



# **Consolidated Financial Statements**

Bank AL Habib Limited

and

Subsidiary Company



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

The Directors are pleased to present the Audited Consolidated Financial Statements of Bank AL Habib Limited and the Bank's Subsidiary M/s AL Habib Capital Markets (Private) Limited for the year ended December 31, 2011.

	(Rupees in '000)
Profit for the year before tax	7,158,993
Taxation	<u>(2,621,889)</u>
Profit for the year after tax	4,537,104
Share of loss attributable to Minority interest	<u>552</u>
Profit attributable to shareholders	4,537,656
Unappropriated profit brought forward	3,030,199
Transfer from surplus on revaluation of fixed assets - net of tax	<u>35,497</u>
Profit available for appropriation	7,603,352
Appropriations:	
Transfer to Statutory Reserve	<b>(906,696)</b>
Cash Dividend - 2010	<b>(1,464,329)</b>
Issue of Bonus Shares - 2010	<b>(1,464,329)</b>
	<u><b>(3,835,354)</b></u>
Un-appropriated profit carried forward	<u><b>3,767,998</b></u>
Earnings per share (after tax)	<u><b>Rs. 5.16</b></u>

### Pattern of Shareholding

The pattern of shareholding as at December 31, 2011 is annexed with the financial statements of Bank AL Habib Limited.

On behalf of the Board of Directors

Karachi: February 21, 2012

ALI RAZA D. HABIB  
**Chairman**



## Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of Bank AL Habib Limited (the Bank) and its subsidiary company, (together referred to as Group) as at 31 December 2011, and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement together with the notes forming part thereof for the year then ended, in which are incorporated the unaudited certified returns from the branches except for fifteen branches which have been audited by us. We have also separately reviewed the financial statements of AL Habib Capital Markets (Private) Limited.

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

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Karachi: February 21, 2012

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



## Consolidated Statement of Financial Position As at 31 December 2011

	Note	2011 (Rupees in '000)	2010
<b>ASSETS</b>			
Cash and balances with treasury banks	8	22,957,988	19,000,990
Balances with other banks	9	6,744,643	2,132,806
Lendings to financial institutions	10	–	1,139,268
Investments	11	223,105,101	137,234,656
Advances	12	114,863,132	125,773,292
Operating fixed assets	13	10,791,345	10,264,310
Deferred tax assets		–	–
Other assets	14	6,063,405	6,251,024
		<b>384,525,614</b>	<b>301,796,346</b>
<b>LIABILITIES</b>			
Bills payable	15	4,979,720	2,989,989
Borrowings	16	43,441,594	22,579,348
Deposits and other accounts	17	302,097,187	249,760,885
Sub-ordinated loans	18	7,390,358	4,842,260
Liabilities against assets subject to finance lease	19	28	386
Deferred tax liabilities	20	1,232,433	644,353
Other liabilities	21	5,373,006	4,762,342
		<b>364,514,326</b>	<b>285,579,563</b>
<b>NET ASSETS</b>		<b>20,011,288</b>	<b>16,216,783</b>
<b>REPRESENTED BY :</b>			
Share capital	22	8,785,972	7,321,643
Reserves		5,324,689	4,392,264
Unappropriated profit		3,767,998	3,030,199
<b>Equity attributable to the shareholders of the holding company</b>		<b>17,878,659</b>	<b>14,744,106</b>
Non-controlling interest		109,782	110,334
<b>Total equity</b>		<b>17,988,441</b>	<b>14,854,440</b>
Surplus on revaluation of assets - net of tax	23	2,022,847	1,362,343
		<b>20,011,288</b>	<b>16,216,783</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	24		

The annexed notes 1 to 49 form an integral part of these consolidated financial statements.

ALI RAZA D. HABIB  
Chairman

ABBAS D. HABIB  
Chief Executive and  
Managing Director

SYED MAZHAR ABBAS  
Director

ANWAR HAJI KARIM  
Director



## Consolidated Profit and Loss Account For the year ended 31 December 2011

	Note	2011 (Rupees in '000)	2010
Mark-up / return / interest earned	26	36,529,237	27,480,798
Mark-up / return / interest expensed	27	(22,372,988)	(16,666,489)
Net mark-up / return / interest income		14,156,249	10,814,309
Provision against non-performing loans and advances	12.6	(1,820,788)	(946,296)
Provision for diminution in the value of investments		9	(155)
Bad debts written-off directly		—	—
		(1,820,779)	(946,451)
Net mark-up / return / interest income after provisions		12,335,470	9,867,858
<b>NON MARK-UP / INTEREST INCOME</b>			
Fees, commission and brokerage income		1,315,699	1,188,387
Dividend income		153,855	156,429
Income from dealing in foreign currencies		612,851	339,730
Gain on sale / redemption of securities - net	28	447	69,608
Unrealized gain / (loss) on revaluation of investments classified as held for trading		—	—
Share of profit from associates		84,546	108,978
Other income	29	440,408	324,508
Total non mark-up / interest income		2,607,806	2,187,640
		14,943,276	12,055,498
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	30	(7,621,965)	(6,225,457)
Other (provisions) / (write-offs) / gains	31	(16,064)	29,647
Other charges	32	(146,254)	(135,253)
Total non mark-up / interest expenses		(7,784,283)	(6,331,063)
Extra-ordinary / unusual items		—	—
<b>PROFIT BEFORE TAXATION</b>		7,158,993	5,724,435
Taxation – Current		(2,454,253)	(2,014,032)
– Prior years		—	—
– Deferred		(167,636)	(42,423)
	33	(2,621,889)	(2,056,455)
<b>PROFIT AFTER TAXATION</b>		4,537,104	3,667,980
<b>Attributable to:</b>			
Shareholders of the Holding company		4,537,656	3,664,329
Non-controlling interest		(552)	3,651
		4,537,104	3,667,980
<b>Basic and diluted earnings per share attributable to equity holders of the holding company - Rupees</b>	34	5.16	Restated 4.17

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## Consolidated Statement of Comprehensive Income For the year ended 31 December 2011

	2011 (Rupees in '000)	2010
<b>Net profit for the year</b>	<b>4,537,104</b>	3,667,980
<b>Other comprehensive income</b>		
Exchange difference on translation of net investment in a foreign branch	<b>25,729</b>	(13,518)
<b>Total comprehensive income for the year</b>	<b>4,562,833</b>	3,654,462
<b>Attributable to:</b>		
Shareholders of the Holding company	<b>4,563,385</b>	3,650,811
Non-controlling interest	<b>(552)</b>	3,651
	<b>4,562,833</b>	3,654,462

The annexed notes 1 to 49 form an integral part of these consolidated financial statements.

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## Consolidated Statement of Changes in Equity For the year ended 31 December 2011

	Attributable to the shareholders of the Holding Company						Total	Non-controlling Interest	Total Equity
	Share Capital	Statutory Reserve	Special Reserve	General Reserve	Foreign Currency Translation Reserve	Unappropriated Profit			
	Revenue Reserves								
	(Rupees in '000)								
Balance as at 01 January 2010	6,101,370	2,913,741	126,500	540,000	105,109	2,496,135	12,282,855	106,683	12,389,538
Total comprehensive income for the year	-	-	-	-	(13,518)	3,664,329	3,650,811	3,651	3,654,462
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	30,713	30,713	-	30,713
Transfer to statutory reserve	-	720,432	-	-	-	(720,432)	-	-	-
Cash dividend (Rs. 2 per share)	-	-	-	-	-	(1,220,273)	(1,220,273)	-	(1,220,273)
Issue of bonus shares in the ratio of 20 shares for every 100 shares held	1,220,273	-	-	-	-	(1,220,273)	-	-	-
Balance as at 31 December 2010	7,321,643	3,634,173	126,500	540,000	91,591	3,030,199	14,744,106	110,334	14,854,440
Total comprehensive income for the year	-	-	-	-	25,729	4,537,656	4,563,385	(552)	4,562,833
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	35,497	35,497	-	35,497
Transfer to statutory reserve	-	906,696	-	-	-	(906,696)	-	-	-
Cash dividend (Rs. 2 per share)	-	-	-	-	-	(1,464,329)	(1,464,329)	-	(1,464,329)
Issue of bonus shares in the ratio of 20 shares for every 100 shares held	1,464,329	-	-	-	-	(1,464,329)	-	-	-
Balance as at 31 December 2011	8,785,972	4,540,869	126,500	540,000	117,320	3,767,998	17,878,659	109,782	17,988,441

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## Consolidated Cash Flow Statement For the year ended 31 December 2011

	2011 (Rupees in '000)	2010
<b>Cash Flow From Operating Activities</b>		
Profit before taxation	<b>7,158,993</b>	5,724,435
Dividend income	<b>(153,855)</b>	(156,429)
	<b>7,005,138</b>	5,568,006
Adjustments for non-cash items:		
Depreciation	<b>766,566</b>	658,861
Amortization	<b>38,045</b>	40,302
Provision against non-performing loans and advances	<b>1,820,788</b>	946,296
(Reversal of provision) / provision for diminution in the value of investments	<b>(9)</b>	155
Gain on sale of operating fixed assets	<b>(84,469)</b>	(41,574)
Share of profit from associates	<b>(84,546)</b>	(108,978)
Financial charges on leased assets	<b>23</b>	125
Gain on sale / redemption of securities	<b>(447)</b>	(69,608)
Provision for compensated absences	<b>23,242</b>	39,000
Provision / (reversal of provision) against off-balance sheet items	<b>15,797</b>	(8,364)
	<b>2,494,990</b>	1,456,215
	<b>9,500,128</b>	7,024,221
Increase in operating assets		
Lendings to financial institutions	<b>1,139,268</b>	(1,139,268)
Advances	<b>9,089,372</b>	(20,734,093)
Other assets	<b>179,369</b>	(1,974,663)
	<b>10,408,009</b>	(23,848,024)
Increase in operating liabilities		
Bills payable	<b>1,989,731</b>	(197,394)
Borrowings	<b>22,030,466</b>	(12,080,253)
Deposits	<b>52,336,302</b>	60,612,458
Other liabilities (excluding provision for taxation)	<b>816,269</b>	542,178
	<b>77,172,768</b>	48,876,989
	<b>97,080,905</b>	32,053,186
Income tax paid	<b>(2,716,057)</b>	(1,925,428)
Net cash flow from operating activities (Balance carried forward)	<b>94,364,848</b>	30,127,758





	Note	2011 (Rupees in '000)	2010
Net cash flow from operating activities (Balance brought forward)		<b>94,364,848</b>	30,127,758
<b>Cash Flow From Investing Activities</b>			
Net investments in available for sale securities		<b>(70,082,696)</b>	46,026,404
Net investments in held to maturity securities		<b>(14,836,530)</b>	(73,004,255)
Net investment in associates		<b>31,992</b>	148,507
Proceeds from closure of subsidiary		<b>–</b>	27,972
Dividend received		<b>152,496</b>	154,736
Investments in operating fixed assets		<b>(1,133,063)</b>	(1,347,434)
Sale proceeds of operating fixed assets		<b>107,484</b>	55,293
Net cash used in investing activities		<b>(85,760,317)</b>	(27,938,777)
<b>Cash Flow From Financing Activities</b>			
Receipts of sub-ordinated loans		<b>3,000,000</b>	–
Payments of sub-ordinated loans		<b>(451,902)</b>	(2,740)
Payments of lease obligations		<b>(381)</b>	(1,247)
Dividend paid		<b>(1,440,922)</b>	(1,199,908)
Net cash from / (used in) financing activities		<b>1,106,795</b>	(1,203,895)
Exchange adjustment on translation of net investment in a foreign branch		<b>25,729</b>	(13,518)
Increase in cash and cash equivalents		<b>9,737,055</b>	971,568
Cash and cash equivalents at beginning of the year		<b>19,917,173</b>	18,945,605
Cash and cash equivalents at end of the year	35	<b>29,654,228</b>	19,917,173

The annexed notes 1 to 49 form an integral part of these consolidated financial statements.

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*Chairman*

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## Notes to the Consolidated Financial Statements For the year ended 31 December 2011

### 1. STATUS AND NATURE OF BUSINESS

1.1 The Group comprises of:

#### **Holding company**

- Bank AL Habib Limited

#### **Subsidiary company**

- AL Habib Capital Markets (Private) Limited

1.2 Bank AL Habib Limited (the Bank) was incorporated in Pakistan on 15 October 1991 as a public limited company under the Companies Ordinance, 1984 having its registered office at 126-C, Old Bahawalpur Road, Multan with principal place of business in Karachi. Its shares are listed on all the Stock Exchanges in Pakistan. It is a scheduled bank principally engaged in the business of commercial banking with a network of 290 branches (2010: 277), 61 sub-branches (2010: 25) and 02 representative offices (2010: 01). The branch network of the Bank includes a wholesale branch in the Kingdom of Bahrain (2010: 01), a branch in Karachi Export Processing Zone (2010: 01) and 11 Islamic Banking branches (2010: 08).

