Total non mark-up / interest income		<b>2,129,546</b>	1,836,082
		<b>11,980,139</b>	9,720,024
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	29	<b>(6,162,449)</b>	(5,045,731)
Other provisions / write-offs	30	<b>(26,514)</b>	(65,688)
Other charges	31	<b>(134,965)</b>	(96,534)
Total non mark-up / interest expenses		<b>(6,323,928)</b>	(5,207,953)
Extra-ordinary / unusual items		–	–
<b>PROFIT BEFORE TAXATION</b>		<b>5,656,211</b>	4,512,071
Taxation – Current		<b>(2,012,476)</b>	(1,652,277)
– Prior years		–	–
– Deferred		<b>(41,574)</b>	(3,500)
	32	<b>(2,054,050)</b>	(1,655,777)
<b>PROFIT AFTER TAXATION</b>		<b>3,602,161</b>	2,856,294
			Restated
<b>Basic and diluted earnings per share - Rupees</b>	33	<b>4.92</b>	3.90

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

ALI RAZA D. HABIB  
Chairman

ABBAS D. HABIB  
Chief Executive and  
Managing Director

SYED MAZHAR ABBAS  
Director

ANWAR HAJI KARIM  
Director



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

	2010	2009
	(Rupees in '000)	
<b>Net profit for the year</b>	<b>3,602,161</b>	2,856,294
<b>Other comprehensive income</b>		
Effect of foreign currency translation of net investment in a foreign branch	6,907	30,836
<b>Total comprehensive income for the year</b>	<b>3,609,068</b>	2,887,130

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

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*Director*

ANWAR HAJI KARIM  
*Director*





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

	Share Capital	Statutory Reserve	Revenue Reserves		Foreign Currency Translation Reserve	Unappro- priated Profit	Total
			Special Reserve	General Reserve			
	(Rupees in '000)						
Balance as at 01 January 2009	4,785,388	2,342,482	126,500	540,000	53,848	2,118,986	9,967,204
Total comprehensive income for the year	-	-	-	-	30,836	2,856,294	2,887,130
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	30,713	30,713
Transfer to statutory reserve	-	571,259	-	-	-	(571,259)	-
Cash dividend (Rs. 1.25 per share)	-	-	-	-	-	(598,173)	(598,173)
Issue of bonus shares in the ratio of 27.5 shares for every 100 shares held	1,315,982	-	-	-	-	(1,315,982)	-
Balance as at 31 December 2009	6,101,370	2,913,741	126,500	540,000	84,684	2,520,579	12,286,874
Total comprehensive income for the year	-	-	-	-	6,907	3,602,161	3,609,068
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	30,713	30,713
Transfer to statutory reserve	-	720,432	-	-	-	(720,432)	-
Cash dividend (Rs. 2 per share)	-	-	-	-	-	(1,220,273)	(1,220,273)
Issue of bonus shares in the ratio of 20 shares for every 100 shares held	1,220,273	-	-	-	-	(1,220,273)	-
Balance as at 31 December 2010	7,321,643	3,634,173	126,500	540,000	91,591	2,992,475	14,706,382

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

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*Director*



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

	2010 (Rupees in '000)	2009
<b>Cash Flow From Operating Activities</b>		
Profit before taxation	5,656,211	4,512,071
Dividend income	(236,399)	(87,733)
	<b>5,419,812</b>	4,424,338
Adjustments for:		
Depreciation	653,575	557,315
Amortisation	40,223	33,281
Provision against non-performing loans and advances	946,296	1,183,026
Gain on sale of operating fixed assets	(41,409)	(30,470)
Financial charges on leased assets	-	15,860
Gain on sale / redemption of securities	(50,068)	(153,399)
Provision for compensated absences	39,000	25,000
Loss on closure of subsidiary	34,878	-
(Reversal of provision) / provision against off-balance sheet items	(8,364)	65,688
	<b>1,614,131</b>	1,696,301
	<b>7,033,943</b>	6,120,639
Increase in operating assets		
Lendings to financial institutions	(1,139,268)	295,396
Advances	(20,734,041)	(6,971,349)
Other assets	(1,896,223)	(372,897)
	<b>(23,769,532)</b>	(7,048,850)
Increase in operating liabilities		
Bills payable	(197,394)	955,049
Borrowings	(12,080,253)	21,073,235
Deposits	60,494,150	44,890,499
Other liabilities (excluding provision for taxation)	461,191	1,036,130
	<b>48,677,694</b>	67,954,913
	<b>31,942,105</b>	67,026,702
Income tax paid	(1,923,162)	(1,526,922)
Net cash flow from operating activities (Balance carried forward)	<b>30,018,943</b>	65,499,780



	Note	2010 (Rupees in '000)	2009
Net cash flow from operating activities (Balance brought forward)		<b>30,018,943</b>	65,499,780
<b>Cash Flow From Investing Activities</b>			
Net investments in available for sale securities		<b>45,842,793</b>	(63,331,122 )
Net investments in held to maturity securities		<b>(72,799,606 )</b>	1,014,996
Net investment in associates		<b>151,783</b>	(50,000 )
Proceeds from closure of subsidiary		<b>27,972</b>	–
Dividend received		<b>234,645</b>	86,907
Investments in operating fixed assets		<b>(1,346,051 )</b>	(986,895 )
Sale proceeds of operating fixed assets		<b>51,836</b>	40,443
Net cash used in investing activities		<b>(27,836,628 )</b>	(63,225,671 )
<b>Cash Flow From Financing Activities</b>			
(Payments) / receipts of sub-ordinated loans		<b>(2,740 )</b>	1,998,060
Payments of lease obligations		<b>–</b>	(340,651 )
Dividend paid		<b>(1,199,908 )</b>	(589,597 )
Net cash (used in) / from financing activities		<b>(1,202,648 )</b>	1,067,812
Exchange adjustment on translation of net investment in a foreign branch		<b>6,907</b>	30,836
Increase in cash and cash equivalents		<b>986,574</b>	3,372,757
Cash and cash equivalents at the beginning of the year		<b>18,930,184</b>	15,557,427
Cash and cash equivalents at the end of the year	34	<b>19,916,758</b>	18,930,184

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

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*Chairman*

ABBAS D. HABIB  
*Chief Executive and  
Managing Director*

SYED MAZHAR ABBAS  
*Director*

ANWAR HAJI KARIM  
*Director*



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

### 1. STATUS AND NATURE OF BUSINESS

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

### 2. BASIS OF PRESENTATION

- 2.1 These financial statements have been prepared in conformity with the format of financial statements prescribed by the State Bank of Pakistan (SBP) vide BSD Circular No. 04, dated 17 February 2006. Further, with effect from the current year, "Balance Sheet" has been renamed as "Statement of financial position" keeping in view the requirement of BSD Circular letter No. 7 of 2010 dated April 20, 2010 issued by the SBP.
- 2.2 In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible forms of trade-related modes of financing includes purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchase and resale arising under these arrangements are not reflected in these financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon. However, murabaha financing arrangements undertaken by the Islamic Banking branches are accounted for as a purchase and sale transaction of the underlying goods in these financial statements in accordance with the accounting policies of the Bank.
- 2.3 The financial results of the Islamic Banking branches have been consolidated in these financial statements for reporting purposes, after eliminating material inter-branch transactions / balances. Key financial information of the Islamic Banking branches is disclosed in note 45.
- 2.4 These are separate financial statements of the Bank in which investments in subsidiaries and associates are reported on the basis of direct equity interest and are not consolidated or accounted for by using equity method of accounting.

### 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 International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and regulations / directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the SBP. Wherever the requirements



of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or regulations / directives issued by the SECP and the SBP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said regulations / directives shall prevail.

- 3.2 The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for banking companies till further instructions. Further, according to the notification of SECP dated 28 April 2008, IFRS - 7 "Financial Instruments: Disclosure" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

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

These financial statements have been prepared under the historical cost convention except for the land and buildings, certain investments and derivative financial instruments which are revalued as referred to in notes 5.4, 5.6 and 5.14 below.

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

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

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

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

IFRS 3 - Business Combinations (Revised)

IAS 27 - Consolidated and Separate Financial Statements (Amendment)

IFRIC 17 - Distributions of Non-cash Assets to Owners

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

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

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

##### **Issued in April 2009**

IFRS 2 – Share-based Payments

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

IFRS 8 – Operating Segments

IAS 1 – Presentation of Financial Statements

IAS 7 – Statement of Cash Flows

IAS 17 – Leases

IAS 36 – Impairment of Assets

IAS 38 – Intangible Assets

IFRIC 9 – Reassessment of Embedded Derivatives

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

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



## 5.2 Cash and cash equivalents

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

## 5.3 Repurchase / resale agreements

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

### **Sale under repurchase obligation**

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

### **Purchase under resale obligation**

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

## 5.4 Investments

Investments in subsidiaries and associates are stated at cost less provision for impairment, if any. Other investments are classified as follows:

### **Held for trading**

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

### **Held to maturity**

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

### **Available for sale**

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

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

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

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



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

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

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

## 5.5 **Advances**

### **Loans and advances**

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

### **Finance lease receivables**

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

### **Ijarah finance**

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

### **Murabaha**

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

## 5.6 **Operating fixed assets**

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

Land is measured at cost at the time of initial recognition and is subsequently carried at revalued amount. Buildings are initially measured at cost and upon revaluation, are carried at revalued amount less accumulated depreciation and impairment, if any. All other operating fixed assets are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged to profit and loss account on straight line basis so as to charge the assets over their expected useful lives at the rates specified in note 13.2. The depreciation charge is calculated after taking into account residual



value, if any. The residual values, useful lives and depreciation method are reviewed annually and adjusted, if appropriate. Depreciation is charged on prorata basis, i.e., full month charge in the month of purchase and no charge in the month of disposal.

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

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

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

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

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

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

#### **Intangible assets**

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and impairment, if any. Amortisation is based on straight line method by taking into consideration the estimated useful life of assets at the rates specified in note 13.3. Intangible assets are amortised on prorata basis i.e. full month amortisation in the month of purchase and no amortisation in the month of disposal.

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

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

#### **Impairment**

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





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

## 5.7 Employees' benefits

### Defined benefit plan

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

### Defined contribution plan

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

### Compensated absences

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

## 5.8 Provisions against liabilities

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

## 5.9 Provisions against off-balance sheet obligations

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

## 5.10 Revenue recognition

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

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



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

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

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

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

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

#### 5.11 **Taxation**

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

##### **Current**

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

##### **Deferred**

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

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

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

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

#### 5.12 **Foreign currencies**

##### **Functional and presentation currency**

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

##### **Foreign currencies transactions**

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured



in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

### **Foreign operations**

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

#### **5.13 Financial instruments**

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

#### **5.14 Derivative financial instruments**

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

#### **5.15 Off-setting**

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

#### **5.16 Dividends and appropriations to reserves**

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

#### **5.17 Segment reporting**

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



## **Business segments**

### **Retail banking**

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

### **Commercial banking**

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

### **Geographical segments**

The Bank operates in two geographic regions, being:

- Pakistan
- Middle East

## **5.18 Earnings per share**

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

## **6. ACCOUNTING JUDGMENTS AND ESTIMATES**

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



	Note
Classification of investments and provision for diminution in the value of investments	5.4 & 11
Provision against non-performing advances	5.5 & 12
Useful lives of assets and methods of depreciation	5.6 & 13
Defined benefit plan	5.7 & 36
Provisions against off-balance sheet obligations	5.9 & 30
Current and deferred taxation	5.11 & 19

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

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

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

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

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



	Note	2010	2009
(Rupees in '000)			
<b>8. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
Local currency		<b>3,049,020</b>	2,746,943
Foreign currencies		<b>624,203</b>	564,672
National prize bonds		<b>16,952</b>	19,200
		<b>3,690,175</b>	3,330,815
In transit – foreign currency		<b>77,073</b>	32,770
With State Bank of Pakistan in:			
Local currency current accounts	8.1	<b>8,459,338</b>	5,966,761
Local currency current account-Islamic Banking	8.2	<b>222,006</b>	170,824
Foreign currency deposit account			
Cash reserve account	8.3	<b>1,370,187</b>	981,415
Cash reserve account-Islamic Banking		<b>2,826</b>	2,780
Special cash reserve account	8.3	<b>4,110,562</b>	2,944,244
Local US Dollar collection account	8.4	<b>19,993</b>	15,374
		<b>14,184,912</b>	10,081,398
With National Bank of Pakistan in:			
Local currency current accounts		<b>1,048,818</b>	932,606
		<b>19,000,978</b>	14,377,589

- 8.1 Represent statutory cash reserve maintained under Section 36 of the State Bank of Pakistan Act, 1956.
- 8.2 Represents statutory cash reserve maintained by the Islamic Banking branch in accordance with BPD Circular No. 01 of 2003.
- 8.3 Represent cash reserves maintained against foreign currency deposits mobilised under Circular FE-25 of 1998.
- 8.4 Represents US Dollar collection account opened with the SBP in accordance with Circular FE-02 of 2004.



	Note	2010	2009
(Rupees in '000)			
<b>9. BALANCES WITH OTHER BANKS</b>			
In Pakistan			
Current accounts		596,782	296,520
Deposit account		–	2,500
Savings accounts	9.1	159,936	119,704
		<b>756,718</b>	418,724
Outside Pakistan			
Current accounts		544,673	334,590
Deposit accounts	9.2	831,012	3,873,412
		<b>1,375,685</b>	4,208,002
		<b>2,132,403</b>	4,626,726

9.1 These carry expected profit rates ranging from 6.99% to 8.00% (2009: 6.99% to 8.00%) per annum.

9.2 These carry interest rates upto 0.13% (2009: upto 0.19%) per annum.

## 10. LENDINGS TO FINANCIAL INSTITUTIONS

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

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

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

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

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

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



## 11. INVESTMENTS

	Note	2010			2009		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
11.1 Investments by type							
Available for sale securities	11.5						
Market Treasury Bills		33,472,250	1,284,437	34,756,687	65,526,602	17,262,898	
Pakistan Investment Bonds		12,027,781	-	12,027,781	10,528,090	-	
Foreign Currency Bonds		792,247	-	792,247	334,161	-	
Sukuks		6,044,979	-	6,044,979	5,890,099	-	
Ordinary shares of listed companies and closed end mutual funds		20,228	-	20,228	130,193	-	
Ordinary shares of unlisted companies		39,570	-	39,570	42,021	-	
Listed term finance certificates		650,441	-	650,441	689,891	-	
Unlisted term finance certificates		5,801,565	-	5,801,565	5,801,605	-	
Open ended mutual funds		1,125,000	-	1,125,000	925,000	-	
		59,974,061	1,284,437	61,258,498	89,867,662	17,262,898	
Held to maturity securities	11.2						
Market Treasury Bills		70,662,330	-	70,662,330	-	-	
Pakistan Investment Bonds		3,897,385	-	3,897,385	1,534,695	-	
Sukuks		275,000	-	275,000	446,134	-	
Listed term finance certificates		394,208	-	394,208	406,821	-	
Unlisted term finance certificates		208,333	-	208,333	250,000	-	
		75,437,256	-	75,437,256	2,637,650	-	
Associates	11.12						
Habib Sugar Mills Limited		180,977	-	180,977	180,977	-	
Habib Asset Management Limited		33,750	-	33,750	33,750	-	
First Habib Income Fund		600,000	-	600,000	750,000	-	
First Habib Stock Fund		50,000	-	50,000	50,000	-	
		864,727	-	864,727	1,014,727	-	
Subsidiaries	11.13						
AL Habib Capital Markets (Pvt.) Ltd.		200,000	-	200,000	200,000	-	
AL Habib Financial Services Limited		-	-	-	62,850	-	
		200,000	-	200,000	262,850	-	
Investments at cost		136,476,044	1,284,437	137,760,481	93,782,889	17,262,898	
Provision for diminution in the value of investments	11.4	(5,700)	-	(5,700)	(83,254)	-	
Investments (net of provisions)		136,470,344	1,284,437	137,754,781	93,699,635	17,262,898	
(Deficit) / surplus on revaluation of available for sale investments - net	22.2	(585,913)	(1,188)	(587,101)	34,085	21,083	
Investments after revaluation of available for sale investments		135,884,431	1,283,249	137,167,680	93,733,720	17,283,981	

11.2 The aggregate market value of held to maturity securities as at 31 December 2010 amounts to Rs. 75,207 (2009: 2,452) million.





	Note	2010	2009
(Rupees in '000)			
<b>11.3 Investments by segment</b>			
<i>Federal Government Securities</i>			
Market Treasury Bills	11.6	<b>105,419,017</b>	82,789,500
Pakistan Investment Bonds	11.7	<b>15,925,166</b>	12,062,785
Foreign Currency Bonds	11.10	<b>451,538</b>	–
Sukuks	11.8	<b>3,100,000</b>	3,829,489
		<b>124,895,721</b>	98,681,774
<i>Fully paid-up ordinary shares</i>			
Listed companies and closed end mutual funds	11.5.5	<b>20,228</b>	130,193
Unlisted companies	11.11	<b>39,570</b>	42,021
		<b>59,798</b>	172,214
<i>Term finance certificates, sukuks and bonds</i>			
<i>Term Finance Certificates</i>			
Listed term finance certificates		<b>1,044,649</b>	1,096,712
Unlisted term finance certificates		<b>6,009,898</b>	6,051,605
	11.9	<b>7,054,547</b>	7,148,317
Sukuks	11.8	<b>3,219,979</b>	2,506,744
Foreign Currency Bonds	11.10	<b>340,709</b>	334,161
		<b>10,615,235</b>	9,989,222
<i>Others</i>			
Open ended mutual funds	11.5.9	<b>1,125,000</b>	925,000
Associates	11.12	<b>864,727</b>	1,014,727
Subsidiaries	11.13	<b>200,000</b>	262,850
		<b>2,189,727</b>	2,202,577
<b>Investments at cost</b>		<b>137,760,481</b>	111,045,787
Provision for diminution in the value of investments	11.4	<b>(5,700 )</b>	(83,254 )
<b>Investments - net of provisions</b>		<b>137,754,781</b>	110,962,533
(Deficit) / surplus on revaluation of available for sale investments -net	22.2	<b>(587,101 )</b>	55,168
<b>Investments after revaluation of available for sale investments</b>		<b>137,167,680</b>	111,017,701



	2010	2009
	(Rupees in '000)	
<b>11.4 Particulars of provision for diminution in the value of investments</b>		
Available for sale investments:		
Opening balance	<b>83,254</b>	167,757
Adjustment of provision upon disposal of investment	<b>(77,554)</b>	(84,503)
Closing balance	<b>5,700</b>	83,254

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

Available for sale investments:

Listed companies and closed end mutual funds	–	77,554
Unlisted companies	<b>5,700</b>	5,700
	<b>5,700</b>	83,254

#### 11.5 Quality of available for sale securities

Name of security	Face value Rs. / USD	2010 2009		2010 2009		2010 2009	
		Rating		Cost		Carrying value	
(Rupees in '000)							
11.5.1 Market Treasury Bills	–	Unrated	Unrated	34,756,687	82,789,500	34,702,084	82,884,748
11.5.2 Pakistan Investment Bonds	–	Unrated	Unrated	12,027,781	10,528,090	11,404,535	10,497,953
11.5.3 Foreign Currency Bonds							
Government of Pakistan Bonds	USD 100	B-	–	297,203	–	310,005	–
Government of Pakistan Bonds	USD 100	B-	–	154,335	–	156,809	–
Government of Sri Lanka Bonds	USD 100	B+	B	340,709	334,161	370,207	355,381
				792,247	334,161	837,021	355,381

#### 11.5.4 Sukuks

2010	2009	Name of security							
No. of certificates									
		Dar Al Arkan International Sukuk Company	USD 100	A –	A –	171,273	168,483	146,439	147,423
20,000	20,000	Engro Foods Limited	Rs.5,000	A –	A–	850,000	850,000	850,000	850,000
170,000	170,000	Government of Pakistan Ijarah Sukuk	Rs.100,000	Unrated	Unrated	100,000	100,000	101,620	100,992
1,000	1,000	Government of Pakistan Ijarah Sukuk	Rs.100,000	Unrated	Unrated	3,000,000	3,000,000	3,058,200	3,000,000
30,000	30,000	Government of Pakistan Sukuk	USD 100	–	CCC+	–	308,355	–	309,392
–	36,990	Liberty Power Tech Limited	Rs.1,000	AA –	AA-	1,013,706	513,261	1,013,706	513,261
1,013,706	513,261	Sui Southern Gas Company Limited	Rs.5,000	AA	AA-	160,000	200,000	160,000	194,274
40,000	40,000	WAPDA Second Sukuk Company Limited	Rs.5,000	Unrated	Unrated	750,000	750,000	750,000	706,199
150,000	150,000					6,044,979	5,890,099	6,079,965	5,821,541



11.5.5 Ordinary shares of listed companies and closed end mutual funds

<u>2010</u>	<u>2009</u>	<u>Name of security</u>	Face	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
No. of shares / certificates			value	Rating		Cost		Carrying value	
			Rs. / USD			(Rupees in '000)			
-	201,595	Cherat Cement Company Limited Engro Fertilizers Limited	Rs.10	-	Unrated	-	15,938	-	2,530
-	38,395	(formerly Engro Chemicals Pakistan Limited)	Rs.10	-	AA	-	7,199	-	7,024
888,980	500	Habib Metropolitan Bank Limited	Rs.10	AA+	AA+	19,871	15	25,772	16
52,862	44,052	International Industries Limited	Rs.10	Unrated	Unrated	357	357	3,164	2,585
-	25,000	Oil & Gas Development Company Limited	Rs.10	-	AAA	-	3,098	-	2,758
-	86,900	Packages Limited	Rs.10	-	AA	-	22,065	-	12,514
-	1,066,000	Pakistan Capital Protected Fund - I	Rs.10	-	Unrated	-	10,000	-	9,775
-	72,600	Pakistan Petroleum Limited	Rs.10	-	Unrated	-	9,304	-	13,730
-	1,597,500	The Hub Power Company Limited	Rs.10	-	AA+	-	62,217	-	49,922
						20,228	130,193	28,936	100,854

11.5.6 Ordinary shares of unlisted companies

<u>2010</u>	<u>2009</u>	<u>Name of security</u>							
No. of shares / certificates									
3,000,000	3,000,000	Khushhali Bank Limited Pakistan Export Finance Guarantee	Rs.10	A -	A -	30,000	30,000	30,000	30,000
569,958	569,958	Agency Limited	Rs.10	Unrated	Unrated	5,700	5,700	-	-
24	24	S.W.I.E.T	-	Unrated	Unrated	3,870	6,321	3,870	6,321
						39,570	42,021	33,870	36,321

11.5.7 Listed term finance certificates

<u>2010</u>	<u>2009</u>	<u>Name of security</u>							
No. of certificates									
6,000	6,000	Allied Bank Limited	Rs.5,000	AA -	AA -	29,952	29,964	29,902	29,028
33,800	33,800	Allied Bank Limited - II	Rs.5,000	AA -	AA -	168,932	169,000	148,902	151,255
5,000	5,000	Askari Bank Limited - II Engro Fertilizers Limited - III (formerly Engro Chemicals Pakistan	Rs.5,000	AA -	AA -	24,950	24,960	24,950	23,990
40,000	40,000	Limited - III)	Rs.5,000	AA	AA	199,760	199,840	185,777	185,851
5,000	5,000	Jahangir Siddiqui & Company Ltd - IV	Rs.5,000	AA	AA +	24,960	24,970	24,960	25,574
6,600	6,600	NIB Bank Limited	Rs.5,000	A+	A+	32,967	32,980	32,472	30,268
20,000	20,000	Orix Leasing Pakistan Limited - III	Rs.5,000	AA +	AA +	49,960	83,267	49,461	83,619
20,000	20,000	Pak Arab Fertilizers Limited	Rs.5,000	AA	A	94,000	99,940	92,590	93,841
5,000	5,000	United Bank Limited - III	Rs.5,000	AA	AA-	24,960	24,970	24,951	24,656
						650,441	689,891	613,965	648,082

11.5.8 Unlisted term finance certificates

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



#### 11.5.9 Open ended mutual funds

2010	2009	Name of security	Face value	2010	2009	2010	2009	2010	2009
No. of Units			Rs. / USD	Rating		Cost		Carrying value	
(Rupees in '000)									
5,000,000	-	ABL Cash Fund	Rs.10	AA+	-	50,000	-	50,030	-
97,084	-	Atlas Money Market Fund	Rs.500	AA+	-	50,000	-	50,047	-
2,500,000	2,503,938	BMA Empress Cash Fund	Rs.10	AA+	AA+	25,000	25,000	26,437	25,363
505,191	-	HBL Money Market Fund	Rs.100	AA+	-	50,000	-	51,995	-
500,000	-	IGI Money Market Fund	Rs.100	AA+	-	50,000	-	50,307	-
-	2,500,000	MCB Cash Management Optimizer Fund	Rs.100	-	AM 3+	-	250,000	-	256,647
-	1,910,220	Meezan Cash Fund	Rs.50	-	AA	-	100,000	-	100,210
4,853,756	10,000,000	NAFA Government Securities Liquid Fund	Rs.10	AAA	AA+	50,000	100,000	50,049	102,663
-	7,194,245	National Investment Trust Limited	Rs.10	-	AM2	-	200,000	-	219,065
59,181,134	10,000,000	NIT Government Bond Fund	Rs.10	AM 2	3-Star	600,000	100,000	622,562	101,301
20,000,000	-	NIT Income Fund	Rs.10	AM 2	-	200,000	-	211,160	-
504,927	-	Pak Oman Advantage Islamic Income Fund	Rs.50	A+	-	25,000	-	26,034	-
-	1,977,758	Pakistan Cash Management Fund	Rs.50	-	AAA	-	100,000	-	99,428
250,000	-	PICIC Cash Fund	Rs.100	AA+	-	25,000	-	25,135	-
-	500,000	UBL Liquidity Plus Fund	Rs.100	-	AA+	-	50,000	-	51,312
						1,125,000	925,000	1,163,756	955,989
						61,258,498	107,130,560	60,665,697	107,102,474

#### 11.6 Market Treasury Bills

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

#### 11.7 Pakistan Investment Bonds

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

#### 11.8 Sukuks

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



11.8.1 Sukuks are redeemable semi-annually.

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

#### 11.9 Term Finance Certificates

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



\*These Term Finance Certificates are subordinated.