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

### 2. BASIS OF PRESENTATION

2.1 These consolidated financial statements have been prepared in conformity with the format of financial statements prescribed by the State Bank of Pakistan (SBP) vide BSD Circular No. 04, dated 17 February 2006.

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

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



### 3. STATEMENT OF COMPLIANCE

- 3.1 These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and regulations / directives issued by the Securities and Exchange Commission of Pakistan (SECP) and SBP. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or regulations / directives issued by SECP and 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 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: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements.

### 4. BASIS OF MEASUREMENT

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

### 5. SIGNIFICANT ACCOUNTING POLICIES

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

#### **New and amended standards and interpretations**

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

IAS 24 - Related Party Disclosures (Revised)  
IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues (Amendment)  
IFRIC 14 - Prepayments of a Minimum Funding Requirement (Amendment)  
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

In May 2010, International Accounting Standards Board (IASB) issued amendments to various standards primarily with a view to removing inconsistencies and clarifications of wordings. These improvements are listed below:

#### **IFRS 3 – Business Combinations**

- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
- Measurement of non-controlling interests
- Un-replaced and voluntarily replaced share-based payment awards



IAS 1 – Presentation of Financial Statements

- Clarification of statement of changes in equity

IAS 27 – Consolidated and Separate Financial Statements

- Transition requirements for amendments made as a result of IAS 27 “Consolidated and Separate Financial Statements”

IAS 34 – Interim Financial Reporting

- Significant events and transactions

IFRIC 13 – Customer Loyalty Programmes

- Fair value of award credits

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

## 5.2 **Basis of consolidation**

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

## 5.3 **Cash and cash equivalents**

Cash and cash equivalents as referred to in the cash flow statement comprises cash and balances with treasury banks and balances with other banks less overdrawn nostro accounts.

## 5.4 **Repurchase / resale agreements**

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

### **Sale under repurchase obligation**

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized 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 amortized 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 recognized in the statement of financial position. Amounts paid under these arrangements are included in reverse repurchase agreement lendings. The difference between purchase and resale price is accrued as income over the term of the reverse repo agreement.



## 5.5 Investments

Investments (other than associates) are classified as follows:

### **Held for trading**

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

### **Held to maturity**

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

### **Available for sale**

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

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

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

After initial recognition, quoted securities, other than those classified as held to maturity, are carried at market value. Unquoted securities are valued at cost less impairment in value, if any. Held to maturity securities are carried at amortized 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 realized upon disposal. The unrealized 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. Impairment is recognized when there is an objective evidence of significant and prolong decline in the value of such securities. Provision for impairment against debt securities is made as per the aging criteria prescribed by the Prudential Regulations of 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 amortized using effective interest method and taken to the profit and loss account.

### **Investment in associates**

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



## 5.6 Advances

### Loans and advances

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

### Finance lease receivables

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

### Ijarah finance

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

### Murabaha

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

## 5.7 Operating fixed assets

### Tangible operating assets - owned

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

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



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

Subsequent costs are included in the asset's carrying amount or recognized 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 derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

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

#### **Intangible assets**

Intangible assets having a finite useful life are stated at cost less accumulated amortization and impairment, if any. Amortization 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 amortized on prorata basis i.e., full month amortization in the month of purchase and no amortization in the month of disposal. Intangible assets with indefinite useful lives are not amortized instead they are systematically tested for impairment annually.

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

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

#### **Impairment**

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

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



## 5.8 Employees' benefits

### Defined benefit plan

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

### Defined contribution plan

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

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

### Compensated absences

The Bank accounts for all accumulating compensated absences when employees render service that increases their entitlement to future compensated absences. The liability is determined based on actuarial valuation carried out using the Projected Unit Credit Method.

## 5.9 Provisions against liabilities

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

## 5.10 Provisions against off-balance sheet obligations

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

## 5.11 Revenue recognition

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





Financing method is used in accounting for income from lease financing. Under this method, the unrealized 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 recognized as income on receipt basis.

The rentals from ijarah are recognized 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 recognized when the right to receive is established.

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

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

## 5.12 Taxation

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investment in foreign operations, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 utilized.



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

### 5.13 **Currency translation**

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

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

#### **Transactions and balances in foreign currencies**

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 rate of exchange prevailing during the year. Exchange gain or loss on such translation is taken to equity under "foreign currency translation reserve".

#### **Commitments**

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities.

### 5.14 **Financial instruments**

Financial assets and financial liabilities are recognized at the time when the Group becomes a party to the contractual provision of the instrument. Financial assets are de-recognized 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-recognized when obligation is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognized in the profit and loss account of the current period.

### 5.15 **Derivative financial instruments**

Derivative financial instruments are initially recognized 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 assets when fair value is positive and liabilities when fair value is negative. Any change in the value of derivative financial instruments is taken to the profit and loss account.



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

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

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

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

#### 5.18 **Segment reporting**

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

##### **Business segments**

###### **Retail banking**

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

###### **Commercial banking**

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

###### **Retail brokerage**

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

##### **Geographical segments**

The Group operates in two geographic regions, being:

- Pakistan
- Middle East



### 5.19 Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period / year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no convertible dilutive potential ordinary shares in issue at 31 December 2011.

### 5.20 Clients' assets

The Group provides services that result in the holding of assets on behalf of its clients. Such assets are not reported in the financial statements, as they are not the assets of the Group.

## 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 recognized in the period in which the estimate is revised if the revision affects only that period, or in period of revision and future periods if the revision affects both current and future periods. The estimates and judgments that have a significant effect on the financial statements are in respect of the following:

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

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

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



<b>Standard, interpretation or amendment</b>	<b>Effective date (accounting periods beginning on or after)</b>
IAS 1 - Presentation of Financial Statements – Presentation of items of comprehensive income	01 July 2012
IAS 12 – Income Taxes (Amendment) - Recovery of Underlying Assets	01 January 2012
IAS 19 – Employee Benefits –(Amendment)	01 January 2013

The Group expects that the adoption of the above revisions and amendments of the standards will not materially affect the Group's financial statements in the period of initial application other than the amendments to IAS-19 'Employee Benefits'. Such amendments range from fundamental changes to simple clarifications and re-wording. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognized in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognized in other comprehensive income with no subsequent recycling to profit and loss.
- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

The Group is currently assessing the impact of the above amendments which are effective from 01 January 2013 on the financial statements . However, it is expected that the adoption of the said amendments will result in change in the Group's accounting policy related to recognition of actuarial gains and losses as referred to in note 5.8 to the financial statements.

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by SECP for the purpose of applicability in Pakistan.

	<b>IASB Effective date (annual periods beginning on or after)</b>
IFRS 10 – Consolidated Financial Statements	01 January 2013
IFRS 11 – Joint Arrangements	01 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 – Fair Value Measurement	01 January 2013



	Note	2011	2010
(Rupees in '000)			
<b>8. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
Local currency		<b>4,013,530</b>	3,049,032
Foreign currencies		<b>591,887</b>	624,203
National prize bonds		<b>14,962</b>	16,952
		<b>4,620,379</b>	3,690,187
In transit			
Local currency		<b>10,000</b>	–
Foreign currency		–	77,073
		<b>10,000</b>	77,073
With State Bank of Pakistan in:			
Local currency current accounts	8.1	<b>10,689,526</b>	8,459,338
Local currency current account - Islamic Banking	8.2	<b>198,378</b>	222,006
Foreign currency deposit accounts			
Cash reserve account	8.3	<b>1,466,115</b>	1,370,187
Cash reserve account - Islamic Banking		<b>3,778</b>	2,826
Special cash reserve account	8.3	<b>4,398,345</b>	4,110,562
Local US Dollar collection account	8.4	<b>34,107</b>	19,993
		<b>16,790,249</b>	14,184,912
With National Bank of Pakistan in:			
Local currency current accounts		<b>1,537,360</b>	1,048,818
		<b>22,957,988</b>	19,000,990

- 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 branches in accordance with BPD Circular No. 01 of 2003.
- 8.3 Represent cash reserves maintained against foreign currency deposits mobilized under Circular FE-25 of 1998 to comply with statutory requirements.
- 8.4 Represents US Dollar collection account maintained with the SBP in accordance with Circular FE-02 of 2004.



	Note	2011	2010
(Rupees in '000)			
<b>9. BALANCES WITH OTHER BANKS</b>			
In Pakistan			
Current accounts		<b>734,227</b>	597,023
Deposit accounts	9.1	<b>350,000</b>	–
Savings accounts	9.2	<b>468,324</b>	160,098
		<b>1,552,551</b>	757,121
Outside Pakistan			
Current accounts		<b>846,210</b>	544,673
Deposit accounts	9.3	<b>4,345,882</b>	831,012
		<b>5,192,092</b>	1,375,685
		<b>6,744,643</b>	2,132,806

9.1 These carry expected profit rates ranging from 10% to 11% (2010: NIL) per annum.

9.2 These carry expected profit rates ranging from 6.99% to 8.25% (2010: 6.99% to 8%) per annum.

9.3 These carry interest rates upto 0.04% (2010: upto 0.13%) per annum.

## 10. LENDINGS TO FINANCIAL INSTITUTIONS

In local currency

Repurchase agreement lendings (Reverse Repo) – 1,139,268

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

	2011			2010		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
(Rupees in '000)						
Market Treasury Bills	–	–	–	297,158	–	297,158
Pakistan Investment Bonds	–	–	–	842,110	–	842,110
	–	–	–	1,139,268	–	1,139,268



## 11. INVESTMENTS

	Note	2011			2010		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
<b>11.1 Investments by type</b>							
		(Rupees in '000)					
<b>Available for sale securities</b>	11.5						
Market Treasury Bills		78,715,641	27,588,855	106,304,496	33,472,250	1,284,437	34,756,687
Pakistan Investment Bonds		14,617,483	-	14,617,483	12,027,781	-	12,027,781
Foreign Currency Bonds		979,474	-	979,474	792,247	-	792,247
Sukuks		6,947,740	-	6,947,740	6,044,979	-	6,044,979
Ordinary shares of listed companies		151,110	-	151,110	30,832	-	30,832
Ordinary shares of unlisted companies		39,570	-	39,570	39,570	-	39,570
Listed term finance certificates		584,461	-	584,461	650,441	-	650,441
Unlisted term finance certificates		249,920	-	249,920	5,801,565	-	5,801,565
Open ended mutual funds		1,478,000	-	1,478,000	1,125,000	-	1,125,000
		<b>103,763,399</b>	<b>27,588,855</b>	<b>131,352,254</b>	<b>59,984,665</b>	<b>1,284,437</b>	<b>61,269,102</b>
<b>Held to maturity securities</b>	11.2						
Market Treasury Bills		76,260,132	-	76,260,132	70,866,979	-	70,866,979
Pakistan Investment Bonds		13,482,722	-	13,482,722	3,897,385	-	3,897,385
Sukuks		266,900	-	266,900	275,000	-	275,000
Listed term finance certificates		343,681	-	343,681	394,208	-	394,208
Unlisted term finance certificates		125,000	-	125,000	208,333	-	208,333
		<b>90,478,435</b>	<b>-</b>	<b>90,478,435</b>	<b>75,641,905</b>	<b>-</b>	<b>75,641,905</b>
<b>Associates</b>	11.12						
Habib Sugar Mills Limited		248,315	-	248,315	235,398	-	235,398
Habib Asset Management Limited		35,254	-	35,254	33,747	-	33,747
First Habib Income Fund		541,283	-	541,283	592,266	-	592,266
First Habib Stock Fund		44,149	-	44,149	55,270	-	55,270
First Habib Cash Fund		104,094	-	104,094	-	-	-
		<b>973,095</b>	<b>-</b>	<b>973,095</b>	<b>916,681</b>	<b>-</b>	<b>916,681</b>
<b>Investments at cost</b>		<b>195,214,929</b>	<b>27,588,855</b>	<b>222,803,784</b>	<b>136,543,251</b>	<b>1,284,437</b>	<b>137,827,688</b>
Provision for diminution in the value of investments	11.4	(6,600)	-	(6,600)	(6,609)	-	(6,609)
<b>Investments (net of provisions)</b>		<b>195,208,329</b>	<b>27,588,855</b>	<b>222,797,184</b>	<b>136,536,642</b>	<b>1,284,437</b>	<b>137,821,079</b>
Surplus / (deficit) on revaluation of available for sale investments - net		162,058	145,859	307,917	(585,235)	(1,188)	(586,423)
<b>Investments after revaluation of available for sale investments</b>		<b>195,370,387</b>	<b>27,734,714</b>	<b>223,105,101</b>	<b>135,951,407</b>	<b>1,283,249</b>	<b>137,234,656</b>

11.2 The aggregate market value of held to maturity securities as at 31 December 2011 amounted to Rs. 91,265 (2010: Rs. 75,411) million.