11.9.1 Term Finance Certificates are redeemable semi-annually.

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

11.10 Foreign Currency Bonds

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

11.10.1 Foreign Currency Bonds are redeemable semi-annually.

11.11 Ordinary shares of unlisted companies

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



## 11.12 Associates

<u>2010</u>	<u>2009</u>	<u>Name of companies</u>	<u>Note</u>	<u>2010</u>	<u>2009</u>
No. of ordinary shares				(Rupees in '000)	
7,493,050	5,994,440	Habib Sugar Mills Limited % of holding: 6.24% (2009: 6.24%) Par value per share: Rs. 5 Market value: Rs. 249.593 (2009: Rs. 236.181) million Chief Executive: Mr. Raeesul Hasan	11.12.1	180,977	180,977
3,375,000	3,375,000	Habib Asset Management Limited % of holding: 30% (2009: 30%) Par value per share: Rs. 10 Break up value per share: Rs. 9.91 (2009: Rs. 9.82) based on audited financial statements for the year ended 30 June 2010 Chief Executive: Mr. Imran Azim	11.12.2	33,750	33,750
5,744,925	7,224,291	First Habib Income Fund Average cost per unit: Rs. 104.4399 (2009: Rs. 103.8164) Net asset value Rs. 102.64 (2009: Rs. 103.310) Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim		600,000	750,000
500,000	500,000	First Habib Stock Fund Average cost per unit: Rs. 100 (2009: Rs. 100) Net Asset Value Rs. 110.54 (2009: Rs. 98.870) Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim		50,000	50,000
				<u>864,727</u>	<u>1,014,727</u>

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

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

## 11.13 Subsidiaries

20,000,000	20,000,000	AL Habib Capital Markets (Private) Limited % of holding: 66.67% (2009: 66.67%) Par value per share: Rs. 10 Break up value per share: Rs.11.07 (2009: Rs. 10.70) based on audited financial statements for the year ended 30 June 2010 Chief Executive: Mr. Aftab Q. Munshi		200,000	200,000
-	1	AL Habib Financial Services Limited		-	62,850
				<u>200,000</u>	<u>262,850</u>

11.13.1 During the year, the Bank has completed the process of closure of AL Habib Financial Services Limited (the Subsidiary) and consequently, the subsidiary ceased to exist as a legal entity effective 28 December 2010. The Bank has received net proceeds of Rs. 27.972 million upon the said closure of the subsidiary as against the carrying value of the investment of Rs. 62.850 million which resulted in a loss of Rs. 34.878 million.



	Note	2010	2009
(Rupees in '000)			
<b>12. ADVANCES</b>			
Loans, cash credits, running finances, etc.			
In Pakistan		<b>109,815,548</b>	93,912,512
Outside Pakistan		<b>1,934,958</b>	1,594,681
		<b>111,750,506</b>	95,507,193
Net investment in finance lease / Ijarah financing			
In Pakistan	12.2	<b>513,601</b>	542,919
Outside Pakistan		<b>–</b>	–
		<b>513,601</b>	542,919
Ijarah financing under IFAS 2	12.3 & 5.5	<b>131,575</b>	127,323
Murabaha	12.4	<b>2,018,596</b>	2,268,080
Bills discounted and purchased (excluding market treasury bills)			
Payable in Pakistan		<b>2,401,449</b>	2,028,863
Payable outside Pakistan		<b>12,267,818</b>	7,898,634
		<b>14,669,267</b>	9,927,497
Advances - gross		<b>129,083,545</b>	108,373,012
Provision against non-performing loans and advances	12.6		
Specific provision		<b>(1,682,297)</b>	(1,210,572)
General provision against consumer advances (as per SBP regulations)		<b>(28,184)</b>	(27,121)
General provision		<b>(1,600,000)</b>	(1,150,000)
		<b>(3,310,481)</b>	(2,387,693)
Advances - net of provisions		<b>125,773,064</b>	105,985,319
<b>12.1 Particulars of advances - gross</b>			
12.1.1 In local currency		<b>105,479,092</b>	96,317,188
In foreign currencies		<b>23,604,453</b>	12,055,824
		<b>129,083,545</b>	108,373,012
12.1.2 Short term (for upto one year)		<b>110,187,182</b>	88,481,221
Long term (for over one year)		<b>18,896,363</b>	19,891,791
		<b>129,083,545</b>	108,373,012





12.2 Net investment in finance lease / Ijarah financing

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

12.3 Ijarah financing under IFAS 2

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

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

12.3.1 Future Ijarah payments receivable

	2010	2009
	(Rupees in '000)	
Not later than one year	<b>88,533</b>	62,171
Later than one year and not later than five years	<b>57,408</b>	85,218
	<u><b>145,941</b></u>	<u>147,389</u>
12.4 Murabaha - gross	<b>2,107,532</b>	2,328,965
Less: Deferred murabaha income	<b>(34,592)</b>	(21,247)
Profit receivable shown in other assets	<b>(54,344)</b>	(39,638)
Murabaha	<u><b>2,018,596</b></u>	<u>2,268,080</u>



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

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

12.6 Particulars of provision against non-performing loans and advances

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



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

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

### 12.6.3 Particulars of provision against non-performing loans and advances

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

### 12.7 Particulars of write-offs:

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

12.7.1 Against provision  
Directly charged to profit and loss account

<b>23,508</b>	709
-	-
<u><b>23,508</b></u>	<u>709</u>

12.7.2 Write-offs of Rs. 500,000 and above  
Write-offs of below Rs. 500,000

<b>23,353</b>	-
<b>155</b>	709
<u><b>23,508</b></u>	<u>709</u>

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



12.8 Particulars of Loans and Advances to Directors, Associated Companies, Subsidiaries etc.	Note	2010	2009
		(Rupees in '000)	
(i) Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons			
Balance at beginning of the year		875,735	644,017
Loans granted during the year		524,584	480,676
Repayments		(275,810)	(248,958)
Balance at end of the year		<u>1,124,509</u>	<u>875,735</u>
(ii) Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members			
Balance at beginning of the year		399,584	369,000
Loans granted during the year		742,345	542,438
Repayments		(772,121)	(511,854)
Balance at end of the year		<u>369,808</u>	<u>399,584</u>
(iii) Debts due by subsidiary companies, controlled firms and other related parties			
Loans granted during the year		-	178,302
Repayments		-	(178,302)
Balance at end of the year		<u>-</u>	<u>-</u>
<b>13. OPERATING FIXED ASSETS</b>			
Capital work-in-progress	13.1	204,634	316,182
Property and equipment	13.2	9,976,598	9,215,060
Intangible assets	13.3	32,158	30,713
		<u>10,213,390</u>	<u>9,561,955</u>
<b>13.1 Capital work-in-progress</b>			
Civil works		188,002	213,466
Advance payment towards property		7,953	94,082
Consultants' fee and other charges		8,679	8,634
		<u>204,634</u>	<u>316,182</u>



### 13.2 Property and equipment

2010

	Cost / Revalued Amount			Accumulated Depreciation			Book Value		Rate of depreciation %
	As at 01 January 2010	Additions / (deletions)	As at 31 December 2010	As at 01 January 2010	Charge / (deletions)	As at 31 December 2010	As at 31 December 2010		
Owned Leasehold land	3,288,960	187,904	3,476,864	-	-	-	3,476,864	-	
Buildings on leasehold land	4,391,372	382,223	4,773,595	235,644	128,442	364,086	4,409,509	2.22 - 8.33	
Improvements to leasehold buildings	440,652	96,703	537,355	41,873	24,103	65,976	471,379	5	
Furniture and fixtures	317,687	40,045 (1,996)	355,736	119,736	31,020 (1,603)	149,153	206,583	10	
Electrical, office and computer equipments	1,755,013	529,251 (19,171)	2,265,093	861,817	359,558 (17,119)	1,204,256	1,060,837	20	
Vehicles	540,282	189,414 (47,616)	682,080	259,836	110,452 (39,634)	330,654	351,426	20	
	10,733,966	1,425,540 (68,783)	12,090,723	1,518,906	653,575 (58,356)	2,114,125	9,976,598		



2009

	Cost / Revalued Amount			Accumulated Depreciation			Book Value	
	As at 01 January 2009	Additions / (deletions) / transfers*	As at 31 December 2009	As at 01 January 2009	Charge / (deletions) / transfers*	As at 31 December 2009	As at 31 December 2009	Rate of depreciation %
	(Rupees in '000)							
Owned								
Leasehold land	3,138,605	150,355	3,288,960	-	-	-	3,288,960	-
		-			-			
Buildings on leasehold land	4,198,260	193,112	4,391,372	113,985	121,659	235,644	4,155,728	2.22 - 8.33
		-			-			
Improvements to leasehold buildings	303,649	137,003	440,652	23,237	18,636	41,873	398,779	5
		-			-			
Furniture and fixtures	284,646	37,566 (4,525)	317,687	97,982	24,263 (2,509)	119,736	197,951	10
		-			-			
Electrical, office and computer equipments	825,190	352,990 (5,509) 582,342 *	1,755,013	322,673	255,654 (5,022) 288,512 *	861,817	893,196	20
Vehicles	159,176	117,300 (20,761) 284,567 *	540,282	17,837	67,367 (14,633) 189,265 *	259,836	280,446	20
	8,909,526	988,326 (30,795) 866,909 *	10,733,966	575,714	487,579 (22,164) 477,777 *	1,518,906	9,215,060	
Leased								
Electrical, office and computer equipment	582,342	-	-	242,665	45,847	-	-	20
		-			-			
		(582,342) *			(288,512) *			
Vehicles	289,368	-	-	168,835	23,889	-	-	20
		(4,801)			(3,459)			
		(284,567) *			(189,265) *			
	871,710	-	-	411,500	69,736	-	-	
		(4,801)			(3,459)			
		(866,909) *			(477,777) *			
	9,781,236	988,326 (35,596)	10,733,966	987,214	557,315 (25,623)	1,518,906	9,215,060	



13.2.1 Details of disposal of fixed assets during the year:

Particulars	Cost	Book value (Rupees in '000)	Sale price	Mode of disposal	Particulars of purchaser
Items having book value in aggregate more than Rs. 250,000 or cost more than Rs. 1,000,000					
Furniture and fixtures	1,767	274	243	Auction	Karachi Auction Mart, Karachi
Electrical, office and computer equipments	10,303	773	1,975	Auction	Karachi Auction Mart, Karachi
Electrical, office and computer equipments	2,618	873	1,288	Quotation	Asghar Ali, Karachi
Electrical, office and computer equipments	2,876	343	1,165	Quotation	Siraj Brothers, Karachi
Electrical, office and computer equipments	2,996	1	59	Quotation	Naseem Bali, Karachi
Vehicles	9,399	6,476	9,012	Insurance Claim	Habib Insurance Company Ltd. (a related party), Karachi
Vehicles	2,399	495	1,615	Quotation	Muhammad Hassan, Karachi
Vehicles	7,838	323	6,714	Auction	Owais Ghaziani, Karachi
Vehicles	1,076	-	965	Auction	Abdul Rehman, Karachi
Vehicles	1,533	239	1,094	Auction	Ali Akbar Khan, Karachi
Vehicles	1,708	-	2,345	Auction	Junaid Chuski, Karachi
Vehicles	1,392	-	1,269	Auction	Muhammad Atif, Karachi
Vehicles	1,343	-	1,082	Auction	S. Muhammad Saeed, Karachi
Vehicles	1,110	81	924	Auction	Zubair Ahmed Memon, Karachi
Vehicles	1,478	-	1,011	Auction	Huzaiifa Arif, Karachi
Vehicles	4,487	1	4,129	Auction	Zahid Qadri, Karachi
Items having book value in aggregate less than Rs. 250,000 or cost less than Rs. 1,000,000					
Furniture and fixtures	229	119	31		
Electrical, office and computer equipments	378	62	13		
Vehicles	13,853	367	16,902		
	<u>68,783</u>	<u>10,427</u>	<u>51,836</u>		

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

	2010 (Rupees in '000)	2009
Leasehold land	<b>2,733,713</b>	2,545,809
Buildings on leasehold land	<b>2,876,764</b>	2,575,733
	<u><b>5,610,477</b></u>	<u>5,121,542</u>

13.2.3 As at 31 December 2010, the gross carrying amount of fully depreciated assets still in use amounted to Rs. 436.783 (2009: Rs. 197.663) million.



### 13.3 Intangible assets

2010								
Cost		Accumulated Amortisation			Book Value			
As at 01 January 2010	Additions	As at 31 December 2010	As at 01 January 2010	Charge	As at 31 December 2010	As at 31 December 2010	Rate of Amortisation %	
(Rupees in '000)								
Computer software	145,975	32,059	178,034	115,262	30,614	145,876	32,158	50
2009								
Cost		Accumulated Amortisation			Book Value			
As at 01 January 2009	Additions	As at 31 December 2009	As at 01 January 2009	Charge	As at 31 December 2009	As at 31 December 2009	Rate of Amortisation %	
(Rupees in '000)								
Computer software	109,497	36,478	145,975	91,590	23,672	115,262	30,713	50

13.3.1 As at 31 December 2010, the cost of fully amortised intangible assets still in use amounted to Rs. 109.497 (2009: Rs. 95.304) million.

### 14. OTHER ASSETS

	Note	2010	2009
(Rupees in '000)			
Mark-up / return / interest accrued in local currency		4,214,825	3,536,505
Mark-up / return / interest accrued in foreign currencies		60,381	54,605
Advances, deposits and prepayments		1,352,245	378,097
Unrealised gain on forward foreign exchange contracts		283,136	45,568
Stationery and stamps on hand		99,317	85,495
Receivable from SBP on encashment of Government Securities		224	16,165
Non-refundable deposits	14.1	106,328	115,937
Others		9,222	4,938
		<b>6,125,678</b>	<b>4,237,310</b>

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





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



	Note	2010 (Rupees in '000)	2009
<b>17. DEPOSITS AND OTHER ACCOUNTS</b>			
<b>Customers</b>			
Fixed deposits		91,146,967	70,993,523
Savings deposits		54,512,033	35,309,299
Current accounts - Remunerative		29,197,690	21,274,425
Current accounts - Non-remunerative		64,333,688	53,881,225
		<b>239,190,378</b>	181,458,472
<b>Financial Institutions</b>			
Remunerative deposits		10,319,598	7,611,935
Non-remunerative deposits		264,236	209,655
		<b>10,583,834</b>	7,821,590
		<b>249,774,212</b>	189,280,062
<b>17.1 Particulars of deposits</b>			
In local currency		216,728,517	164,908,227
In foreign currencies		33,045,695	24,371,835
		<b>249,774,212</b>	189,280,062
<b>18. SUB-ORDINATED LOANS - unsecured</b>			
Term Finance Certificates (TFCs) - I - (Quoted)	18.1	1,346,760	1,347,300
Term Finance Certificates (TFCs) - II - (Quoted)	18.2	1,497,900	1,498,500
Term Finance Certificates (TFCs) - III - (Unquoted)	18.3	1,997,600	1,999,200
		<b>4,842,260</b>	4,845,000
<b>18.1 Term Finance Certificates - I (Quoted)</b>			
Total issue		Rupees 1,350 million	
Rating		<b>AA</b>	
Rate		Payable six monthly at average six months KIBOR plus 150 bps	
Floor		3.50% p.a.	
Ceiling		10.00% p.a.	
Redemption		6-78th month: 0.25%, 84th, 90th and 96th month: 33.25% each	
Tenor		8 years	
Maturity		July 2012	



## 18.2 Term Finance Certificates - II (Quoted)

Total issue	Rupees 1,500 million
Rating	<b>AA</b>
Rate	Payable six monthly at average six months KIBOR plus 1.95% without any floor and cap
Redemption	6-84th month: 0.28% 90th and 96th month: 49.86% each
Tenor	8 years
Maturity	February 2015

## 18.3 Term Finance Certificates - III (Unquoted)

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

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

## 19. DEFERRED TAX LIABILITIES

### Taxable temporary differences arising in respect of:

Accelerated depreciation		<b>845,006</b>	736,863
Surplus on revaluation of fixed assets	22.1	<b>536,459</b>	552,997
Surplus on revaluation of investments		–	7,231
		<b>1,381,465</b>	1,297,091

### Deductible temporary differences arising in respect of:

Deficit on revaluation of investments	22.2	<b>(207,396 )</b>	–
Provision against non-performing loans and advances		<b>(530,824 )</b>	(473,038 )
Provision for diminution in the value of investments		<b>(570 )</b>	(8,325 )
		<b>(738,790 )</b>	(481,363 )
		<b>642,675</b>	815,728



## 19.1 Reconciliation of deferred tax liabilities

	Balance as at 01 January 2009	Recognised in profit and loss account	Recognised in deficit on revaluation of assets	Balance as at 31 December 2009	Recognised in profit and loss account	Recognised in deficit on revaluation of assets	Balance as at 31 December 2010
	(Rupees in '000)						
<b>Taxable temporary differences</b> arising in respect of:							
Accelerated depreciation	655,422	81,441	-	736,863	108,143	-	845,006
Surplus on revaluation of fixed assets	569,535	(16,538)	-	552,997	(16,538)	-	536,459
Lease obligations	47,397	(47,397)	-	-	-	-	-
Surplus on revaluation of investments	(73,396)	-	80,627	7,231	-	(7,231)	-
	<u>1,198,958</u>	<u>17,506</u>	<u>80,627</u>	<u>1,297,091</u>	<u>91,605</u>	<u>(7,231)</u>	<u>1,381,465</u>
<b>Deductible temporary differences</b> arising in respect of:							
Deficit on revaluation of investments	-	-	-	-	-	(207,396)	(207,396)
Provision against non-performing loans and advances	(421,881)	(51,157)	-	(473,038)	(57,786)	-	(530,824)
Provision against diminution in the value of investments	(16,776)	8,451	-	(8,325)	7,755	-	(570)
Provision for compensated absences	(28,700)	28,700	-	-	-	-	-
	<u>(467,357)</u>	<u>(14,006)</u>	<u>-</u>	<u>(481,363)</u>	<u>(50,031)</u>	<u>(207,396)</u>	<u>(738,790)</u>
	<u>731,601</u>	<u>3,500</u>	<u>80,627</u>	<u>815,728</u>	<u>41,574</u>	<u>(214,627)</u>	<u>642,675</u>

## 20. OTHER LIABILITIES

	Note	2010	2009
		(Rupees in '000)	
Mark-up / return / interest payable in local currency		2,194,784	1,966,519
Mark-up / return / interest payable in foreign currencies		34,970	48,521
Provision for compensated absences		180,000	141,000
Locker deposits		118,208	92,732
Taxation (Provision less payments)		736,476	647,162
Unclaimed dividends		56,364	35,999
Branch adjustment account		401,093	293,811
Special exporters' accounts in foreign currencies		81,684	67,607
Unearned commission income		8,057	10,380
Security deposits against leases / ijarah		141,688	115,156
Workers' welfare fund		126,164	95,831
Accrued expenses		81,050	91,508
Provision against off balance sheet items	30	57,324	65,688
Others		440,004	384,446
		<u>4,657,866</u>	<u>4,056,360</u>



## 21. SHARE CAPITAL

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

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

	Note	2010 (Rupees in '000)	2009
<b>22. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX</b>			
Operating fixed assets	22.1	<b>1,739,434</b>	1,770,147
Available for sale investments	22.2	<b>(379,705)</b>	47,937
		<u><b>1,359,729</b></u>	<u>1,818,084</u>
22.1 Balance at the beginning of the year		<b>2,323,144</b>	2,370,395
Transfer to unappropriated profit in respect of incremental depreciation charged during the year		<b>(47,251)</b>	(47,251)
		<b>2,275,893</b>	2,323,144
Related deferred tax liability on:			
Balance at the beginning of the year		<b>552,997</b>	569,535
Transfer to unappropriated profit in respect of incremental depreciation charged during the year		<b>(16,538)</b>	(16,538)
		<b>(536,459)</b>	(552,997)
		<u><b>1,739,434</b></u>	<u>1,770,147</u>
22.2 Available for sale investments			
Federal Government Securities		<b>(602,753)</b>	67,139
Fully paid-up ordinary shares		<b>8,708</b>	48,215
Term finance certificates, sukuks and bonds		<b>(31,812)</b>	(91,175)
Open ended mutual funds		<b>38,756</b>	30,989
		<b>(587,101)</b>	55,168
Related deferred tax asset / (liability)		<b>207,396</b>	(7,231)
		<u><b>(379,705)</b></u>	<u>47,937</u>



		2010	2009
		(Rupees in '000)	
<b>23.</b>	<b>CONTINGENCIES AND COMMITMENTS</b>		
23.1	<b>Direct Credit Substitutes</b>		
	Stand-by letters of credit	<u>453,931</u>	<u>1,501,123</u>
23.2	<b>Transaction-related Contingent Liabilities</b>		
	Includes performance bonds, bid bonds, warranties, advance payment guarantees and shipping guarantees related to particular transactions issued in favour of:		
	– Government	7,200,376	6,052,504
	– Financial Institutions	260,140	302,603
	– Others	4,193,866	2,809,840
		<u>11,654,382</u>	<u>9,164,947</u>
23.3	<b>Trade-related Contingent Liabilities</b>		
	Letters of credit	40,994,674	28,152,079
	Acceptances	6,901,923	3,816,563
		<u>47,896,597</u>	<u>31,968,642</u>
23.4	<b>Other contingencies</b>		
	The income tax returns of the Bank have been submitted upto and including the Bank's financial year 2009. The income tax assessments of the Bank have been made by the tax authorities upto and including the assessment / tax year 2010.		
	In respect of assessment years 1995-1996, 1999-2000 to 2002-2003 and tax years 2003 and 2004, the Income Tax Department has filed appeals against the appellate orders of the Commissioner Income Tax Appeals (CIT Appeals) before the Income Tax Appellate Tribunal (ITAT) on which tax liability, if any, of Rs. 40 million may arise.		
	For tax years, 2005 to 2008, the CIT Appeals has passed appellate orders by disallowing certain expenses / deductions (including bad debts written-off directly, improvement in leasehold premises, provision against non-performing loans and advances) having an aggregate tax impact of Rs.156.281 (net of provision made by the Bank of Rs.61.391) million. The Bank has preferred an appeal before ITAT against the above referred orders of the CIT Appeals.		
	The aggregate financial impact of the above matters on the tax provisions made by the Bank in the financial statements works out to be Rs.196.281 (2009: Rs.198.139) million. However, the management, based on the opinion of its tax advisor, is confident about the favourable outcome of the above matters and hence, no additional provision has been considered necessary in these financial statements.		
	For the tax year 2009, proceedings u/s 122(5A) of the Income Tax Ordinance, 2001 were initiated against which the Bank has filed writ petition before Lahore High Court, Multan Bench. The Honourable Court has stayed the proceedings.		
23.5	<b>Commitments in respect of forward lending</b>	2010	2009
		(Rupees in '000)	
	Commitments to extend credit	<u>1,232,005</u>	<u>1,147,277</u>



	2010	2009
	(Rupees in '000)	
<b>23.6 Commitments in respect of forward purchase of Securities</b>		
Sukuks	<u>121,294</u>	<u>712,371</u>
<b>23.7 Commitments in respect of forward exchange contracts</b>		
Purchase	<u>27,675,282</u>	<u>11,702,277</u>
Sale	<u>24,435,789</u>	<u>8,584,253</u>
<b>23.8 Commitments for the acquisition of operating fixed assets</b>	<u>158,104</u>	<u>138,147</u>

#### 24. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank deals in derivative financial instruments namely forward foreign exchange contracts and foreign currency swaps with the principal view of hedging the risks arising from its trade business. As per the Bank's policy, these contracts are reported on their fair value at the statement of financial position date. The gains and losses from revaluation of these contracts are included under "income from dealing in foreign currencies". Unrealised gains and losses on these contracts are recorded on the statement of financial position under "other assets / other liabilities". These products are offered to the Bank's customers to protect from unfavourable movements in foreign currencies. The Bank hedges such exposures in the inter-bank foreign exchange market.