	Note	2011	2010
(Rupees in '000)			
<b>11.3 Investments by segment</b>			
<i>Federal Government Securities</i>			
Market Treasury Bills	11.6	<b>182,564,628</b>	105,623,666
Pakistan Investment Bonds	11.7	<b>28,100,205</b>	15,925,166
Foreign Currency Bonds	11.10	<b>620,558</b>	451,538
Sukuks	11.8	<b>4,000,000</b>	3,100,000
		<b>215,285,391</b>	125,100,370
<i>Fully paid-up ordinary shares</i>			
Listed companies	11.5.5	<b>151,110</b>	30,832
Unlisted companies	11.11	<b>39,570</b>	39,570
		<b>190,680</b>	70,402
<i>Term finance certificates, sukuks and bonds</i>			
<i>Term Finance Certificates</i>			
Listed term finance certificates		<b>928,142</b>	1,044,649
Unlisted term finance certificates		<b>374,920</b>	6,009,898
	11.9	<b>1,303,062</b>	7,054,547
Sukuks	11.8	<b>3,214,640</b>	3,219,979
Foreign Currency Bonds	11.10	<b>358,916</b>	340,709
		<b>4,876,618</b>	10,615,235
<i>Others</i>			
Open ended mutual funds	11.5.9	<b>1,478,000</b>	1,125,000
Associates	11.12	<b>973,095</b>	916,681
		<b>2,451,095</b>	2,041,681
<b>Investments at cost</b>		<b>222,803,784</b>	137,827,688
Provision for diminution in the value of investments	11.4	<b>(6,600)</b>	(6,609)
<b>Investments - net of provisions</b>		<b>222,797,184</b>	137,821,079
Surplus / (deficit) on revaluation of available for sale investments - net		<b>307,917</b>	(586,423)
<b>Investments after revaluation of available for sale investments</b>		<b>223,105,101</b>	137,234,656



	Note	2011	2010						
(Rupees in '000)									
<b>11.4 Particulars of provision for diminution in the value of investments</b>									
Available for sale investments:									
Opening balance		6,609	90,704						
Charge during the year		–	155						
Adjustment of provision upon disposal of investments		(9)	(84,250)						
Closing balance	11.4.1	<b>6,600</b>	6,609						
<b>11.4.1 Particulars of provision in respect of type and segment</b>									
Available for sale investments:									
Listed companies and close ended mutual fund		900	909						
Unlisted companies		5,700	5,700						
		<b>6,600</b>	6,609						
<b>11.5 Quality of available for sale securities</b>									
<u>Name of security</u>	<u>Face value</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>		
		<u>Rating*</u>		<u>Cost</u>		<u>Carrying value</u>			
	<u>Rs. / USD</u>			<u>(Rupees in '000)</u>					
11.5.1 Market Treasury Bills	–	Unrated	Unrated	106,304,496	34,756,687	106,668,552	34,702,084		
11.5.2 Pakistan Investment Bonds	–	Unrated	Unrated	14,617,483	12,027,781	14,653,808	11,404,535		
11.5.3 Foreign Currency Bonds									
Government of Pakistan Bonds	USD 100	B-	B-	455,068	297,203	385,867	310,005		
Government of Pakistan Bonds	USD 100	B-	B-	165,490	154,335	137,167	156,809		
Government of Sri Lanka Bonds	USD 100	B+	B+	358,916	340,709	366,529	370,207		
				979,474	792,247	889,563	837,021		
11.5.4 Sukuks									
<u>2011</u>	<u>2010</u>	<u>Name of security</u>							
No. of certificates									
		Dar Al Arkan International Sukuk							
20,000	20,000	Company	USD 100	A –	A –	179,891	171,273	158,304	146,439
170,000	170,000	Engro Foods Limited	Rs.5,000	A	A–	850,000	850,000	850,000	850,000
–	1,000	Government of Pakistan Ijarah Sukuk	Rs.100,000	–	Unrated	–	100,000	–	101,620
30,000	30,000	Government of Pakistan Ijarah Sukuk-III	Rs.100,000	Unrated	Unrated	3,000,000	3,000,000	3,014,100	3,058,200
10,000	–	Government of Pakistan Ijarah Sukuk-VIII	Rs. 100,000	Unrated	–	1,000,000	–	1,002,800	–
1,087,849	1,013,706	Liberty Power Tech Limited	Rs.1,000	AA	AA-	1,087,849	1,013,706	1,087,849	1,013,706
40,000	40,000	Sui Southern Gas Company Limited	Rs.5,000	AA	AA	80,000	160,000	80,000	160,000
150,000	150,000	WAPDA Second Sukuk Company Limited	Rs.5,000	Unrated	Unrated	750,000	750,000	750,000	750,000
						6,947,740	6,044,979	6,943,053	6,079,965



11.5.5 Ordinary shares of listed companies and close ended mutual funds

<u>2011</u>	<u>2010</u>	<u>Name of security</u>	<u>Face value</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
No. of shares / certificates			<b>Rs. / USD</b>	<b>Rating*</b>		<b>Cost</b>		<b>Carrying value</b>	
(Rupees in '000)									
35,954	32,686	Arif Habib Securities Limited	Rs.10	-	-	1,477	1,477	932	813
9,806	9,806	Fatima Fertilizers Company Limited	Rs.10	-	A	-	-	225	111
1,201,952	888,980	Habib Metropolitan Bank Limited	Rs.10	AA+	AA+	22,139	19,871	20,301	25,772
251,000	251,000	Hub Power Company Limited	Rs.10	-	AA+	8,821	8,821	8,584	9,390
52,862	52,862	International Industries Limited	Rs.10	Unrated	Unrated	357	357	2,009	3,164
3,364,056	-	International Steel Limited	Rs.10	Unrated	-	47,332	-	39,057	-
5,061	5,061	Jahangir Siddiqui & Company Limited	Rs.10	AA	AA	284	284	21	55
532	532	JS Investments Limited	Rs.10	-	AM 2-	22	22	1	4
8,000	-	Packages Limited	Rs.10	AA	-	668	-	662	-
2,500	-	Pakistan Petroleum Limited	Rs.10	Unrated	-	422	-	421	-
850,717	-	Thal Limited	Rs.10	-	-	69,588	-	69,588	-
						151,110	30,832	141,801	39,309

11.5.6 Ordinary shares of unlisted companies

<u>2011</u>	<u>2010</u>	<u>Name of security</u>							
No. of shares / certificates									
3,000,000	3,000,000	Khushhali Bank Limited	Rs.10	A	A-	30,000	30,000	30,000	30,000
569,958	569,958	Pakistan Export Finance Guarantee Agency Limited	Rs.10	Unrated	Unrated	5,700	5,700	-	-
24	24	S.W.I.F.T	-	Unrated	Unrated	3,870	3,870	3,870	3,870
						39,570	39,570	33,870	33,870

11.5.7 Listed term finance certificates

<u>2011</u>	<u>2010</u>	<u>Name of security</u>							
No. of certificates									
6,000	6,000	Allied Bank Limited	Rs.5,000	AA-	AA-	29,940	29,952	30,273	29,902
33,800	33,800	Allied Bank Limited - II	Rs.5,000	AA-	AA-	168,865	168,932	166,965	148,902
5,000	5,000	Askari Bank Limited - II	Rs.5,000	AA-	AA-	24,940	24,950	25,015	24,950
40,000	40,000	Engro Fertilizers Limited -III	Rs.5,000	AA	AA	199,680	199,760	195,593	185,777
5,000	5,000	Jahangir Siddiqui & Company Ltd - IV	Rs.5,000	AA	AA	12,478	24,960	13,027	24,960
6,600	6,600	NIB Bank Limited	Rs.5,000	A+	A+	32,954	32,967	32,297	32,472
20,000	20,000	Orix Leasing Pakistan Limited - III	Rs.5,000	AA+	AA +	16,654	49,960	16,570	49,461
20,000	20,000	Pak Arab Fertilizers Limited	Rs.5,000	AA	AA	74,000	94,000	74,000	92,590
5,000	5,000	United Bank Limited - III	Rs.5,000	AA	AA	24,950	24,960	25,315	24,951
						584,461	650,441	579,055	613,965

11.5.8 Unlisted term finance certificates

<u>2011</u>	<u>2010</u>	<u>Name of security</u>							
No. of certificates									
150	-	Askari Bank Limited-IV	Rs.1,000,000	AA-	-	150,000	-	150,000	-
20,000	20,000	Bank Al Falah Limited-IV	Rs.5,000	AA-	AA-	99,920	99,960	99,920	99,960
-	552,800	Power Holding Private Limited see note (11.5.10)	Rs.5,000	-	Unrated	-	2,937,605	-	2,937,605
-	587,521	Power Holding Private Limited-II see note (11.5.10)	Rs. 5,000	-	Unrated	-	2,764,000	-	2,764,000
						249,920	5,801,565	249,920	5,801,565



11.5.9 Open ended mutual funds

2011	2010	Name of security	Face value	2011	2010	2011	2010	2011	2010
No. of Units			Rs.	Rating*		Cost		Carrying value	
(Rupees in '000)									
4,997,052	-	ABL Government Securities Fund	Rs.10	A+	-	50,000	-	50,100	-
6,004,292	5,000,000	ABL Cash Fund	Rs.10	AA+	AA+	60,000	50,000	60,162	50,030
483,822	-	Askari Sovereign Cash Fund	Rs.100	AA+	-	50,000	-	48,622	-
97,084	97,084	Atlas Money Market Fund	Rs.500	AA+	AA+	50,000	50,000	48,889	50,047
2,500,000	2,500,000	BMA Empress Cash Fund	Rs.10	AA+	AA+	25,000	25,000	25,287	26,437
602,849	505,191	HBL Money Market Fund	Rs.100	AA+	AA+	60,000	50,000	62,205	51,995
500,000	500,000	IGI Money Market Fund	Rs.100	AA+	AA+	50,000	50,000	50,341	50,307
78,234	-	MCB Cash Management Optimizer Fund	Rs.100	AA+	-	8,000	-	8,049	-
4,853,756	4,853,756	NAFA Government Securities Liquid Fund	Rs.10	AAA	AAA	50,000	50,000	49,422	50,049
59,181,134	59,181,134	NIT Government Bond Fund	Rs.10	AA	AM2	600,000	600,000	632,416	622,562
6,395,907	-	NIT Unit Fund	Rs.10	AM 2-	-	200,000	-	165,654	-
20,000,000	20,000,000	NIT Income Fund	Rs.10	AA-	AM2	200,000	200,000	215,622	211,160
504,927	504,927	Pak Oman Advantage Islamic Income Fund	Rs.50	A+	A+	25,000	25,000	26,532	26,034
2,500,000	-	Pak Oman Government Securities Fund	Rs.10	AA	-	25,000	-	25,579	-
250,000	250,000	PICIC Cash Fund	Rs.100	AA+	AA+	25,000	25,000	25,069	25,135
						1,478,000	1,125,000	1,493,949	1,163,756
						131,352,254	61,269,102	131,653,571	60,676,070

11.5.10 During the year, in accordance with the instructions of the Government of Pakistan (GoP) through a notification of finance division dated 3 November 2011, the Bank has received one year Market Treasury Bills and 5 year Pakistan Investment Bonds at a purchase price of Rs. 4,327 million each in settlement of the Term Finance Certificates of Power Holding (Private) Limited amounting to Rs. 6,247 million (face value of Rs. 5,702 million and accrued markup of Rs. 545 million), long term loan of National Transmission and Despatch Company Limited amounting to Rs. 2,353 million (Principal of Rs. 2,000 million and accrued markup of Rs. 353 million) and commodity finance of Pakistan Agricultural Storage and Services Corporation Limited amounting to Rs. 54 million (Principal of Rs. 54 million).

\*Rating in case of ordinary shares of listed and unlisted companies represents the rating of investee companies, in all other cases, rating represents the rating of underlying instruments.

11.6 Market Treasury Bills

These securities have a maturity period of six months to one year (2010: six months to one year) with yield ranging between 11.78% to 13.91% (2010: 11.96% to 12.46%) per annum.

11.7 Pakistan Investment Bonds

These securities have a maturity period of 3, 5, 7 and 10 years (2010: 3, 5, 7 and 10 years) with interest rates ranging between 9% to 12% (2010: 9.30% to 13%) per annum. These include securities costing Rs. 5 (2010: 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**

<u>2011</u>	<u>2010</u>	Redeemable value per certificate (Rupees)	Maturity Date	Name of Security	Rate	<u>2011</u>	<u>2010</u>
No of certificates						(Rupees in '000)	(Rupees in '000)
<b>Federal Government Securities</b>							
<b>Available for sale</b>							
-	1,000	-	Sep-11	Government of Pakistan Ijarah Sukuk	6 months T-Bills plus 45 bps	-	100,000
<b>30,000</b>	<b>30,000</b>	<b>100,000</b>	Mar-12	Government of Pakistan Ijarah Sukuk-III	Weighted average 6 months T-Bills rate	<b>3,000,000</b>	<b>3,000,000</b>
<b>10,000</b>	-	<b>100,000</b>	May-14	Government of Pakistan Ijarah Sukuk-VIII	Weighted average 6 months T-Bills rate	<b>1,000,000</b>	-
						<b>4,000,000</b>	<b>3,100,000</b>
<b>Others</b>							
<b>Available for sale</b>							
<b>20,000</b>	20,000	8,995	July-12	Dar Al Arkan International Sukuk Company	3 months' LIBOR plus 225 bps	<b>179,891</b>	171,273
<b>170,000</b>	170,000	5,000	Jan-17	Engro Foods Limited	6 months' KIBOR plus 69 bps	<b>850,000</b>	850,000
<b>1,087,849</b>	1,013,706	1,000	Mar-21	Liberty Power Tech Limited	3 months' KIBOR plus 300 bps	<b>1,087,849</b>	1,013,706
<b>40,000</b>	40,000	2,000	Dec-12	Sui Southern Gas Company Limited	3 months' KIBOR plus 20 bps	<b>80,000</b>	160,000
<b>150,000</b>	150,000	5,000	July-17	WAPDA Second Sukuk Company Limited	6 months' KIBOR less 25 bps	<b>750,000</b>	750,000
						<b>2,947,740</b>	2,944,979
<b>Held to Maturity</b>							
<b>5,000</b>	5,000	5,000	Oct-12	WAPDA First Sukuk Company Limited	6 months' KIBOR plus 35 bps	<b>25,000</b>	25,000
<b>250,000</b>	250,000	968	Mar-21	Liberty Power Tech Limited	3 months' KIBOR plus 300 bps	<b>241,900</b>	250,000
						<b>266,900</b>	275,000
						<b>3,214,640</b>	3,219,979
						<b>7,214,640</b>	6,319,979

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 Sukuk which have face value of US \$ 100 per certificate. Liberty Power Tech Limited's Sukuk 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

2011 No of certificates	2010	Redeemable	Maturity Date	Name of Security	Rate	2011 (Rupees in '000)	2010 (Rupees in '000)
		value per certificate (Rupees)					
<b>Listed - Available for sale</b>							
6,000	6,000	4,990	Dec-14	Allied Bank Limited*	6 months' KIBOR plus 190 bps	29,940	29,952
33,800	33,800	4,996	Aug-19	Allied Bank Limited - II*	6 months' KIBOR plus 85 bps	168,865	168,932
5,000	5,000	4,988	Oct-13	Askari Bank Limited - II*	6 months' KIBOR plus 150 bps	24,940	24,950
40,000	40,000	4,992	Nov-15	Engro Fertilizers Limited - III	6 months' KIBOR plus 155 bps	199,680	199,760
5,000	5,000	2,496	May-12	Jahangir Siddiqui & Company Limited - IV	6 months' KIBOR plus 250 bps	12,478	24,960
6,600	6,600	4,993	Mar-16	NIB Bank Limited*	6 months' KIBOR plus 115 bps	32,954	32,967
20,000	20,000	833	May-12	Orix Leasing Pakistan Limited - III	6 months' KIBOR plus 150 bps	16,654	49,960
20,000	20,000	3,700	Feb-13	Pak Arab Fertilizer Limited	6 months' KIBOR plus 150 bps	74,000	94,000
5,000	5,000	4,990	Sep-14	United Bank Limited - III*	6 months' KIBOR plus 170 bps	24,950	24,960
						<b>584,461</b>	<b>650,441</b>
<b>Unlisted - Available for sale</b>							
150	-	1,000,000	Dec-21	Askari Bank Limited - IV*	6 months' KIBOR plus 175 bps	150,000	-
20,000	20,000	4,996	Dec-17	Bank Alfalah Limited - IV*	15% per annum	99,920	99,960
-	552,800	-	Sep-14	Power Holding (Private) Limited see note (11.5.10)	6 months' KIBOR plus 200 bps	-	2,764,000
-	587,521	-	Mar-14	Power Holding (Private) Limited - II see note (11.5.10)	6 months' KIBOR plus 175 bps	-	2,937,605
						<b>249,920</b>	<b>5,801,565</b>
<b>Listed - Held to Maturity</b>							
20,000	20,000	4,987	Feb-13	Askari Bank Limited*	6 months' KIBOR plus 150 bps	99,740	99,780
17,400	17,400	4,996	Aug-19	Allied Bank Limited - II*	6 months' KIBOR plus 85 bps	86,930	86,965
15,000	15,000	3,325	Nov-12	Bank Al Falah Limited - II*	6 months' KIBOR plus 150 bps	49,868	74,827
9,000	9,000	2,495	Feb-13	Faysal Bank Limited*	6 months' KIBOR plus 190 bps	22,455	33,687
5,000	5,000	3,741	May-13	Soneri Bank Limited*	6 months' KIBOR plus 160 bps	18,705	24,945
5,000	5,000	3,496	Feb-13	Standard Chartered Bank (Pakistan) Ltd. - III*	6 months' KIBOR plus 200 bps	17,480	23,710
1,070	1,070	3,325	Aug-12	United Bank Limited*	8.45% per annum	3,558	5,338
4,000	4,000	4,999	Mar-13	United Bank Limited - II*	9.49% per annum	19,995	19,996
5,000	5,000	4,990	Sep-14	United Bank Limited - III*	6 months' KIBOR plus 170 bps	24,950	24,960
						<b>343,681</b>	<b>394,208</b>
<b>Unlisted - Held to Maturity</b>							
2,500	2,500	50,000	Jan-13	Orix Leasing Pakistan Limited - IV	6 months' KIBOR plus 120 bps	125,000	208,333
						<b>1,303,062</b>	<b>7,054,547</b>



\*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 and Askari Bank Limited - IV which have face value of Rs. 1,000,000 per certificate.

#### 11.10 Foreign Currency Bonds

<u>2011</u>	<u>2010</u>	Redeemable value per certificate (Rupees)	Maturity Date	Name of Security	Rate	<u>2011</u> (Rupees in '000)	<u>2010</u> (Rupees in '000)
No of certificates of US \$ 100 each							
<b>Federal Government Securities</b>							
<b>Available for sale</b>							
<b>60,000</b>	40,000	7,584	June-17	Government of Pakistan Bonds	6.875% p.a.	<b>455,068</b>	297,203
<b>20,000</b>	20,000	8,275	Mar-16	Government of Pakistan Bonds	7.125% p.a.	<b>165,490</b>	154,335
						<b>620,558</b>	451,538
<b>Others</b>							
<b>Available for sale</b>							
<b>40,000</b>	40,000	8,973	Oct-12	Government of Srilanka Bonds	8.250% p.a.	<b>358,916</b>	340,709
						<b>979,474</b>	792,247

11.10.1 Foreign Currency Bonds are redeemable semi-annually.

#### 11.11 Ordinary shares of unlisted companies

<u>2011</u>	<u>2010</u>	Name of companies		
No. of ordinary shares				
<b>3,000,000</b>	3,000,000	Khushhali Bank Limited Par value per share: Rs. 10 Break-up value per share: Rs. 13 (2010: Rs. 12.18) based on audited financial statements for the year ended 31 December 2010 Chief Executive: Mr. Ghalib Nishtar	<b>30,000</b>	30,000
<b>569,958</b>	569,958	Pakistan Export Finance Guarantee Agency Limited Par value per share: Rs. 10 Break-up value per share: Rs. 1.16 (2010: Rs. 1.16) based on audited financial statements for the year ended 31 December 2009 Chief Executive: Mr. S. M. Zaeem	<b>5,700</b>	5,700
<b>24</b>	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.	<b>3,870</b>	3,870
			<b>39,570</b>	39,570



11.12 Associates

<u>2011</u>	<u>2010</u>	<u>Name of companies</u>	<u>Note</u>	<u>2011</u>	<u>2010</u>
No. of ordinary shares				(Rupees in '000)	
<b>9,366,312</b>	7,493,050	Habib Sugar Mills Limited % of holding: 6.24% (2010: 6.24%) Par value per share: Rs. 5 Market value: Rs. 205.216 million (2010: Rs. 249.593 million) Chief Executive: Mr. Raeesul Hasan	11.12.1	<b>248,315</b>	235,398
<b>3,375,000</b>	3,375,000	Habib Asset Management Limited % of holding: 30% (2010: 30%) Par value per share: Rs. 10 Break up value per share: Rs. 10.36 (2010: Rs. 9.91) based on audited financial statements for the year ended 30 June 2011 Chief Executive: Mr. Imran Azim	11.12.2	<b>35,254</b>	33,747
<b>5,266,842</b>	5,744,925	First Habib Income Fund Average cost per unit: Rs. 104.44 (2010: Rs. 104.4399) Net asset value Rs. 102.77 (2010: Rs. 102.64) Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim		<b>541,283</b>	592,266
<b>500,000</b>	500,000	First Habib Stock Fund Average cost per unit: Rs. 100 (2010: Rs. 100) Net Asset Value Rs. 88.2983 (2010: Rs. 110.54) Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim		<b>44,149</b>	55,270
<b>1,010,249</b>	–	First Habib Cash Fund Average cost per unit: Rs. 98.99 Net Asset Value Rs. 103.0376 Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim	11.12.3	<b>104,094</b>	–
				<b>973,095</b>	916,681

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 (2010: 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.

11.12.3 This includes investment in seed capital aggregating to Rs. 50 million which is required to be held for a period of two years.

11.12.4 **Movement of Investment in associates**

Opening balance	<b>916,681</b>	1,065,188
Share of profit	<b>84,546</b>	108,978
Investment - net	<b>52,949</b>	(174,752)
Dividend received	<b>(81,081)</b>	(82,733)
Closing balance	<b>973,095</b>	916,681





	Note	2011	2010
(Rupees in '000)			
<b>12. ADVANCES</b>			
Loans, cash credits, running finances, etc.			
In Pakistan		<b>101,962,223</b>	109,815,776
Outside Pakistan		<b>4,325,819</b>	1,934,958
		<b>106,288,042</b>	111,750,734
Net investment in finance lease / Ijarah financing			
In Pakistan	12.2	<b>426,351</b>	513,601
Outside Pakistan		<b>—</b>	—
		<b>426,351</b>	513,601
Ijarah financing under IFAS 2	12.3 & 5.6	<b>109,668</b>	131,575
Murabaha	12.4	<b>2,007,557</b>	2,018,596
Bills discounted and purchased (excluding market treasury bills)			
Payable in Pakistan		<b>1,928,992</b>	2,401,449
Payable outside Pakistan		<b>9,233,700</b>	12,267,818
		<b>11,162,692</b>	14,669,267
Advances - gross		<b>119,994,310</b>	129,083,773
Provision against non-performing loans and advances			
Specific provision	12.5	<b>(2,998,847)</b>	(1,682,297)
General provision against consumer advances (as per SBP regulations)	12.6.1	<b>(32,331)</b>	(28,184)
General provision	12.6.2	<b>(2,100,000)</b>	(1,600,000)
		<b>(5,131,178)</b>	(3,310,481)
Advances - net of provisions		<b>114,863,132</b>	125,773,292
<b>12.1 Particulars of advances - gross</b>			
12.1.1 In local currency		<b>98,292,544</b>	105,479,320
In foreign currencies		<b>21,701,766</b>	23,604,453
		<b>119,994,310</b>	129,083,773
12.1.2 Short term (for upto one year)		<b>99,426,895</b>	110,187,410
Long term (for over one year)		<b>20,567,415</b>	18,896,363
		<b>119,994,310</b>	129,083,773



## 12.2 Net investment in finance lease / Ijarah financing

	2011				2010			
	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	200,095	190,153	-	390,248	259,258	217,019	-	476,277
Residual value	30,555	74,032	-	104,587	39,720	78,200	-	117,920
Minimum lease / ijarah payments	230,650	264,185	-	494,835	298,978	295,219	-	594,197
Financial charges for future periods	(39,219)	(29,265)	-	(68,484)	(47,404)	(33,192)	-	(80,596)
Present value of finance lease / ijarah financing	191,431	234,920	-	426,351	251,574	262,027	-	513,601

## 12.3 Ijarah financing under IFAS 2

	2011							
	Cost		Accumulated Depreciation			Book Value		Rate %
As at 01 Jan. 2011	Additions	As at 31 Dec. 2011	As at 01 Jan. 2011	Charge	As at 31 Dec. 2011	As at 31 Dec. 2011		
Equipment	229,695	42,690	272,385	103,317	74,692	178,009	94,376	
Vehicles	6,198	14,185	20,383	1,001	4,090	5,091	15,292	
	235,893	56,875	292,768	104,318	78,782	183,100	109,668	33.33

	2010							
	Cost		Accumulated Depreciation			Book Value		Rate %
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	
	164,960	70,933	235,893	37,637	66,681	104,318	131,575	33.33

### 12.3.1 Future Ijarah payments receivable

	2011	2010
	(Rupees in '000)	
Not later than one year	69,594	88,533
Later than one year and not later than five years	41,657	57,408
	111,251	145,941
12.4 Murabaha - gross	2,126,887	2,107,532
Less: Deferred murabaha income	(43,169)	(34,592)
Profit receivable shown in other assets	(76,161)	(54,344)
Murabaha	2,007,557	2,018,596



12.5 Advances include Rs. 3,203.630 (2010: Rs 2,943.863) million which have been placed under non-performing status as detailed below:

Category of classification	2011								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Substandard	56,537	-	56,537	14,134	-	14,134	14,134	-	14,134
Doubtful	100,467	-	100,467	48,520	-	48,520	48,520	-	48,520
Loss	3,045,133	1,493	3,046,626	2,934,700	1,493	2,936,193	2,934,700	1,493	2,936,193
	<u>3,202,137</u>	<u>1,493</u>	<u>3,203,630</u>	<u>2,997,354</u>	<u>1,493</u>	<u>2,998,847</u>	<u>2,997,354</u>	<u>1,493</u>	<u>2,998,847</u>

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>

12.5.1 For the purpose of determining provision against non-performing advances, the Bank has not taken into account the Forced Sales Value of pledged stock and mortgaged properties held as collateral against non-performing advances.