	2010	2009
	(Rupees in '000)	
<b>25. MARK-UP / RETURN / INTEREST EARNED</b>		
On loans and advances to:		
Customers	<b>12,427,551</b>	12,008,030
Financial institutions	<b>257,788</b>	373,013
	<u>12,685,339</u>	<u>12,381,043</u>
On investments:		
Available for sale securities	<b>12,144,958</b>	9,166,139
Held to maturity securities	<b>2,391,017</b>	308,824
	<u>14,535,975</u>	<u>9,474,963</u>
On deposits with financial institutions	<b>16,589</b>	43,010
On securities purchased under resale agreements	<b>236,167</b>	217,572
On call money lendings	<b>1,373</b>	3,517
	<u>27,475,443</u>	<u>22,120,105</u>
<b>26. MARK-UP / RETURN / INTEREST EXPENSED</b>		
Deposits	<b>14,238,772</b>	11,270,720
Sub-ordinated loans	<b>660,345</b>	539,349
Repurchase agreement borrowings	<b>452,191</b>	341,386
Borrowings from SBP	<b>1,321,670</b>	874,927
Other borrowings	<b>5,576</b>	26,755
	<u>16,678,554</u>	<u>13,053,137</u>



	Note	2010 (Rupees in '000)	2009
<b>27. GAIN ON SALE / REDEMPTION OF SECURITIES - NET</b>			
Listed shares		53,875	15,014
Government securities		112	108,549
Mutual funds		(3,919)	29,836
		<b>50,068</b>	<b>153,399</b>
<b>28. OTHER INCOME</b>			
Gain on sale of operating fixed assets		41,409	30,470
Recovery of expenses from customers	28.1	85,537	82,289
Lockers rent		5,107	5,515
Rent on property		2,448	2,216
Others	28.2	191,890	155,090
		<b>326,391</b>	<b>275,580</b>
28.1	Includes courier, telex, postage and other charges recovered from customers.		
28.2	Includes income from various general banking services such as cheque book charges, cheque return charges, cheque handling charges etc.		
<b>29. ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances, etc.		2,583,138	2,143,011
Charge for defined benefit plan	36.8	79,009	67,684
Contribution to defined contribution plan		107,476	89,589
Provision for compensated absences		39,000	25,000
Non-executive directors' fees, allowances and other expenses		1,630	860
Rent, taxes, insurance, electricity, etc.		917,539	671,861
Legal and professional charges		52,574	21,555
Communications		164,722	149,475
Repairs and maintenance		293,861	228,376
Financial charges on leased assets		–	15,860
Security charges		244,388	205,111
Stationery and printing		162,633	146,481
Advertisement and publicity		231,092	166,268
Donations	29.1	77,373	71,810
Auditors' remuneration	29.2	2,181	1,598
Depreciation	13.2	653,575	557,315
Amortisation		40,223	33,281
Travelling and conveyance		34,933	35,134
Vehicle running expenses		173,441	137,503
Commission and brokerage		32,955	43,221
Subscriptions and publications		49,164	40,668
Clearing charges (NIFT)		36,367	31,759
Others		185,175	162,311
		<b>6,162,449</b>	<b>5,045,731</b>





	Note	2010 (Rupees in '000)	2009
29.1			
The details of donations in excess of Rupees One hundred thousand are given below:			
Al-Sayyeda Benevolent Trust		925	925
C.A.S. Flood Relief Fund		5,000	–
Government College University Endowment Fund Trust		–	1,000
Habib Education Trust		900	900
Habib Education Trust (for Habib Girls' School Renovation Project)		10,000	–
Habib Medical Trust		925	925
Habib Medical Trust (for Masoomeen Hospital)		22,000	3,000
Habib Poor Fund		900	900
Institute of Business Administration, Karachi		–	50,000
Kashmir Education Foundation		–	200
Lahore University of Management Sciences / National Management Foundation		15,000	–
Memon Health and Education Foundation		–	6,000
Prime Minister's Flood Relief Fund - 2010		10,000	–
Rahmatbai Habib Food & Clothing Trust		900	900
Rahmatbai Habib Widows & Orphans Trust		900	900
Relief for Flood Victims via 5 Corps Headquarters, Karachi		9,923	–
Sindh Institute of Urology and Transplantation		–	2,500
The Citizens Foundation		–	1,100
The Indus Hospital		–	2,500
None of the Directors or their spouse had any interest in the above donees.			
29.2			
<b>Auditors' remuneration</b>			
Audit fee		1,000	813
Fee for half yearly review, audit of provident and gratuity fund, special certifications and sundry advisory services		950	600
Out of pocket expenses		231	185
		<b>2,181</b>	<b>1,598</b>
30.			
<b>OTHER PROVISIONS / WRITE-OFFS</b>			
(Reversal of provision) / provision against off-balance sheet items			
Loss on closure of subsidiary	11.13.1	(8,364 ) 34,878	65,688 –
		<b>26,514</b>	<b>65,688</b>
31.			
<b>OTHER CHARGES</b>			
Workers' welfare fund		115,967	95,831
Penalties imposed by the SBP		18,998	703
		<b>134,965</b>	<b>96,534</b>
32.			
<b>TAXATION</b>			
For the year			
Current		2,012,476	1,652,277
Deferred		41,574	3,500
		<b>2,054,050</b>	<b>1,655,777</b>



		2010	2009
		(Rupees in '000)	
<b>32.1 Relationship between tax expense and accounting profit</b>			
Profit before taxation		<u>5,656,211</u>	<u>4,512,071</u>
Tax at the applicable rate of 35% (2009: 35%)		<u>1,979,674</u>	1,579,225
Tax effect of:			
Expenses that are not deductible in determining taxable income		<u>167,885</u>	161,109
Income not subject to tax		<u>(27,095 )</u>	(29,576 )
Dividend income taxed at reduced rate		<u>(59,100 )</u>	(21,933 )
Provision for diminution in the value of available for sale investments being allowable at reduced rate		-	(20,814 )
Others		<u>(7,314 )</u>	(12,234 )
		<u>2,054,050</u>	<u>1,655,777</u>
<b>33. BASIC AND DILUTED - EARNINGS PER SHARE</b>			
Profit after taxation		<u>3,602,161</u>	<u>2,856,294</u>
			(Number)
Weighted average number of ordinary shares		<u>732,164,306</u>	<u>732,164,306</u>
			(Rupees)
Basic and diluted earnings per share		<u>4.92</u>	<u>3.90</u>
<b>33.1</b>	The weighted average number of shares for 2009 has been adjusted for the effect of bonus shares issued during the year.		
		Note	
		<b>2010</b>	2009
		(Rupees in '000)	
<b>34. CASH AND CASH EQUIVALENTS</b>			
Cash and balances with treasury banks	8	<u>19,000,978</u>	14,377,589
Balances with other banks	9	<u>2,132,403</u>	4,626,726
Overdrawn nostros	16.2	<u>(1,216,623)</u>	(74,131 )
		<u>19,916,758</u>	<u>18,930,184</u>
			(Numbers)
<b>35. STAFF STRENGTH</b>			
Permanent		<u>3,958</u>	3,492
Temporary / on contractual basis		<u>139</u>	142
Bank's own staff at end of the year		<u>4,097</u>	3,634
Outsourced		<u>1,148</u>	1,011
Total staff strength		<u>5,245</u>	<u>4,645</u>



## 36. DEFINED BENEFIT PLAN

### 36.1 General description

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

Number of years of eligible service completed:	Amount of gratuity payable:
– Less than 5 years	Nil
– 5 years or more but less than 10 years	1/3rd of basic salary for each year served
– 10 years or more but less than 15 years	2/3rd of basic salary for each year served
– 15 years or more	Full basic salary for each year served

### 36.2 Principal actuarial assumptions

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

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

### 36.3 Movement in defined benefit plan

	2010	2009
	(Rupees in '000)	
Charge for the year	<b>79,009</b>	67,684
Contribution to the fund	<b>(79,009)</b>	(67,684)
Closing balance	–	–

### 36.4 Reconciliation of defined benefit plan

Present value of defined benefit obligations	<b>555,050</b>	418,650
Fair value of plan assets	<b>(384,224)</b>	(268,835)
Unrecognised actuarial loss	<b>(170,826)</b>	(149,815)
	–	–

### 36.5 Movement in present value of defined benefit obligations:

Opening balance	<b>418,650</b>	314,703
Current service cost	<b>53,803</b>	43,437
Interest cost	<b>54,781</b>	45,333
Benefits paid	<b>(5,249)</b>	(6,419)
Actuarial gain	<b>33,065</b>	21,596
Closing balance	<b>555,050</b>	418,650



	2010	2009			
	(Rupees in '000)				
<b>36.6 Movement in fair value of plan assets</b>					
Opening balance	268,835	181,364			
Expected return on plan assets	37,287	28,363			
Actuarial gain / (loss) on plan assets	4,342	(2,157)			
Contribution to the fund	79,009	67,684			
Benefits paid	(5,249)	(6,419)			
Closing balance	<u>384,224</u>	<u>268,835</u>			
<b>36.7 Movement in unrecognised actuarial loss</b>					
Opening balance	149,815	133,339			
Amount recognised during the year	(7,712)	(7,277)			
Actuarial loss during the year	28,723	23,753			
Closing balance	<u>170,826</u>	<u>149,815</u>			
<b>36.8 Charge for defined benefit plan</b>					
Current service cost	53,803	43,437			
Interest cost	54,781	45,333			
Expected return on plan assets	(37,287)	(28,363)			
Actuarial loss recognised	7,712	7,277			
Charge for the year	<u>79,009</u>	<u>67,684</u>			
<b>36.9 Actual return on plan assets</b>	<u>41,630</u>	<u>26,206</u>			
<b>36.10 Historical information</b>					
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(Rupees in '000)				
– Present value of defined benefit obligation	<u>(555,050)</u>	<u>(418,650)</u>	<u>(314,703)</u>	<u>(223,093)</u>	<u>(158,620)</u>
– Fair value of plan assets	<u>384,224</u>	<u>268,835</u>	<u>181,364</u>	<u>135,505</u>	<u>96,453</u>
– Deficit	<u>(170,826)</u>	<u>(149,815)</u>	<u>(133,339)</u>	<u>(87,588)</u>	<u>(62,167)</u>
– Experience gain / (loss) on obligation	<u>33,065</u>	<u>21,596</u>	<u>47,098</u>	<u>(26,831)</u>	<u>(19,199)</u>
– Experience gain / (loss) on plan assets	<u>4,342</u>	<u>(2,157)</u>	<u>(3,315)</u>	<u>(1,898)</u>	<u>(320)</u>



	2010	2009
<b>36.11 Components of plan assets as a percentage of total plan assets</b>		
– Government securities	65.11%	28.67%
– Term finance certificates	8.52%	12.15%
– Bank balances	26.37%	59.18%
	<b>100.00%</b>	<b>100.00%</b>

**36.12 Expected contribution to be paid to the funds in the next financial year**

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

**37. DEFINED CONTRIBUTION PLAN**

The general description of the plan is included in note 5.7.

**38. COMPENSATION OF DIRECTORS AND EXECUTIVES**

	Chief Executive		*Directors		Executives	
	2010	2009	2010	2009	2010	2009
	(Rupees in '000)					
Fee **	–	–	1,630	860	–	–
Managerial remuneration	8,498	7,945	5,014	4,331	539,012	418,939
Charge for defined benefit plan	2,543	2,891	1,551	1,073	84,122	50,508
Contribution to defined contribution plan	850	795	501	433	43,832	33,992
Rent and house maintenance	3,399	3,178	2,005	1,733	215,605	167,576
Utilities	1,465	1,254	501	433	53,901	41,894
Medical	5	12	154	150	12,614	10,128
Bonus	2,099	2,016	1,238	1,073	132,903	103,673
Others	–	–	–	–	15,948	12,317
	<b>18,859</b>	18,091	<b>12,594</b>	10,086	<b>1,097,937</b>	839,027
Number of person(s)	<b>1</b>	1	<b>9</b>	9	<b>516</b>	404

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

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

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



### 39. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2010		2009	
	Book value	Fair value	Book value	Fair value
	(Rupees in '000)			
<b>On-balance sheet financial instruments</b>				
<b>Assets</b>				
Cash and balances with treasury banks	19,000,978	19,000,978	14,377,589	14,377,589
Balances with other banks	2,132,403	2,132,403	4,626,726	4,626,726
Lendings to financial institutions	1,139,268	1,139,268	-	-
Investments	137,167,680	137,000,644	111,017,701	110,887,959
Advances	125,773,064	125,773,064	105,985,319	105,985,319
Other assets	4,567,788	4,567,788	3,657,781	3,657,781
	<u>289,781,181</u>	<u>289,614,145</u>	<u>239,665,116</u>	<u>239,535,374</u>
<b>Liabilities</b>				
Bills payable	2,989,989	2,989,989	3,187,383	3,187,383
Borrowings	22,579,348	22,579,348	33,517,109	33,517,109
Deposits and other accounts	249,774,212	249,774,212	189,280,062	189,280,062
Sub-ordinated loans	4,842,260	4,842,260	4,845,000	4,845,000
Other liabilities	3,156,807	3,156,807	2,802,487	2,802,487
	<u>283,342,616</u>	<u>283,342,616</u>	<u>233,632,041</u>	<u>233,632,041</u>
<b>Off-balance sheet financial instruments</b>				
Commitment to extend credit	1,232,005	1,232,005	1,147,277	1,147,277
Forward purchase of foreign exchange contracts	27,675,282	27,692,581	11,702,277	11,733,991
Forward sale of foreign exchange contracts	24,435,789	24,701,626	8,584,253	8,598,107
Forward purchase of securities	121,294	121,294	712,371	712,371

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

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

Fair value of fixed term advances of over one year, staff loans and fixed term deposits of over one year cannot be calculated with sufficient reliability due to non-availability of relevant active market for similar assets and liabilities. The provision for impairment of loans and advances and debt securities has been calculated in accordance with the Bank's accounting policies as stated in note 5.4 and 5.5.



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

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

	2010			Total
	Retail Banking	Commercial Banking	Inter Segment Elimination	
	(Rupees in '000)			
Total income	13,517,116	25,788,157	(9,700,284)	29,604,989
Total expenses	(10,073,696)	(23,575,366)	9,700,284	(23,948,778)
Net income	3,443,420	2,212,791	–	5,656,211
Segment assets (net of provisions)	203,097,066	294,024,054	(195,568,659)	301,552,461
Segment non performing loans	51,429	2,892,434	–	2,943,863
Segment provision required	43,189	1,639,108	–	1,682,297
Segment liabilities	202,149,243	278,905,766	(195,568,659)	285,486,350
Segment return on net assets (%)*	6.66%	8.77%		
Segment cost of funds (%)*	4.98%	8.45%		
	2009			
	Retail Banking	Commercial Banking	Inter Segment Elimination	Total
	(Rupees in '000)			
Total income	11,066,450	20,230,993	(7,341,256)	23,956,187
Total expenses	(7,942,150)	(18,843,222)	7,341,256	(19,444,116)
Net income	3,124,300	1,387,771	–	4,512,071
Segment assets (net of provisions)	158,052,311	237,848,545	(146,094,256)	249,806,600
Segment non performing loans	42,540	2,025,116	–	2,067,656
Segment provision required	32,157	1,178,415	–	1,210,572
Segment liabilities	156,869,070	224,926,828	(146,094,256)	235,701,642
Segment return on net assets (%)*	7.00%	8.51%		
Segment cost of funds (%)*	5.06%	8.38%		

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

#### 41. TRUST ACTIVITIES

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



## 42. RELATED PARTY TRANSACTIONS

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

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

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

	2010					Total
	Subsidiaries	Associates	Non Executive Directors	Key Management Personnel	Retirement Benefit Funds	
	(Rupees in '000)					
Deposits						
At beginning of the year	130,142	674,596	13,966	80,124	513,212	1,412,040
Placement during the year	4,415,186	72,043,744	175,774	653,408	3,542,965	80,831,077
Withdrawal during the year	(4,525,319)	(71,030,400)	(176,102)	(606,728)	(3,745,652)	(80,084,201)
At end of the year	20,009	1,687,940	13,638	126,804	310,525	2,158,916
Advances						
At beginning of the year	-	399,584	26	164	-	399,774
Given during the year	-	742,345	934	29,295	-	772,574
Repaid during the year	-	(772,121)	(746)	(11,934)	-	(784,801)
At end of the year	-	369,808	214	17,525	-	387,547
Contingencies and commitments	-	716,726	-	-	-	716,726
Purchase of fixed assets	2,631	1,408	-	-	-	4,039
Sale of securities	-	36,004	-	-	264,827	300,831
Mark-up earned	-	26,145	-	452	-	26,597
Mark-up expensed	12,691	84,951	1,522	8,890	43,409	151,463
Bank charges and commission	30	5,275	1	2	-	5,308
Salaries and allowances	-	-	-	93,336	-	93,336
Bonus	-	-	-	14,333	-	14,333
Contribution to defined contribution plan	-	-	-	3,480	-	3,480
Contribution to defined benefit plan	-	-	-	7,011	-	7,011
Staff provident fund	-	-	-	-	107,476	107,476
Staff gratuity fund	-	-	-	-	79,009	79,009
Directors' fee	-	-	1,630	-	-	1,630
Insurance claim received	-	9,369	-	-	-	9,369
Insurance premium paid	-	116,263	-	-	-	116,263
Dividend income	-	82,733	-	-	-	82,733
Dividend paid	-	22,802	-	-	-	22,802
Rental income	2,448	-	-	-	-	2,448
Commission expense	-	-	-	-	-	-
Others	16	-	-	-	-	16
Gain on sale of securities	-	36	-	-	65	101





2009

	Subsidiaries	Associates	Non Executive Directors	Key Management Personnel	Retirement Benefit Funds	Total
	(Rupees in '000)					
<b>Deposits</b>						
At beginning of the year	46,459	572,537	3,843	44,710	321,102	988,651
Placement during the year	5,557,123	49,523,388	152,320	8,302,102	3,320,962	66,855,895
Withdrawal during the year	(5,473,440)	(49,421,329)	(142,197)	(8,266,688)	(3,128,852)	(66,432,506)
At end of the year	130,142	674,596	13,966	80,124	513,212	1,412,040
<b>Advances</b>						
At beginning of the year	-	369,000	54	641	-	369,695
Given during the year	178,302	542,438	987	8,381	-	730,108
Repaid during the year	(178,302)	(511,854)	(1,015)	(8,858)	-	(700,029)
At end of the year	-	399,584	26	164	-	399,774
Contingencies and commitments	-	229,073	-	-	-	229,073
Purchase of fixed assets	-	1,503	-	-	-	1,503
Sale of securities	-	35,576	-	-	243,017	278,593
Mark-up earned	106	43,475	3	28	-	43,612
Mark-up expensed	10,219	70,764	1,093	6,316	73,941	162,333
Bank charges and commission	166	2,062	41	258	-	2,527
Salaries and allowances	-	-	-	73,625	-	73,625
Bonus	-	-	-	12,047	-	12,047
Contribution to defined contribution plan	-	-	-	2,473	-	2,473
Contribution to defined benefit plan	-	-	-	6,293	-	6,293
Staff provident fund	-	-	-	-	89,589	89,589
Staff gratuity fund	-	-	-	-	67,684	67,684
Directors' fee	-	-	860	-	-	860
Insurance claim received	-	6,628	-	-	-	6,628
Insurance premium paid	-	97,473	-	-	-	97,473
Dividend income	-	51,494	-	-	-	51,494
Dividend paid	-	11,177	-	-	-	11,177
Rental income	2,216	-	-	-	-	2,216
Commission expense	12,636	-	-	-	-	12,636
Others	-	-	-	-	-	-
Gain on sale of securities	-	30	-	-	197	227



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

#### 43.1 Scope of application

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

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

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

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

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

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

#### 43.2 Capital adequacy

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

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

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

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

Total regulatory capital should be at least 10% of risk-weighted assets and the Bank's capital adequacy ratio is 12.82% (2009: 14.98%).

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

The Bank's exposure to and its management and control of risks is described in note 44. Stress testing is performed for various risks and their impact on capital adequacy ratio as per guidelines of the SBP.



### 43.3 Capital structure

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

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

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

	2010	2009
	(Rupees in '000)	
<i>Tier I Capital</i>		
Share capital	7,321,643	6,101,370
Reserves	4,300,673	3,580,241
Unappropriated profit	2,992,475	2,520,579
Less: Adjustment for investments in subsidiaries and associates*	(131,875)	(148,300)
Intangible assets	(32,158)	(30,713)
<b>Total Tier I Capital</b>	<b>14,450,758</b>	<b>12,023,177</b>
<i>Tier II Capital</i>		
Subordinated loans (upto 50% of total Tier I Capital)	3,465,272	4,306,080
General provisions subject to 1.25% of total risk weighted assets	1,628,184	1,177,121
Exchange translation reserve	91,591	84,684
Revaluation reserves (upto 45%)	759,958	1,112,768
Less: Adjustment for Investment in subsidiaries and associates*	(131,875)	(148,300)
<b>Total Tier II Capital</b>	<b>5,813,130</b>	<b>6,532,353</b>
<i>Eligible Tier III Capital</i>	-	-
<b>Total Regulatory Capital</b>	<b>20,263,888</b>	<b>18,555,530</b>

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



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

	<b>Capital Requirements</b>		<b>Risk Weighted Assets</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
				(Rupees in '000)
<b>Credit Risk</b>				
Sovereign	40,047	111,657	400,473	1,116,571
Public sector enterprises	141,897	79,435	1,418,967	794,349
Corporates	10,452,561	7,863,147	104,525,614	78,631,472
Banks	354,038	365,741	3,540,385	3,657,415
Retail	1,064,686	738,269	10,646,859	7,382,694
Residential mortgages	42,100	37,300	420,997	372,998
Equity exposures	279,982	285,832	2,799,819	2,858,321
Other assets	1,294,334	1,255,591	12,943,342	12,555,906
	<u>13,669,645</u>	<u>10,736,972</u>	<u>136,696,456</u>	<u>107,369,726</u>
<b>Market Risk</b>				
Interest rate risk	54,319	19,949	678,994	249,356
Foreign exchange risk	15,044	17,382	188,052	217,278
	69,363	37,331	867,046	466,634
<b>Operational Risk</b>	<u>1,639,076</u>	<u>1,279,281</u>	<u>20,488,446</u>	<u>15,991,007</u>
<b>Total</b>	<u>15,378,084</u>	<u>12,053,584</u>	<u>158,051,948</u>	<u>123,827,367</u>
<b>Capital Adequacy Ratio</b>				
Total regulatory capital (a)	20,263,888	18,555,530		
Total risk weighted assets (b)	<u>158,051,948</u>	<u>123,827,367</u>		
Capital Adequacy Ratio [(a) / (b) x 100]	<u>12.82%</u>	<u>14.98%</u>		

#### 44. RISK MANAGEMENT

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

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

##### 44.1 Credit risk

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

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



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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

#### Credit exposures subject to Standardised Approach

Risk buckets	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation (CRM) deduction	Net amount
		(Rupees in '000)	
0%	144,000,463	–	144,000,463
20%	16,629,467	5,389,099	11,240,368
35%	1,202,848	–	1,202,848
50%	25,694,918	16,103,707	9,591,211
75%	17,805,222	3,609,409	14,195,813
100%	120,981,138	2,447,023	118,534,115
150%	33,870	–	33,870
	<u>326,347,926</u>	<u>27,549,238</u>	<u>298,798,688</u>

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

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



#### 44.1.3 Segment by class of business

2010

	Gross Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Agriculture / Agri business	1,894,948	1.47	219,098	0.09	707,709	1.18
Automobiles and Transportation						
Equipment	1,228,133	0.95	1,614,167	0.65	1,398,138	2.33
Cement	3,414,391	2.65	101,153	0.04	806,451	1.34
Chemicals / Pharmaceuticals	2,555,399	1.98	1,158,349	0.46	1,561,684	2.60
Commerce and Trade	11,403,511	8.83	9,741,662	3.90	10,114,461	16.86
Electronics and Electrical appliances	1,197,188	0.93	325,304	0.13	1,082,094	1.80
Fertilizers	1,143,115	0.89	3,229,404	1.29	747,131	1.25
Financial	2,013,004	1.56	10,882,645	4.36	306,698	0.51
Food and Allied	5,742,127	4.45	1,183,256	0.47	1,408,439	2.35
Ghee and Edible Oil	3,502,559	2.71	1,297,663	0.52	4,972,586	8.29
Individuals	2,844,672	2.20	149,165,862	59.72	875	-
Iron and Steel	4,131,632	3.20	1,785,014	0.71	2,303,189	3.84
Oil refinery / marketing	4,263,570	3.30	20,560,573	8.23	498,802	0.83
Paper and Board	333,550	0.26	79,078	0.03	1,202,597	2.00
Plastic products	834,580	0.65	153,248	0.06	1,942,838	3.24
Production and Transmission of Energy	6,589,713	5.10	6,720,076	2.69	2,077,661	3.46
Real estate / Construction	2,209,815	1.71	3,148,862	1.26	2,090,602	3.48
Services (other than financial)	1,423,306	1.10	7,437,744	2.98	1,336,680	2.23
Shoes and Leather garments	859,580	0.67	338,502	0.14	305,120	0.51
Sugar	3,154,165	2.44	1,547,768	0.62	335,325	0.56
Surgical Equipments	381,181	0.30	174,451	0.07	327,995	0.55
Textile						
Spinning	30,068,536	23.30	1,015,147	0.41	8,388,193	13.98
Weaving	11,361,829	8.80	532,759	0.21	2,397,848	4.00
Composite	13,753,432	10.65	1,034,081	0.42	2,770,880	4.62
Ready-made Garments	2,351,475	1.82	1,355,881	0.54	1,672,312	2.79
	57,535,272	44.57	3,937,868	1.58	15,229,233	25.39
Others	10,428,134	8.08	24,972,465	10.00	9,248,602	15.40
	<u>129,083,545</u>	<u>100.00</u>	<u>249,774,212</u>	<u>100.00</u>	<u>60,004,910</u>	<u>100.00</u>