12.6 Particulars of provision against non-performing loans and advances

	2011						2010		
	Specific	General	Total	Specific	General	Total			
	(Rupees in '000)								
Opening balance	1,682,297	1,628,184	3,310,481	1,210,572	1,177,121	2,387,693			
Charge for the year									
Specific provision	1,481,521	-	1,481,521	1,095,798	-	1,095,798			
General provision for consumer portfolio	12.6.1	-	4,147	4,147	-	1,063	1,063		
General provision for loans and advances	12.6.2	-	500,000	500,000	-	450,000	450,000		
Reversals		(164,880)	-	(164,880)	(600,565)	-	(600,565)		
		1,316,641	504,147	1,820,788	495,233	451,063	946,296		
Amount written-off	12.7	(91)	-	(91)	(23,508)	-	(23,508)		
Closing balance		<u>2,998,847</u>	<u>2,132,331</u>	<u>5,131,178</u>	<u>1,682,297</u>	<u>1,628,184</u>	<u>3,310,481</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 2011 amounts to Rs. 32.331 (2010: Rs 28.184) 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 as of 31 December 2011 amounts to Rs. 2,100 (2010: Rs.1,600) million.

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

	2011			2010		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	2,997,354	2,132,331	5,129,685	1,681,808	1,628,184	3,309,992
In foreign currency	1,493	-	1,493	489	-	489
	<u>2,998,847</u>	<u>2,132,331</u>	<u>5,131,178</u>	<u>1,682,297</u>	<u>1,628,184</u>	<u>3,310,481</u>

12.7 **Particulars of write-offs:**

**2011**                      2010  
(Rupees in '000)

12.7.1 Against provision	<b>91</b>	23,508
Directly charged to profit and loss account	-	-
	<u><b>91</b></u>	<u>23,508</u>
12.7.2 Write-offs of Rs. 500,000 and above	-	23,353
Write-offs of below Rs. 500,000	<b>91</b>	155
	<u><b>91</b></u>	<u>23,508</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 2011 is given in Annexure 1.



12.8 Particulars of Loans and Advances to Directors, Associated Companies etc.	Note	2011	2010
		(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		1,124,509	875,735
Loans granted during the year		638,853	524,584
Repayments		(366,035)	(275,810)
Balance at end of the year		<u>1,397,327</u>	<u>1,124,509</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		369,808	399,584
Loans granted during the year		3,131,625	742,345
Repayments		(2,097,172)	(772,121)
Balance at end of the year		<u>1,404,261</u>	<u>369,808</u>
<b>13. OPERATING FIXED ASSETS</b>			
Capital work-in-progress	13.1	92,558	204,634
Property and equipment	13.2	10,648,811	9,992,707
Intangible assets	13.3	49,976	66,969
		<u>10,791,345</u>	<u>10,264,310</u>
<b>13.1 Capital work-in-progress</b>			
Civil works		90,770	188,002
Advance payment towards property		-	7,953
Consultants' fee and other charges		1,788	8,679
		<u>92,558</u>	<u>204,634</u>



### 13.2 Property and equipment

2011

	Cost / Revalued Amount				Accumulated Depreciation			Book Value		Rate of depreciation %	
	As at 01 January 2011	Additions / (deletions) / transfers	Reversal of accumulated depreciation / other adjustments	Revaluation Surplus / (deficit)	As at 31 December 2011	As at 01 January 2011	Charge / (deletions) / transfers	Reversal of accumulated depreciation / other adjustments	As at 31 December 2011		As at 31 December 2011
<b>Owned</b>											
Leasehold land	3,476,864	32,481 (2,266) (130,107)	- - -	(121,477)	3,255,495	-	- - -	-	-	3,255,495	-
Buildings on leasehold land	4,788,095	177,337 - 138,687	(422,054) (7,047) -	339,720	5,014,738	367,712	145,131 - -	(422,054) (793)	89,996	4,924,742	2.22-10
Improvements to leasehold buildings	537,355	230,419 (14,664) (11,645)	- - -	-	741,465	65,976	31,044 (3,911) (3,065)	-	90,044	651,421	5
Furniture and fixtures	357,652	45,873 (2,166) -	- - -	-	401,359	149,680	35,441 (1,577) -	-	183,544	217,815	10
Electrical, office and computer equipments	2,277,951	484,936 (21,569) -	- - -	-	2,741,318	1,213,391	423,511 (20,234) -	-	1,616,668	1,124,650	20
Vehicles	685,363	262,650 (97,817) -	- - 2,692	-	852,888	333,936	131,439 (89,745) -	- 2,570	378,200	474,688	20
	12,123,280	1,233,696 (138,482) (3,065)	(422,054) (7,047) 2,692	218,243	13,007,263	2,130,695	766,566 (115,467) (3,065)	(422,054) (793) 2,570	2,358,452	10,648,811	
<b>Leased</b>											
Vehicles	3,262	- - -	- - (2,692)	-	570	3,140	- - -	- - (2,570)	570	-	
	3,262	- - -	- - (2,692)	-	570	3,140	- - -	- - (2,570)	570	-	
	12,126,542	1,233,696 (138,482) (3,065)	(422,054) (7,047) -	218,243	13,007,833	2,133,835	766,566 (115,467) (3,065)	(422,054) (793) -	2,359,022	10,648,811	



2010

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



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
<b>Items having book value in aggregate more than Rs. 250,000 or cost more than Rs. 1,000,000</b>					
Leasehold land	2,266	2,266	10,892	Surrender	Government of Pakistan
Improvements to leasehold buildings	14,664	10,753	–	Write off	–
Furniture and fixtures	2,133	579	518	Auction	Karachi Auction Mart, Karachi.
Electrical, office and computer equipments	1,339	317	786	Insurance claim	Habib Insurance Company Ltd. (a related party), Karachi.
Electrical, office and computer equipments	6,509	481	1,458	Auction	Karachi Auction Mart, Karachi.
Electrical, office and computer equipments	6,343	8	468	Quotation	Edwards & Robertson, Karachi.
Electrical, office and computer equipments	1,810	240	1,005	Quotation	Ghazi Power, Karachi.
Electrical, office and computer equipments	1,417	108	300	Quotation	Khalid Disposal, Karachi.
Electrical, office and computer equipments	2,218	173	512	Quotation	Mawjee Services, Karachi.
Vehicles	10,766	7,535	10,441	Insurance Claim	Habib Insurance Company Ltd. (a related party), Karachi.
Vehicles	14,366	6	11,091	Auction	Abdul Razzaq, Karachi.
Vehicles	3,689	105	4,258	Auction	Agha Ghazanfar, Karachi.
Vehicles	2,051	–	2,057	Auction	Aqeel Ahmed, Karachi.
Vehicles	3,544	–	3,021	Auction	Bilal Ahmed Khan, Karachi.
Vehicles	1,424	–	1,197	Auction	Faisal Abdul Aziz, Karachi.
Vehicles	1,258	–	967	Auction	Faisal Khan, Karachi.
Vehicles	2,742	5	3,011	Auction	Huzaiifa Arif, Karachi.
Vehicles	1,203	–	974	Auction	Kamran Raza, Karachi.
Vehicles	3,222	–	3,211	Auction	Muhammad, Karachi.
Vehicles	9,432	217	7,433	Auction	Muhammad Ali Akbar Khan, Karachi.
Vehicles	1,054	–	731	Auction	Muhammad Islam, Karachi.
Vehicles	1,213	–	990	Auction	Noman Ahmed, Karachi.
Vehicles	3,516	35	3,463	Auction	Rehan Mithani, Karachi.
Vehicles	4,148	1	4,306	Auction	Saleem Ahmed, Karachi.
Vehicles	2,649	–	2,379	Auction	Salman Ahmed, Karachi.
Vehicles	1,856	–	1,748	Auction	Sarfaraz, Karachi.
Vehicles	2,521	22	3,006	Auction	Shafi ur Rehman, Karachi.
Vehicles	1,258	–	1,047	Auction	Shahid Raza, Karachi.
Vehicles	3,999	76	4,712	Auction	Wasim Mirza, Karachi.
Vehicles	2,390	1	3,579	Auction	Zahid Qadri, Karachi.
Vehicles	1,258	–	951	Auction	S. Muhammad Irfan, Karachi.
Vehicles	1,109	–	853	Auction	Syed Muhammad Ali, Karachi.
<b>Items having book value in aggregate less than Rs. 250,000 or cost less than Rs. 1,000,000</b>					
Furniture and fixtures	33	10	27		
Electrical, office and computer equipments	1,933	8	387		
Vehicles	17,149	69	15,705		
	<u>138,482</u>	<u>23,015</u>	<u>107,484</u>		





13.2.2 In accordance with the Bank's accounting policy, the leasehold land and buildings have been revalued during the year. The revaluation was carried out by independent valuer, M/s. Iqbal A. Nanjee & Co. on the basis of professional assessment of present market values and resulted in a net surplus of Rs. 218.243 million over the book value of the respective properties as at the year end. Had there been no revaluation, the net book value of leasehold land and buildings would have amounted to:

	2011	2010
	(Rupees in '000)	
Leasehold land	2,633,821	2,733,713
Buildings on leasehold land	3,106,889	2,887,639
	5,740,710	5,621,352

During the year, the Bank has made a change in estimate in respect of useful lives of buildings on leasehold land, which resulted in the revision of depreciation rates from 2.22% - 8.33% to 2.22% - 10%. The management considers that the revision would result in more accurate reflection of depreciation charge over the useful lives of the related assets. The change has been accounted for as change in accounting estimate in accordance with the requirements of IAS - 8 'Accounting Policies, Changes in Accounting Estimates and Errors' whereby the effect of these changes are recognized prospectively.

Had the Bank not made the above referred change in accounting estimate, profit before tax would have been increased by Rs. 7.360 million and the carrying value of operating fixed assets would have been increased by the same amount.

13.2.3 As at 31 December 2011, the gross carrying amount of fully depreciated assets still in use amounted to Rs. 864.965 (2010: Rs. 446.656) million.

### 13.3 Intangible assets

	2011							
	Cost			Accumulated Amortization			Book Value	
	As at 01 January 2011	Additions	As at 31 December 2011	As at 01 January 2011	Charge	As at 31 December 2011	As at 31 December 2011	Rate of Amortization %
Computer software	181,333	11,443	192,776	149,114	28,436	177,550	15,226	50
Stock Exchange membership card	34,750	-	34,750	-	-	-	34,750	
	216,083	11,443	227,526	149,114	28,436	177,550	49,976	
	2010							
	Cost			Accumulated Amortization			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 Amortization %
				(Rupees in '000)				
Computer software	149,274	32,059	181,333	118,421	30,693	149,114	32,219	50
Stock Exchange membership card	34,750	-	34,750	-	-	-	34,750	
	184,024	32,059	216,083	118,421	30,693	149,114	66,969	



13.3.1 As at 31 December 2011, the gross carrying amount of fully amortized intangible assets still in use amounted to Rs.149.952 (2010: Rs. 109.657) million.

#### 14. OTHER ASSETS

	Note	2011	2010
(Rupees in '000)			
Mark-up / return / interest accrued in local currency		<b>4,310,255</b>	4,214,813
Mark-up / return / interest accrued in foreign currencies		<b>99,198</b>	60,381
Advances, deposits and prepayments		<b>1,099,942</b>	1,354,096
Unrealized gain on forward foreign exchange contracts		<b>242,237</b>	283,136
Stationery and stamps on hand		<b>116,183</b>	99,317
Receivable from SBP on encashment of Government Securities		<b>26,268</b>	224
Non-refundable deposits	14.1	<b>96,719</b>	106,328
Others		<b>72,603</b>	132,729
		<b>6,063,405</b>	6,251,024

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).

	2011	2010
(Rupees in '000)		
<b>15. BILLS PAYABLE</b>		
In Pakistan	<b>4,979,720</b>	2,989,989
<b>16. BORROWINGS</b>		
In Pakistan	<b>43,213,300</b>	21,362,725
Outside Pakistan	<b>228,294</b>	1,216,623
	<b>43,441,594</b>	22,579,348
<b>16.1 Particulars of borrowings with respect to currencies</b>		
In local currency	<b>43,213,300</b>	21,362,725
In foreign currencies	<b>228,294</b>	1,216,623
	<b>43,441,594</b>	22,579,348



	Note	2011 (Rupees in '000)	2010
<b>16.2 Details of borrowings</b>			
<b>Secured</b>			
Borrowings from State Bank of Pakistan			
Export Refinance Scheme	16.3	11,537,652	16,381,224
Long Term Financing for Export Oriented Projects	16.4	568,700	812,229
Long Term Financing for imported and locally manufactured Plant and Machinery	16.5	3,322,617	2,886,572
Financing facility for storage of agricultural produce	16.6	71,554	—
		<u>15,500,523</u>	<u>20,080,025</u>
Repurchase agreement borrowings	16.7	<u>27,712,777</u>	<u>1,282,700</u>
		<u>43,213,300</u>	<u>21,362,725</u>
<b>Unsecured</b>			
Overdrawn Nostros		48,403	1,216,623
Borrowings from financial institutions	16.8	179,891	—
		<u>228,294</u>	<u>1,216,623</u>
		<u>43,441,594</u>	<u>22,579,348</u>
16.3	These carry mark-up rate of 10% (2010: 9%) 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% to 5% (2010: 4% to 5%) per annum having maturity periods upto 7.5 years.		
16.5	These carry mark-up rates ranging from 9.70% to 11% (2010: 8.20% to 9.50%) per annum having maturity periods upto ten years.		
16.6	This carries mark-up rate of 5.50% having maturity period upto three years.		
16.7	These carry mark-up rate of 11.50% to 11.90% (2010: 12.75% to 13.25%) per annum, having maturity periods upto one month.		
16.8	This carries mark-up rate of 0.45% having maturity period upto one month.		
<b>17. DEPOSITS AND OTHER ACCOUNTS</b>		<b>2011</b>	<b>2010</b>
		<b>(Rupees in '000)</b>	
<b>Customers</b>			
Fixed deposits		120,176,785	91,146,967
Savings deposits		70,196,707	54,512,033
Current accounts - Remunerative		26,524,367	29,197,690
Current accounts - Non-remunerative		78,697,621	64,333,688
		<u>295,595,480</u>	<u>239,190,378</u>
<b>Financial Institutions</b>			
Remunerative deposits		6,267,159	10,314,218
Non-remunerative deposits		234,548	256,289
		<u>6,501,707</u>	<u>10,570,507</u>
		<u>302,097,187</u>	<u>249,760,885</u>



	Note	2011	2010
		(Rupees in '000)	
<b>17.1 Particulars of deposits</b>			
In local currency		<b>266,208,035</b>	216,715,190
In foreign currencies		<b>35,889,152</b>	33,045,695
		<b>302,097,187</b>	<b>249,760,885</b>
<b>18. SUB-ORDINATED LOANS - unsecured</b>			
Term Finance Certificates (TFCs) - I - (Quoted)	18.1	<b>897,658</b>	1,346,760
Term Finance Certificates (TFCs) - II - (Quoted)	18.2	<b>1,497,300</b>	1,497,900
Term Finance Certificates (TFCs) - III - (Unquoted)	18.3	<b>1,996,000</b>	1,997,600
Term Finance Certificates (TFCs) - IV - (Unquoted)	18.4	<b>2,999,400</b>	-
		<b>7,390,358</b>	<b>4,842,260</b>
<b>18.1 Term Finance Certificates - I (Quoted)</b>			
Total issue		Rupees 1,350 million	
Rating		<b>AA</b>	
Rate		Payable six monthly at average six months' KIBOR plus 150 bps	
Floor		3.50% p.a.	
Ceiling		10.00% p.a.	
Redemption		6-78th month: 0.25%; 84th, 90th and 96th month: 33.25% each	
Tenor		8 years	
Maturity		July 2012	
<b>18.2 Term Finance Certificates - II (Quoted)</b>			
Total issue		Rupees 1,500 million	
Rating		<b>AA</b>	
Rate		Payable six monthly at average six months' KIBOR plus 1.95% without any floor and cap	
Redemption		6-84th month: 0.28%; 90th and 96th month: 49.86% each	
Tenor		8 years	
Maturity		February 2015	
<b>18.3 Term Finance Certificates - III (Unquoted)</b>			
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	



#### 18.4 Term Finance Certificates - IV (Unquoted)

Total issue	Rupees 3,000 million
Rating	<b>AA</b>
Rate	Payable six monthly at 15% p.a. for first 5 years and 15.50% for next 5 years
Redemption	6th - 108th month: 0.36%; 114th and 120th month: 49.82% each
Tenor	10 years
Maturity	June 2021

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

	2011			2010		
	Minimum lease payments	Financial charges for future periods	Principal outstanding (Rupees in '000)	Minimum lease payments	Financial charges for future periods	Principal outstanding
Not later than one year	28	-	28	381	23	358
Later than one year and not later than five years	-	-	-	29	1	28
	<b>28</b>	<b>-</b>	<b>28</b>	<b>410</b>	<b>24</b>	<b>386</b>

The Group has entered into various lease agreements for computers, office equipments and vehicles. Lease rentals include financial charges at the rate of 12.27% (2010: 10.25% to 12.25%) per annum which have been used as discounting factor and are payable monthly. The Group has the option to purchase the assets upon completion of lease period and has intention to exercise it.

	Note	2011 (Rupees in '000)	2010
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#### 20. DEFERRED TAX LIABILITIES

##### Taxable temporary differences arising in respect of:

Accelerated depreciation		<b>927,849</b>	847,004
Surplus on revaluation of fixed assets	23.1	<b>636,247</b>	536,459
Surplus on revaluation of investments	23.2	<b>94,147</b>	-
		<b>1,658,243</b>	1,383,463

##### Deductible temporary differences arising in respect of:

Deficit on revaluation of investments		-	(207,396)
Provision against non-performing loans and advances		<b>(424,567)</b>	(530,824)
Lease obligations		<b>(8)</b>	(65)
Provision for compensated absences		<b>(665)</b>	(255)
Provision for diminution in the value of investments		<b>(570)</b>	(570)
		<b>(425,810)</b>	(739,110)
		<b>1,232,433</b>	644,353



20.1 Reconciliation of deferred tax

	Balance as at 01 January 2010	Recognized in profit and loss account	Recognized in deficit on revaluation of assets	Balance as at 31 December 2010	Recognized in profit and loss account	Recognized in deficit on revaluation of assets	Balance as at 31 December 2011
	(Rupees in '000)						
<b>Deductible temporary differences arising in respect of:</b>							
Accelerated depreciation	737,574	109,430	-	847,004	80,845	-	927,849
Surplus on revaluation of fixed assets	552,997	(16,538)	-	536,459	(19,114)	118,902	636,247
Surplus on revaluation of investments	7,231	-	(7,231)	-	-	94,147	94,147
	<u>1,297,802</u>	<u>92,892</u>	<u>(7,231)</u>	<u>1,383,463</u>	<u>61,731</u>	<u>213,049</u>	<u>1,658,243</u>

**Deductible temporary differences arising in respect of:**

Deficit on revaluation of investments	-	-	(207,396)	(207,396)	-	207,396	-
Provision against non-performing loans and advances	(473,038)	(57,786)	-	(530,824)	106,257	-	(424,567)
Provision for diminution in the value of investments	(8,325)	7,755	-	(570)	-	-	(570)
Lease obligations	118	(183)	-	(65)	57	-	(8)
Provision for compensated absences	-	(255)	-	(255)	(410)	-	(665)
	<u>(481,245)</u>	<u>(50,469)</u>	<u>(207,396)</u>	<u>(739,110)</u>	<u>105,904</u>	<u>207,396</u>	<u>(425,810)</u>
	<u>816,557</u>	<u>42,423</u>	<u>(214,627)</u>	<u>644,353</u>	<u>167,635</u>	<u>420,445</u>	<u>1,232,433</u>

Note                      **2011**                      2010  
(Rupees in '000)

21. OTHER LIABILITIES

Mark-up / return / interest payable in local currency		<b>3,056,483</b>	2,194,784
Mark-up / return / interest payable in foreign currencies		<b>51,136</b>	34,970
Provision for compensated absences	21.1	<b>203,242</b>	180,000
Locker deposits		<b>153,973</b>	118,208
Taxation (Provision less payments)		<b>466,338</b>	728,142
Unclaimed dividends		<b>79,771</b>	56,364
Branch adjustment account		<b>55,419</b>	401,093
Special exporters' accounts in foreign currencies		<b>23,825</b>	81,684
Unearned commission income		<b>2,694</b>	8,057
Security deposits against leases / ijarah		<b>138,285</b>	141,688
Workers' Welfare Fund		<b>270,869</b>	126,164
Accrued expenses		<b>136,903</b>	82,208
Provision against off-balance sheet items		<b>73,122</b>	57,324
Others		<b>660,946</b>	551,656
		<u><b>5,373,006</b></u>	<u>4,762,342</u>

21.1 Provision for compensated absences has been determined on the basis of independent actuarial valuation. The significant assumptions used for actuarial valuation were as follows:

Discount rate	<b>12.5% per annum</b>	-
Expected rate of increase in salary in future years	<b>11.5% per annum</b>	-



## 22. SHARE CAPITAL

	2011 (Number of shares)	2010		2011 (Rupees in '000)	2010
<b>Authorized Capital</b>					
	<u>1,200,000,000</u>	<u>1,200,000,000</u>	Ordinary shares of Rs.10/- each	<u>12,000,000</u>	<u>12,000,000</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>848,597,167</u>	<u>702,164,306</u>	Issued as bonus shares	<u>8,485,972</u>	<u>7,021,643</u>
	<u>878,597,167</u>	<u>732,164,306</u>		<u>8,785,972</u>	<u>7,321,643</u>

22.1 As of statement of financial position date 108,458,120 (2010: 95,529,051) ordinary shares of Rs. 10/- each were held by the related parties.

	Note	2011 (Rupees in '000)	2010
<b>23. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX</b>			
Operating fixed assets	23.1	<b>1,803,278</b>	1,739,434
Available for sale investments	23.2	<b>219,569</b>	(377,091)
		<u><b>2,022,847</b></u>	<u>1,362,343</u>
23.1 Balance at the beginning of the year		<b>2,275,893</b>	2,323,144
Surplus on revaluation of the Bank's properties during the year		<b>218,243</b>	-
Transfer to unappropriated profit in respect of incremental depreciation charged during the year		<b>(54,611)</b>	(47,251)
		<u><b>2,439,525</b></u>	<u>2,275,893</u>
Related deferred tax liability on:			
Balance at the beginning of the year		<b>536,459</b>	552,997
Revaluation of Bank's properties during the year		<b>118,902</b>	-
Transfer to unappropriated profit in respect of incremental depreciation charged during the year		<b>(19,114)</b>	(16,538)
		<u><b>(636,247)</b></u>	<u>(536,459)</u>
		<u><b>1,803,278</b></u>	<u>1,739,434</u>
23.2 Available for sale investments			
Federal Government Securities		<b>319,757</b>	(602,753)
Fully paid-up ordinary shares		<b>(2,610)</b>	9,386
Term finance certificates, sukuks and bonds		<b>(19,380)</b>	(29,876)
Open ended mutual funds		<b>15,949</b>	38,756
		<u><b>313,716</b></u>	<u>(584,487)</u>
Related deferred tax (liability) / asset		<u><b>(94,147)</b></u>	<u>207,396</u>
		<u><b>219,569</b></u>	<u>(377,091)</u>



	<b>2011</b>	2010
	(Rupees in '000)	
<b>24. CONTINGENCIES AND COMMITMENTS</b>		
<b>24.1 Direct Credit Substitutes</b>		
Financial institutions	<b>79,615</b>	8,564
Others	<b>446,014</b>	445,367
	<b>525,629</b>	453,931
<b>24.2 Transaction-related Contingent Liabilities</b>		
– Government	<b>8,008,832</b>	7,200,376
– Financial Institutions	<b>115,461</b>	260,140
– Others	<b>4,544,785</b>	4,193,866
	<b>12,669,078</b>	11,654,382
<b>24.3 Trade-related Contingent Liabilities</b>		
Letters of credit	<b>32,838,848</b>	40,994,674
Acceptances	<b>7,104,549</b>	6,901,923
	<b>39,943,397</b>	47,896,597
<b>24.4 Other contingencies</b>		

The Income tax returns of the Bank have been submitted upto and including the Bank's financial year 2010. The income tax assessments of the Bank have been made by the tax authorities upto and including the assessment / tax year 2008 and 2010. 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.

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. 124.353 million. The Bank has preferred an appeal before ITAT against the above referred orders of the CIT Appeals.