2009

	Gross Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
	Agriculture / Agri business	1,189,758	1.10	118,261	0.06	542,266
Automobiles and Transportation						
Equipment	1,395,116	1.29	2,564,471	1.35	1,753,248	4.11
Cement	3,129,467	2.89	103,654	0.05	268,395	0.63
Chemicals / Pharmaceuticals	2,713,517	2.50	769,041	0.41	1,817,125	4.26
Commerce and Trade	9,585,165	8.84	8,564,287	4.52	5,946,773	13.95
Electronics and Electrical appliances	213,490	0.20	418,556	0.22	876,479	2.06
Fertilizers	1,663,009	1.53	3,540,790	1.87	1,259,379	2.95
Financial	1,806,036	1.67	7,821,589	4.13	690,832	1.62
Food and Allied	3,940,533	3.64	1,120,265	0.59	887,478	2.08
Ghee and Edible Oil	1,756,712	1.62	335,705	0.18	1,835,548	4.31
Individuals	2,457,939	2.27	113,755,061	60.10	1,554	-
Iron and Steel	3,125,428	2.88	2,629,963	1.39	2,000,984	4.69
Oil refinery / marketing	8,735,486	8.06	9,012,176	4.76	4,988,780	11.70
Paper and Board	466,585	0.43	52,004	0.03	83,373	0.20
Plastic products	684,699	0.63	90,807	0.05	1,292,041	3.03
Production and Transmission of Energy	5,475,517	5.05	5,463,459	2.89	2,017,261	4.73
Real estate / Construction	2,654,885	2.45	1,978,577	1.05	2,160,655	5.07
Services (other than financial)	1,038,828	0.96	7,094,329	3.75	567,620	1.33
Shoes and Leather garments	1,083,576	1.00	188,760	0.10	194,052	0.46
Sugar	2,770,242	2.56	638,810	0.34	54,789	0.13
Surgical Equipments	428,852	0.40	214,487	0.11	219,998	0.52
Textile						
Spinning	21,997,652	20.30	627,847	0.33	3,050,716	7.16
Weaving	7,095,938	6.55	628,311	0.33	2,190,506	5.14
Composite	12,037,860	11.11	1,154,809	0.61	2,416,154	5.67
Ready-made Garments	2,048,195	1.89	447,545	0.24	845,210	1.98
	43,179,645	39.85	2,858,512	1.51	8,502,586	19.95
Others	8,878,527	8.18	19,946,498	10.54	4,673,496	10.95
	<u>108,373,012</u>	<u>100.00</u>	<u>189,280,062</u>	<u>100.00</u>	<u>42,634,712</u>	<u>100.00</u>





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

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

#### 44.1.5 Segment by sector

	2010					
	Gross Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Public / Government	13,813,783	10.70	41,174,787	16.48	4,555,990	7.59
Private	115,269,762	89.30	208,599,425	83.52	55,448,920	92.41
	<b>129,083,545</b>	<b>100.00</b>	<b>249,774,212</b>	<b>100.00</b>	<b>60,004,910</b>	<b>100.00</b>
	2009					
	Gross Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Public / Government	15,621,677	14.41	25,269,556	13.35	3,262,350	7.65
Private	92,751,335	85.59	164,010,506	86.65	39,372,362	92.35
	<b>108,373,012</b>	<b>100.00</b>	<b>189,280,062</b>	<b>100.00</b>	<b>42,634,712</b>	<b>100.00</b>



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

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

#### 44.1.7 GEOGRAPHICAL SEGMENT ANALYSIS

	2010			
	Profit before taxation	Total assets employed (Rupees in '000)	Net assets employed	Contingencies and Commitments
Pakistan	5,551,049	295,756,379	15,498,425	57,706,649
Middle East	105,162	5,796,082	567,686	2,298,261
	<b>5,656,211</b>	<b>301,552,461</b>	<b>16,066,111</b>	<b>60,004,910</b>
	2009			
	Profit before taxation	Total assets employed (Rupees in '000)	Net assets employed	Contingencies and Commitments
Pakistan	4,362,776	244,951,365	13,617,501	41,962,145
Middle East	149,295	4,855,235	487,457	672,567
	<b>4,512,071</b>	<b>249,806,600</b>	<b>14,104,958</b>	<b>42,634,712</b>

#### 44.2 Market risk

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

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

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



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

The Bank uses the Standardised Approach to calculate capital charge for market risk as per Basel II regulatory framework. Details of capital charge for market risk are given in note 43.4.

#### 44.2.1 Interest rate / yield risk

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

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

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

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

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

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

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



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

2010

	Effective Yield/ Interest Rate	Total	Exposed to Yield / Interest rate risk								Non interest bearing financial instruments	
			Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years		
(Rupees in '000)												
On-balance sheet financial Instruments												
Assets												
Cash and balances with treasury banks	-	19,000,978	4,130,555	-	-	-	-	-	-	-	-	14,870,423
Balances with other banks	0.93%	2,132,403	1,351,474	-	-	-	-	-	-	-	-	780,929
Lendings to financial institutions	12.82%	1,139,268	1,139,268	-	-	-	-	-	-	-	-	-
Investments	12.61%	137,167,680	19,573,850	55,305,852	38,417,003	7,343,880	2,661,548	2,798,987	2,279,125	6,496,147	-	2,291,288
Advances	11.92%	125,773,064	35,950,432	30,850,343	28,616,183	23,768,841	632,713	906,804	3,090,752	978,270	978,726	-
Other assets	-	4,567,788	-	-	-	-	-	-	-	-	-	4,567,788
		289,781,181	62,145,579	86,156,195	67,033,186	31,112,721	3,294,261	3,705,791	5,369,877	7,474,417	978,726	22,510,428
Liabilities												
Bills payable	-	2,989,989	-	-	-	-	-	-	-	-	-	2,989,989
Borrowings	8.58%	22,579,348	2,603,419	9,946,193	6,444,361	86,582	151,022	619,331	1,854,770	871,036	-	2,634
Deposits and other accounts	8.62%	249,774,212	108,932,477	30,206,642	10,834,397	22,872,974	2,250,249	5,681,225	4,398,324	-	-	64,597,924
Sub-ordinated loans	13.74%	4,842,260	270	1,498,300	400	449,630	899,260	1,600	1,992,800	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other Liabilities	-	3,156,807	-	-	-	-	-	-	-	-	-	3,156,807
		283,342,616	111,536,166	41,651,135	17,279,158	23,409,186	3,300,531	6,302,156	8,245,894	871,036	-	70,747,354
On-balance sheet gap		6,438,565	(49,390,587)	44,505,060	49,754,028	7,703,535	(6,270)	(2,596,365)	(2,876,017)	6,603,381	978,726	(48,236,926)
Off-balance sheet financial instruments												
Forward purchase of foreign exchange contracts		27,675,282	6,921,868	5,028,264	9,230,838	6,475,416	18,896	-	-	-	-	-
Forward sale of foreign exchange contracts		(24,435,789)	(9,402,188)	(7,682,311)	(7,351,290)	-	-	-	-	-	-	-
Forward purchase of securities		121,294	121,294	-	-	-	-	-	-	-	-	-
Forward commitments to extend credit		1,232,005	1,178,969	53,036	-	-	-	-	-	-	-	-
Off-balance sheet gap		4,592,792	(1,180,057)	(2,601,011)	1,879,548	6,475,416	18,896	-	-	-	-	-
Total interest / yield risk sensitivity gap		11,031,357	(50,570,644)	41,904,049	51,633,576	14,178,951	12,626	(2,596,365)	(2,876,017)	6,603,381	978,726	-
Cumulative interest / yield risk sensitivity gap			(50,570,644)	(8,666,595)	42,966,981	57,145,932	57,158,558	54,562,193	51,686,176	58,289,557	59,268,283	-



2009

	Effective Yield/ Interest Rate	Total	Exposed to Yield / Interest rate risk								Non interest bearing financial instruments	
			Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years		Over 10 years
(Rupees in '000)												
On-balance sheet financial Instruments												
Assets												
Cash and balances with treasury banks	-	14,377,589	2,959,617	-	-	-	-	-	-	-	-	11,417,972
Balances with other banks	0.25%	4,626,726	3,993,115	-	-	2,500	-	-	-	-	-	631,111
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	12.67%	111,017,701	9,409,790	45,001,415	6,470,767	35,687,505	2,646,171	864,257	1,776,063	6,790,992	-	2,370,741
Advances	12.15%	105,985,319	22,214,311	19,393,713	27,228,698	17,256,806	2,075,876	3,286,821	6,724,137	5,519,747	2,285,210	-
Other assets	-	3,657,781	-	-	-	-	-	-	-	-	-	3,657,781
		239,665,116	38,576,833	64,395,128	33,699,465	52,946,811	4,722,047	4,151,078	8,500,200	12,310,739	2,285,210	18,077,605
Liabilities												
Bills payable	-	3,187,383	-	-	-	-	-	-	-	-	-	3,187,383
Borrowings	9.50%	33,517,109	17,537,019	9,047,794	4,477,131	95,101	146,256	202,733	1,343,873	667,202	-	-
Deposits and other accounts	6.88%	189,280,062	75,547,513	16,384,486	10,506,007	22,114,470	2,033,231	2,128,740	6,474,735	-	-	54,090,880
Sub-ordinated loans	13.52%	4,845,000	270	1,498,900	400	1,070	450,700	899,260	3,200	1,991,200	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other Liabilities	-	2,802,487	-	-	-	-	-	-	-	-	-	2,802,487
		233,632,041	93,084,802	26,931,180	14,983,538	22,210,641	2,630,187	3,230,733	7,821,808	2,658,402	-	60,080,750
On-balance sheet gap		6,033,075	(54,507,969)	37,463,948	18,715,927	30,736,170	2,091,860	920,345	678,392	9,652,337	2,285,210	(42,003,145)
Off-balance sheet financial instruments												
Forward purchase of foreign exchange contracts		11,702,277	3,917,544	3,332,768	2,984,163	1,467,802	-	-	-	-	-	-
Forward sale of foreign exchange contracts		(8,584,253)	(5,450,802)	(1,407,482)	(1,723,347)	(2,622)	-	-	-	-	-	-
Forward purchase of securities		712,371	62,371	150,000	150,000	350,000	-	-	-	-	-	-
Forward commitments to extend credit		1,147,277	200,237	290,490	596,544	60,006	-	-	-	-	-	-
Off-balance sheet gap		4,977,672	(1,270,650)	2,365,776	2,007,360	1,875,186	-	-	-	-	-	-
Total interest / yield risk sensitivity gap		11,010,747	(55,778,619)	39,829,724	20,723,287	32,611,356	2,091,860	920,345	678,392	9,652,337	2,285,210	
Cumulative interest / yield risk sensitivity gap			(55,778,619)	(15,948,895)	4,774,392	37,385,748	39,477,608	40,397,953	41,076,345	50,728,682	53,013,892	



### 44.2.3 Foreign exchange risk

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

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

<b>2010</b>				
	<b>Assets</b>	<b>Liabilities</b>	<b>Off-balance sheet items</b>	<b>Net currency exposure</b>
(Rupees in '000)				
Pakistan Rupee	269,307,005	250,857,854	(3,249,342)	15,199,809
United States Dollar	30,501,859	29,325,423	(422,716)	753,720
Great Britain Pound	461,527	3,088,898	2,659,110	31,739
Japanese Yen	52	1,995	2,113	170
Euro	1,241,040	2,209,083	1,032,092	64,049
Other currencies	40,978	3,097	(21,257)	16,624
	<b>301,552,461</b>	<b>285,486,350</b>	<b>–</b>	<b>16,066,111</b>
<b>2009</b>				
	<b>Assets</b>	<b>Liabilities</b>	<b>Off-balance sheet items</b>	<b>Net currency exposure</b>
(Rupees in '000)				
Pakistan Rupee	227,717,892	211,026,745	(3,127,257)	13,563,890
United States Dollar	20,858,855	19,265,627	(1,149,125)	444,103
Great Britain Pound	329,158	3,184,894	2,877,645	21,909
Japanese Yen	66,876	6	(68,340)	(1,470)
Euro	737,575	2,140,269	1,467,077	64,383
Other currencies	96,244	84,101	–	12,143
	<b>249,806,600</b>	<b>235,701,642</b>	<b>–</b>	<b>14,104,958</b>