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.

	<b>2011</b>	2010
	(Rupees in '000)	
<b>24.5 Commitments in respect of forward lending</b>		
Commitments to extend credit	<b>15,603</b>	1,232,005





	2011	2010
	(Rupees in '000)	
<b>24.6 Commitments in respect of forward purchase of securities</b>		
Sukuks	—	121,294
<b>24.7 Commitments in respect of forward exchange contracts</b>		
Purchase	<b>28,032,085</b>	27,675,282
Sale	<b>25,331,776</b>	24,435,789
<b>24.8 Commitments for the acquisition of operating fixed assets</b>	<b>124,899</b>	158,104

## 25. DERIVATIVE FINANCIAL INSTRUMENTS

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

	2011	2010
	(Rupees in '000)	
<b>26. MARK-UP / RETURN / INTEREST EARNED</b>		
On loans and advances to:		
Customers	<b>13,442,440</b>	12,427,569
Financial institutions	<b>236,509</b>	257,788
	<b>13,678,949</b>	12,685,357
On investments:		
Available for sale securities	<b>12,175,798</b>	12,144,958
Held to maturity securities	<b>10,333,202</b>	2,395,740
	<b>22,509,000</b>	14,540,698
On deposits with financial institutions	<b>75,450</b>	16,589
On securities purchased under resale agreements	<b>261,479</b>	236,166
On call money lendings	<b>4,359</b>	1,988
	<b>36,529,237</b>	27,480,798
<b>27. MARK-UP / RETURN / INTEREST EXPENSED</b>		
Deposits	<b>19,134,980</b>	14,226,694
Sub-ordinated loans	<b>893,190</b>	660,345
Repurchase agreement borrowings	<b>785,368</b>	452,191
Borrowings from SBP	<b>1,556,218</b>	1,321,670
Other borrowings	<b>3,232</b>	5,589
	<b>22,372,988</b>	16,666,489



	Note	2011 (Rupees in '000)	2010
<b>28. GAIN ON SALE / REDEMPTION OF SECURITIES - NET</b>			
Listed shares		54	72,627
Government securities		393	112
Mutual funds		—	(3,131)
		<b>447</b>	<b>69,608</b>
<b>29. OTHER INCOME</b>			
Gain on sale of operating fixed assets		84,469	41,574
Recovery of expenses from customers	29.1	95,742	85,537
Lockers rent		5,221	5,107
Others	29.2	254,976	192,290
		<b>440,408</b>	<b>324,508</b>
29.1	Includes courier, telex, postage and other charges recovered from customers.		
29.2	Includes income from various general banking services such as cheque book charges, cheque return charges, cheque handling charges etc.		
<b>30. ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances, etc.		3,181,285	2,614,827
Charge for defined benefit plan		103,403	79,558
Contribution to defined contribution plan		130,873	108,901
Provision for compensated absences		23,242	39,000
Non-executive directors' fee, allowances and other expenses		2,075	1,630
Rent, taxes, insurance, electricity, etc.		1,182,294	926,361
Legal and professional charges		54,469	54,722
Communications		203,704	166,080
Repairs and maintenance		407,643	296,764
Financial charges on leased assets		23	125
Security charges		329,852	244,956
Stationery and printing		212,013	162,934
Advertisement and publicity		251,020	231,170
Donations	30.1	24,650	77,373
Auditors' remuneration	30.2	4,356	2,545
Depreciation	13.2	766,566	658,861
Amortization		38,045	40,302
Travelling and conveyance		49,903	35,570
Vehicle running expenses		233,934	174,901
Commission and brokerage		83,110	33,183
Subscriptions and publications		46,697	51,758
Clearing charges (NIFT)		47,931	37,159
Others		244,877	186,777
		<b>7,621,965</b>	<b>6,225,457</b>



	2011	2010
	(Rupees in '000)	
30.1 The details of donations in excess of Rupees One hundred thousand are given below:		
Al-Sayyeda Benevolent Trust	925	925
C.A.S. Flood Relief Fund	–	5,000
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
Habib Poor Fund	900	900
Institute of Management Sciences, Bahauddin Zakariya University, Multan	500	–
Lahore University of Management Sciences / National Management Foundation	15,000	15,000
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	1,200	–
	<b>24,650</b>	<b>77,373</b>
None of the Directors or their spouse have any interest in the above donees.		
30.2 <b>Auditors' remuneration</b>		
Audit fee - standalone financial statments	1,250	1,150
Audit fee - consolidated financial statments	300	300
Half yearly review	475	450
Special certifications	1,850	350
Provident fund and gratuity fund	25	50
Out of pocket expenses	456	245
	<b>4,356</b>	<b>2,545</b>
31. <b>OTHER PROVISIONS / WRITE-OFFS / (GAINS)</b>		
Provision / (reversal of provision) against off-balance sheet items	15,797	(8,364)
Provision against other assets	267	–
Loss on closure of subsidiary	–	(21,283)
	<b>16,064</b>	<b>(29,647)</b>
32. <b>OTHER CHARGES</b>		
Workers' Welfare Fund	146,027	116,255
Penalties imposed by SBP	227	18,998
	<b>146,254</b>	<b>135,253</b>
33. <b>TAXATION</b>		
For the year		
Current	2,454,253	2,014,032
Deferred	167,636	42,423
	<b>2,621,889</b>	<b>2,056,455</b>



		2011	2010
		(Rupees in '000)	
<b>33.1 Relationship between tax expense and accounting profit</b>			
Profit before taxation		<u>7,158,993</u>	<u>5,724,435</u>
Tax at the applicable rate of 35% (2010: 35%)		<b>2,505,648</b>	2,003,552
Tax effect of:			
Expenses that are not deductible in determining taxable income		<b>173,432</b>	159,796
Income not subject to tax		-	(33,317)
Dividend income taxed at reduced rate		<b>(58,350)</b>	(60,260)
Others		<b>1,159</b>	(13,316)
		<u>2,621,889</u>	<u>2,056,455</u>
<b>34. BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE HOLDING COMPANY</b>			
Profit after taxation - attributable to equity holders of the Holding company		<u>4,537,656</u>	<u>3,664,329</u>
			(Number)
Weighted average number of ordinary shares		<u>878,597,167</u>	<u>878,597,167</u>
			(Rupees)
			Restated
Basic and diluted earnings per share		<u>5.16</u>	<u>4.17</u>
<b>34.1</b>	The weighted average number of shares for 2010 has been adjusted for the effect of bonus shares issued during the year.		
		Note	
		<b>2011</b>	2010
		(Rupees in '000)	
<b>35. CASH AND CASH EQUIVALENTS</b>			
Cash and balances with treasury banks	8	<b>22,957,988</b>	19,000,990
Balances with other banks	9	<b>6,744,643</b>	2,132,806
Overdrawn nostros	16.2	<b>(48,403)</b>	(1,216,623)
		<u>29,654,228</u>	<u>19,917,173</u>
<b>36. STAFF STRENGTH</b>			(Numbers)
Permanent		<b>4,482</b>	3,988
Temporary / on contractual basis		<b>177</b>	139
Group's own staff at end of the year		<u>4,659</u>	<u>4,127</u>
Outsourced		<b>1,392</b>	1,148
Total staff strength		<u>6,051</u>	<u>5,275</u>



## 37. DEFINED BENEFIT PLAN

### 37.1 General description

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

Number of years of eligible service completed:	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

### 37.2 Principal actuarial assumptions

The latest actuarial valuation of the scheme was carried out on 31 December 2011 and the significant assumptions used for actuarial valuation were as follows:

	2011 % per annum	2010 % per annum
Discount rate	12.50	14.50
Expected rate of increase in salary in future years	11.50	13.50
Expected rate of return on plan assets	12.50	14.00

### 37.3 Movement in defined benefit plan

	2011 (Rupees in '000)	2010 (Rupees in '000)
Charge for the year	103,403	79,009
Contribution to the fund	(103,403)	(79,009)
Closing balance	–	–

### 37.4 Reconciliation of defined benefit plan

Present value of defined benefit obligations	706,730	555,050
Fair value of plan assets	(531,148)	(384,224)
Unrecognized actuarial loss	(175,582)	(170,826)
	–	–

### 37.5 Movement in present value of defined benefit obligations

Opening balance	555,050	418,650
Current service cost	70,055	53,803
Interest cost	82,767	54,781
Benefits paid	(16,017)	(5,249)
Actuarial loss	14,875	33,065
Closing balance	706,730	555,050



	2011	2010			
	(Rupees in '000)				
<b>37.6 Movement in fair value of plan assets</b>					
Opening balance	384,224	268,835			
Expected return on plan assets	58,289	37,287			
Actuarial gain / (loss) on plan assets	1,249	4,342			
Contribution to the fund	103,403	79,009			
Benefits paid	(16,017)	(5,249)			
Closing balance	<u>531,148</u>	<u>384,224</u>			
<b>37.7 Movement in unrecognized actuarial loss</b>					
Opening balance	170,826	149,815			
Amount recognized during the year	(8,870)	(7,712)			
Actuarial loss during the year	13,626	28,723			
Closing balance	<u>175,582</u>	<u>170,826</u>			
<b>37.8 Charge for defined benefit plan</b>					
Current service cost	70,055	53,803			
Interest cost	82,767	54,781			
Expected return on plan assets	(58,289)	(37,287)			
Actuarial loss recognized	8,870	7,712			
Charge for the year	<u>103,403</u>	<u>79,009</u>			
<b>37.9 Actual return on plan assets</b>	<u>59,538</u>	<u>41,630</u>			
<b>37.10 Historical information</b>					
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(Rupees in '000)				
– Present value of defined benefit obligations	<u>(706,730)</u>	<u>(555,050)</u>	<u>(418,650)</u>	<u>(314,703)</u>	<u>(223,093)</u>
– Fair value of plan assets	<u>531,148</u>	<u>384,224</u>	<u>268,835</u>	<u>181,364</u>	<u>135,505</u>
– Deficit	<u>(175,582)</u>	<u>(170,826)</u>	<u>(149,815)</u>	<u>(133,339)</u>	<u>(87,588)</u>
– Experience loss / (gain) on obligations	<u>14,875</u>	<u>33,065</u>	<u>21,596</u>	<u>47,098</u>	<u>(26,831)</u>
– Experience gain / (loss) on plan assets	<u>1,249</u>	<u>4,342</u>	<u>(2,157)</u>	<u>(3,315)</u>	<u>(1,898)</u>



	2011	2010
<b>37.11 Components of plan assets as a percentage of total plan assets</b>		
– Government securities	65.28%	65.11%
– Term finance certificates	6.13%	8.52%
– Bank balances	28.59%	26.37%
	<b>100.00%</b>	<b>100.00%</b>

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

The Bank contributes to the gratuity fund according to the actuary's advice. Based on actuarial advice, the management estimates that the charge and contribution to defined benefit plan for the year ending 31 December 2012 would be Rs. 114.232 million.

### 38. DEFINED CONTRIBUTION PLAN

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

### 39. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors*		Executives	
	2011	2010	2011	2010	2011	2010
	(Rupees in '000)					
Fee **	–	–	2,075	1,630	–	–
Managerial remuneration	9,790	8,498	5,785	5,014	756,282	556,659
Charge for defined benefit plan	3,114	2,543	1,817	1,551	108,859	85,401
Contribution to defined contribution plan	979	850	578	501	56,202	44,780
Rent and house maintenance	3,916	3,399	2,314	2,005	269,904	219,397
Utilities	2,330	1,465	578	501	67,476	54,849
Medical	15	5	89	154	15,624	12,714
Bonus	2,420	2,099	1,430	1,238	167,177	132,903
Others	–	–	–	–	22,545	15,948
	<b>22,564</b>	18,859	<b>14,666</b>	12,594	<b>1,464,069</b>	<b>1,122,651</b>
Number of person(s)	<b>1</b>	1	<b>9</b>	9	<b>639</b>	521

Executives, including the Chief Executive and Executive Director, are provided with Bank's maintained cars in accordance with the terms of their employment and are entitled to medical and life insurance benefits in accordance with the policy of the Bank. In addition, the Chief Executive and Executive Director are also provided with drivers, club memberships, security arrangements and payment of travel bills in accordance with their terms of employment.