### 44.3 Liquidity risk

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

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

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

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



#### 44.3.1 MATURITIES OF ASSETS AND LIABILITIES

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

	2010									
	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
(Rupees in '000)										
<b>Assets</b>										
Cash and balances with treasury banks	19,000,978	19,000,978	-	-	-	-	-	-	-	-
Balances with other banks	2,132,403	2,132,403	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,139,268	1,139,268	-	-	-	-	-	-	-	-
Investments	137,167,680	16,635,385	45,575,429	38,009,822	9,258,003	8,213,327	5,082,386	4,257,251	8,737,563	1,398,514
Advances	125,773,064	25,539,311	29,855,609	27,083,888	24,397,893	4,157,968	3,472,945	6,813,781	3,351,346	1,100,323
Operating fixed assets	10,213,390	74,705	239,082	231,606	1,838,040	530,885	433,114	551,905	624,497	5,689,556
Other assets	6,125,678	4,553,728	979,563	209,730	142,584	62,007	35,373	26,611	41,393	74,689
	301,552,461	69,075,778	76,649,683	65,535,046	35,636,520	12,964,187	9,023,818	11,649,548	12,754,799	8,263,082
<b>Liabilities</b>										
Bills payable	2,989,989	2,989,989	-	-	-	-	-	-	-	-
Borrowings	22,579,348	2,606,052	9,946,193	6,444,361	86,582	151,022	619,331	1,854,770	871,037	-
Deposits and other accounts	249,774,212	37,733,079	45,295,233	25,922,988	37,961,565	29,409,714	32,840,690	33,066,648	7,544,295	-
Sub-ordinated loans	4,842,260	270	700	400	449,930	899,860	2,200	1,499,300	1,989,600	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	642,675	-	-	-	(361,470)	158,740	151,515	272,641	92,582	328,667
Other Liabilities	4,657,866	2,943,937	104,919	284,643	895,993	39,760	8,180	82,226	-	298,208
	285,486,350	46,273,327	55,347,045	32,652,392	39,032,600	30,659,096	33,621,916	36,775,585	10,497,514	626,875
	16,066,111	22,802,451	21,302,638	32,882,654	(3,396,080)	(17,694,909)	(24,598,098)	(25,126,037)	2,257,285	7,636,207
<b>Net assets</b>										
Share capital	7,321,643									
Reserves	4,392,264									
Unappropriated profit	2,992,475									
Surplus on revaluation of assets - net of tax	1,359,729									
	16,066,111									





2009

	Total	Upto 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years
(Rupees in '000)										
<b>Assets</b>										
Cash and balances with treasury banks	14,377,589	14,377,589	-	-	-	-	-	-	-	-
Balances with other banks	4,626,726	4,624,226	-	-	2,500	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	111,017,701	6,849,035	35,402,207	5,565,544	36,848,382	3,515,645	6,700,865	5,540,977	8,762,187	1,832,859
Advances	105,985,319	22,214,311	19,393,713	27,228,698	17,256,806	2,075,876	3,286,821	6,724,137	5,519,747	2,285,210
Operating fixed assets	9,561,955	95,537	301,351	173,335	345,173	2,008,048	361,916	438,983	546,706	5,290,906
Other assets	4,237,310	2,864,069	846,244	184,902	109,389	51,386	40,923	23,943	38,208	78,246
	249,806,600	51,024,767	55,943,515	33,152,479	54,562,250	7,650,955	10,390,525	12,728,040	14,866,848	9,487,221
<b>Liabilities</b>										
Bills payable	3,187,383	3,187,383	-	-	-	-	-	-	-	-
Borrowings	33,517,109	17,537,019	9,047,794	4,477,131	95,101	146,256	202,733	1,343,873	667,202	-
Deposits and other accounts	189,280,062	27,524,573	27,730,466	21,851,987	33,460,450	22,455,995	22,551,503	28,032,097	5,672,991	-
Sub-ordinated loans	4,845,000	270	700	400	1,370	451,300	899,860	752,000	2,739,100	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other Liabilities	4,056,360	2,762,576	99,343	65,710	791,052	26,165	35,557	42,225	-	233,732
Deferred tax liabilities	815,728	-	-	-	(303,762)	353,780	148,499	264,944	75,541	276,726
	235,701,642	51,011,821	36,878,303	26,395,228	34,044,211	23,433,496	23,838,152	30,435,139	9,154,834	510,458
	14,104,958	12,946	19,065,212	6,757,251	20,518,039	(15,782,541)	(13,447,627)	(17,707,099)	5,712,014	8,976,763
<b>Net assets</b>										
Share capital	6,101,370									
Reserves	3,664,925									
Unappropriated profit	2,520,579									
Surplus on revaluation of assets - net of tax	1,818,084									
	14,104,958									



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

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

The Bank's policy is to take equity positions for investment purposes and not to run a trading book for buying and selling of equities. Equity holdings include direct investment in shares and in equity-based mutual funds, both closed-end and open-ended. Policies covering their valuation and accounting are disclosed in note 5.4.

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

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

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

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

#### 44.5 **Operational risk**

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

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

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

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

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

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

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



## 45. ISLAMIC BANKING BUSINESS

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

### 45.1.1 STATEMENT OF FINANCIAL POSITION

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



#### 45.1.2 PROFIT AND LOSS ACCOUNT

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

#### 46. SUBSEQUENT EVENT

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

#### 47. GENERAL

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

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

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

#### 48. DATE OF AUTHORISATION

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

ALI RAZA D. HABIB  
*Chairman*

ABBAS D. HABIB  
*Chief Executive and  
Managing Director*

SYED MAZHAR ABBAS  
*Director*

ANWAR HAJI KARIM  
*Director*



Annexure-1

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

(Rupees in '000)

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

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

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



## Report of Shariah Advisor

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

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

Karachi: February 17, 2011

ISMATULLAH  
**Shariah Advisor**  
Islamic Banking Division



## Notice of Annual General Meeting

Notice is hereby given that the Twentieth Annual General Meeting of Bank AL Habib Limited will be held at the Registered Office of the Bank located at 126-C, Old Bahawalpur Road, Multan, on Thursday, March 17, 2011 at 12:00 noon to transact the following business:

1. To receive and adopt the Audited Annual Accounts and Consolidated Accounts of the Bank for the year ended December 31, 2010 together with the Reports of Directors and Auditors thereon.
2. To consider and approve payment of cash dividend @ 20%, i.e., Rs. 2/- per share of Rs. 10/ each for the year ended December 31, 2010 as recommended by the Board of Directors.
3. To consider and approve the issue of 20% bonus shares as recommended by the Board of Directors in the proportion of 20 shares for every 100 shares held by the shareholders and in this regard to pass the following resolution:

**“RESOLVED** that a sum of Rs. 1,464,328,610 (Rupees One Billion Four Hundred Sixty Four Million Three Hundred Twenty Eight Thousand Six Hundred Ten only) out of the un-appropriated profit be capitalized and distributed by issuing 146,432,861 fully paid ordinary shares of Rs. 10 each as bonus shares in the proportion of 20 shares for every hundred shares held, to those members whose names appear in the register of members as at the close of business on March 5, 2011 and that shares so distributed shall be treated for all practical purposes as an increase in the paid up capital of the Bank.

**“FURTHER RESOLVED** that the bonus shares so distributed shall rank pari passu in all respect with the existing shares of the Bank.

**“FURTHER RESOLVED** that the Directors be and are hereby authorized to consolidate all fractions of bonus shares and sell in the Stock Market and pay the proceeds of sale when realized to charitable trust(s).

**“FURTHER RESOLVED** that the Directors be and are hereby authorized and empowered to give effect to this resolution and to do or cause to be done all acts, deeds and things that may be necessary or required for the issue, allotment and distribution of 146,432,861 shares.”

4. To appoint auditors for the year 2011 and to fix their remuneration. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, being eligible offer themselves for re-appointment.
5. To consider any other business of the Bank with the permission of the Chair.

By order of the Board

A. SAEED SIDDIQUI  
**Company Secretary**

Karachi: February 24, 2011



**Notes:**

1. A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy (except for a corporation) must be a member of the Bank. Proxy Form, in order to be effective, must be received at the Registered Office of the Bank located at 126-C, Old Bahawalpur Road, Multan, duly stamped and signed not less than 48 hours before the meeting.
2. The CDC account / sub account holders are requested to bring with them their Computerized National ID Cards along with participant(s) ID Number and their account numbers at the time of attending the Annual General Meeting in order to facilitate identification of the respective shareholders. In case of a corporate entity, the Board of Directors' Resolution/Power of Attorney with specimen signatures be produced at the time of meeting.
3. The share transfer book of the Bank will remain closed from March 7, 2011 to March 17, 2011 (both days inclusive). Members are requested to promptly communicate any change in their address to our Share Registrar, M/s. Gangjees Registrar Services (Pvt) Ltd., located at 516, Clifton Centre, Khyaban-e-Roomi, Kehkashan, Block-5, Clifton, Karachi-75600.





## Pattern of Shareholding as at December 31, 2010

Number of Shareholders	Size of Shareholding				Total Shares Held
415	From	1	To	100	18,076
891	From	101	To	500	256,219
717	From	501	To	1,000	570,658
2,161	From	1,001	To	5,000	5,145,485
674	From	5,001	To	10,000	5,003,844
1,482	From	10,001	To	15,000	18,031,798
128	From	15,001	To	20,000	2,287,043
161	From	20,001	To	25,000	3,768,079
70	From	25,001	To	30,000	1,934,922
42	From	30,001	To	35,000	1,363,610
72	From	35,001	To	40,000	2,734,669
80	From	40,001	To	50,000	3,696,385
62	From	50,001	To	60,000	3,461,555
58	From	60,001	To	80,000	4,046,692
41	From	80,001	To	100,000	3,753,747
73	From	100,001	To	150,000	8,941,854
52	From	150,001	To	200,000	9,018,463
53	From	200,001	To	250,000	12,422,692
11	From	250,001	To	300,000	3,007,221
27	From	300,001	To	350,000	8,451,362
50	From	350,001	To	600,000	22,882,401
57	From	600,001	To	1,000,000	43,141,593
105	From	1,000,001	To	66,580,000	568,225,938
7,482					732,164,306

Categories of Shareholders	Number of Shareholders	Number of Shares Held	Percentage
Individuals	7,275	427,342,351	58.37
Investment Companies	2	6,154	0.00
Insurance Companies	11	60,918,047	8.32
Joint Stock Companies	103	40,082,740	5.47
Financial Institutions	18	130,218,497	17.79
Modaraba Companies	2	15,088,759	2.06
Mutual Funds	5	300,001	0.04
Foreign Companies	7	17,253,727	2.36
Others	59	40,954,030	5.59
<b>TOTAL</b>	<b>7,482</b>	<b>732,164,306</b>	<b>100.00</b>



## Pattern of Shareholding as at December 31, 2010

### Additional Information

Shareholders' Category	Number of Shareholders	Number of Shares Held
<b>Associated Companies</b>		
Habib Sugar Mills Ltd.	1	12,178,322
Habib Insurance Co., Ltd.	1	1,502,888
<b>NIT</b>		
National Investment Trust National Bank of Pakistan, Trustee Department	1	68,124,315
<b>Directors</b>		
Ali Raza D. Habib	1	6,855,465
Qumail R. Habib	1	10,526,126
Anwar Haji Karim	1	8,135,152
Wazir Ali Khoja (NIT Nominee)	—	—
Murtaza H. Habib	1	9,024,172
Syed Mazhar Abbas	1	12,171
Hasnain A. Habib	1	13,038,445
Imtiaz Alam Hanfi	1	3,375
Shameem Ahmed	1	1,392
<b>Chief Executive Officer</b>		
Abbas D. Habib	1	27,354,487
<b>Directors' Spouses and Minor Children</b>		
Mrs. Razia A. Raza Habib W/o Mr. Ali Raza D. Habib	1	3,050,671
Mrs. Niamet Fatima W/o Mr. Abbas D. Habib	1	3,174,045
Qasim Abbas Habib S/o Mr. Abbas D. Habib (Joint A/c)	1	610,112
<b>Executives</b>	7	172,981
<b>Banks, Development Financial Institutions, Insurance Companies, Investment Companies, Non-Banking Financial Institutions, Modarabas and Mutual Funds</b>	36	136,904,255
<b>Joint Stock Companies and Corporations</b>	102	27,904,418
<b>Individuals</b>	7,256	345,383,757
<b>Others (Including foreign companies)</b>	66	58,207,757
	7,482	732,164,306