\* Directors include one executive director (2010: 01)

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



#### 40. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2011		2010	
	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	22,957,988	22,957,988	19,000,990	19,000,990
Balances with other banks	6,744,643	6,744,643	2,132,806	2,132,806
Lendings to financial institutions	–	–	1,139,268	1,139,268
Investments	223,105,101	223,857,614	137,234,656	137,015,659
Advances	114,863,132	114,863,132	125,773,292	125,773,292
Other assets	4,750,561	4,750,561	4,691,283	4,691,283
	<b>372,421,425</b>	<b>373,173,938</b>	<b>289,972,295</b>	<b>289,753,298</b>
<b>Liabilities</b>				
Bills payable	4,979,720	4,979,720	2,989,989	2,989,989
Borrowings	43,441,594	43,441,594	22,579,348	22,579,348
Deposits and other accounts	302,097,187	302,097,187	249,760,885	249,760,885
Sub-ordinated loans	7,390,358	7,390,358	4,842,260	4,842,260
Liabilities against assets subject to finance lease	28	28	386	386
Other liabilities	4,301,322	4,301,322	3,269,347	3,269,347
	<b>362,210,209</b>	<b>362,210,209</b>	<b>283,442,215</b>	<b>283,442,215</b>
<b>Off-balance sheet financial instruments</b>				
Commitment to extend credit	15,603	15,603	1,232,005	1,232,005
Forward purchase of foreign exchange contracts	28,032,085	28,555,234	27,675,282	27,692,581
Forward sale of foreign exchange contracts	25,331,776	25,057,442	24,435,789	24,701,626
Forward purchase of securities	–	–	121,294	121,294

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 5.6 and 5.5.





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

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

	2011					
	Retail Banking	Commercial Banking	Retail Brokerage	Advisory Services	Inter Segment Elimination	Total
	(Rupees in '000)					
Total income	16,555,927	35,609,057	38,152	-	(13,066,093)	39,137,043
Total expenses	(13,958,181)	(31,037,388)	(48,574)	-	13,066,093	(31,978,050)
Net income	<u>2,597,746</u>	<u>4,571,669</u>	<u>(10,422)</u>	-	-	<u>7,158,993</u>
Segment assets (net of provisions)	258,617,003	367,376,285	422,531	-	(241,890,205)	384,525,614
Segment non performing loans	51,532	3,152,098	-	-	-	3,203,630
Segment provision required	47,584	2,951,263	-	-	-	2,998,847
Segment liabilities	256,723,923	349,395,580	285,028	-	(241,890,205)	364,514,326
Segment return on net assets (%)*	6.40%	9.69%	9.03%			
Segment cost of funds (%)*	5.44%	8.88%	17.04%			
	2010					
	Retail Banking	Commercial Banking	Retail Brokerage	Advisory Services	Inter Segment Elimination	Total
	(Rupees in '000)					
Total income	13,517,116	25,815,633	43,704	569	(9,708,584)	29,668,438
Total expenses	(10,073,697)	(23,481,392)	(49,874)	(47,624)	9,708,584	(23,944,003)
Net income	<u>3,443,419</u>	<u>2,334,241</u>	<u>(6,170)</u>	<u>(47,055)</u>	-	<u>5,724,435</u>
Segment assets (net of provisions)	203,097,066	294,012,735	420,691	-	(195,734,146)	301,796,346
Segment non performing loans	51,429	2,892,434	-	-	-	2,943,863
Segment provision required	43,189	1,639,108	-	-	-	1,682,297
Segment liabilities	202,149,243	278,883,655	280,811	-	(195,734,146)	285,579,563
Segment return on net assets (%)*	6.66%	8.78%	10.39%			
Segment cost of funds (%)*	4.98%	8.42%	17.76%			

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

#### 42. TRUST ACTIVITIES

The Bank was providing services as a trustee to Dawood Money Market Fund (the Fund) till 30 June 2011. During the year, the Bank has voluntarily retired as trustee of the Fund.



#### 43. RELATED PARTY TRANSACTIONS

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

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

Transactions with related parties are summarized as follows:

	2011				Total
	Associates	Non Executive Directors	Key Management Personnel (Rupees in '000)	Retirement Benefit Funds	
<b>Deposits</b>					
At beginning of the year	1,687,940	13,638	126,804	310,525	2,138,907
Placements during the year	56,377,143	2,732,759	657,330	3,789,104	63,556,336
Withdrawals during the year	(56,626,727)	(2,659,582)	(508,142)	(3,980,747)	(63,775,198)
At end of the year	1,438,356	86,815	275,992	118,882	1,920,045
<b>Advances</b>					
At beginning of the year	369,808	214	17,525	-	387,547
Given during the year	3,131,625	1,653	29,980	-	3,163,258
Repaid during the year	(2,097,172)	(1,441)	(17,253)	-	(2,115,866)
At end of the year	1,404,261	426	30,252	-	1,434,939
Contingencies and commitments	518,781	-	-	-	518,781
Purchase of fixed assets	2,424	-	-	-	2,424
Sale of securities	47,089	-	-	-	47,089
Redemption of mutual funds units	50,914	-	-	-	50,914
Purchase of mutual funds units	100,000	-	-	-	100,000
Mark-up earned	62,740	-	1,812	-	64,552
Mark-up expensed	88,406	5,753	14,535	19,947	128,641
Bank charges and commission	6,544	3	90	-	6,637
Loss on sale of securities	(1,372)	-	-	-	(1,372)
Salaries and allowances	-	-	157,866	-	157,866
Bonus	-	-	21,375	-	21,375
Contribution to defined contribution plan	-	-	6,792	-	6,792
Contribution to defined benefit plan	-	-	12,028	-	12,028
Staff provident fund	-	-	-	132,283	132,283
Staff gratuity fund	-	-	-	103,403	103,403
Directors' fee	-	2,075	-	-	2,075
Insurance claim received	23,783	-	-	-	23,783
Insurance premium paid	139,835	-	-	-	139,835
Dividend income	80,990	-	-	-	80,990
Dividend paid	27,362	80,242	83,503	-	191,107
Brokerage and Advisory income	667	-	-	-	667
Commission expense	-	-	-	-	-



	2010				Total
	Associates	Non Executive Directors	Key Management Personnel (Rupees in '000)	Retirement Benefit Funds	
<b>Deposits</b>					
At beginning of the year	674,596	13,966	80,124	513,212	1,281,898
Placements during the year	72,043,744	175,774	653,408	3,542,965	76,415,891
Withdrawals during the year	(71,030,400)	(176,102)	(606,728)	(3,745,652)	(75,558,882)
At end of the year	<u>1,687,940</u>	<u>13,638</u>	<u>126,804</u>	<u>310,525</u>	<u>2,138,907</u>
<b>Advances</b>					
At beginning of the year	399,584	26	164	-	399,774
Given during the year	742,345	934	29,295	-	772,574
Repaid during the year	(772,121)	(746)	(11,934)	-	(784,801)
At end of the year	<u>369,808</u>	<u>214</u>	<u>17,525</u>	<u>-</u>	<u>387,547</u>
Contingencies and commitments	<u>716,726</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>716,726</u>
Purchase of fixed assets	<u>1,408</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,408</u>
Sale of securities	<u>60,908</u>	<u>-</u>	<u>-</u>	<u>264,827</u>	<u>325,735</u>
Redemption of mutual funds units	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Purchase of mutual funds units	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Mark-up earned	26,145	-	452	-	26,597
Mark-up expensed	84,951	1,522	8,890	43,409	138,772
Bank charges and commission	5,275	1	2	-	5,278
Gain on sale of securities	2,285	-	-	65	2,350
Salaries and allowances	-	-	106,629	-	106,629
Bonus	-	-	14,333	-	14,333
Contribution to defined contribution plan	-	-	4,020	-	4,020
Contribution to defined benefit plan	-	-	8,290	-	8,290
Staff provident fund	-	-	-	108,901	108,901
Staff gratuity fund	-	-	-	79,558	79,558
Directors' fee	-	1,630	-	-	1,630
Insurance claim received	9,969	-	-	-	9,969
Insurance premium paid	117,313	-	-	-	117,313
Dividend income	82,733	-	-	-	82,733
Dividend paid	22,802	66,868	69,545	-	159,215
Brokerage and Advisory income	-	-	-	-	-
Commission expense	455	-	-	-	455



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

##### 44.1 Scope of application

The Bank is the only entity in the Group to which Basel II capital adequacy framework applies. The Bank has ownership in the following subsidiary, where the Bank holds more than 50% of voting shares as at 31 December 2011:

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

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

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

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

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

##### 44.2 Capital adequacy

The Basel II Framework for a capital adequacy is applicable to the Bank both at the consolidated level (including subsidiary) 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 maximizes 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 SBP.

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	Standardized Approach
Market risk	Standardized 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 16.86% (2010: 12.98%).



In addition, 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 2011 is Rs. 8 billion. The Bank's paid-up capital as of 31 December 2011 is Rs. 8.786 billion.

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

#### 44.3 Capital structure

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

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

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

	2011	2010
	(Rupees in '000)	
<i>Tier I Capital</i>		
Share capital	8,785,972	7,321,643
Reserves	5,207,369	4,300,673
Unappropriated profit	3,767,998	3,030,199
Non-controlling interest	109,782	110,334
Less: Adjustment for investments in subsidiaries and associates*	(17,627)	(33,455)
Intangible assets	(49,977)	(66,970)
<b>Total Tier I Capital</b>	<b>17,803,517</b>	<b>14,662,424</b>
<i>Tier II Capital</i>		
Subordinated loans (upto 50% of total Tier I Capital)	5,536,420	3,465,272
General provisions subject to 1.25% of total risk weighted assets	1,976,286	1,628,184
Exchange translation reserve	117,320	91,591
Revaluation reserves (upto 45%)	1,236,351	760,263
Less: Adjustment for investments in subsidiaries and associates*	(17,627)	(33,455)
<b>Total Tier II Capital</b>	<b>8,848,750</b>	<b>5,911,855</b>
<i>Eligible Tier III Capital</i>	-	-
<b>Total Eligible Regulatory Capital</b>	<b>26,652,267</b>	<b>20,574,279</b>

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



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

	<b>Capital Requirements</b>		<b>Risk Weighted Assets</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(Rupees in '000)			
<b>Credit Risk</b>				
Sovereign	138,574	40,047	1,385,736	400,473
Public sector enterprises	119,701	141,897	1,197,007	1,418,967
Corporates	10,132,755	10,452,470	101,327,551	104,524,704
Banks	345,077	354,046	3,450,785	3,540,466
Retail	797,859	1,064,703	7,978,595	10,647,030
Residential mortgages	49,911	42,100	499,108	420,997
Equity exposures	349,786	285,899	3,497,863	2,858,987
Other assets	1,247,963	1,308,480	12,479,630	13,084,798
	<b>13,181,626</b>	<b>13,689,642</b>	<b>131,816,275</b>	<b>136,896,422</b>
<b>Market Risk</b>				
Interest rate risk	57,292	54,319	716,145	678,994
Foreign exchange risk	18,768	15,044	234,605	188,052
	<b>76,060</b>	<b>69,363</b>	<b>950,750</b>	<b>867,046</b>
<b>Operational Risk</b>	<b>2,026,871</b>	<b>1,654,687</b>	<b>25,335,886</b>	<b>20,683,584</b>
<b>Total</b>	<b>15,284,557</b>	<b>15,413,692</b>	<b>158,102,911</b>	<b>158,447,052</b>
<b>Capital Adequacy Ratio</b>				
Total eligible regulatory capital (a)	26,652,267	20,574,279		
Total risk weighted assets (b)	158,102,911	158,447,052		
Capital Adequacy Ratio [(a) / (b) x 100]	16.86%	12.98%		

#### 45. RISK MANAGEMENT

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

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

##### 45.1 Credit risk

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

It is the Bank's policy that all credit exposures shall be adequately collateralized, except when specially exempted by 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. The Bank has also established a mechanism for independent post-disbursement review of large credit risk exposures.

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 collateralization of exposures.

Credit administration function has been placed under a centralized 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 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, 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 Standardized Approach to calculate capital charge for credit risk as per Basel II regulatory framework, with comprehensive approach for credit risk mitigation.

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



#### 45.1.1 Credit risk: Disclosures on portfolio subject to Standardized 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 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	–	–	–	–
Securitized	–	–	–	–
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 SBP.

#### Credit exposures subject to Standardized Approach

Risk buckets	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation (CRM) deduction	Net amount
		(Rupees in '000)	
0%	249,227,254	–	249,227,254
20%	20,984,017	3,364,819	17,619,198
35%	1,426,023	–	1,426,023
50%	9,059,337	1,597,765	7,461,572
75%	14,044,905	3,406,778	10,638,127
100%	118,392,653	2,361,380	116,031,273
150%	35,115	–	35,115
	<u>413,169,304</u>	<u>10,730,742</u>	<u>402,438,562</u>

#### 45.1.2 Credit risk: Disclosures on CRM for Standardized 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 and cash deposits.





#### 45.1.3 Segment by class of business

	2011					
	Gross Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Agriculture / Agri business	2,080,760	1.73	397,646	0.13	1,268,151	2.39
Automobiles and Transportation						
Equipment	984,322	0.82	1,753,251	0.58	2,065,421	3.89
Cement	1,454,491	1.21	120,863	0.04	290,182	0.55
Chemicals / Pharmaceuticals	2,737,815	2.28	1,333,681	0.44	3,178,154	5.98
Commerce and Trade	7,070,333	5.89	15,166,703	5.02	8,300,816	15.62
Electronics and Electrical appliances	211,638	0.18	441,998	0.15	912,852	1.72
Fertilizers	995,800	0.83	5,325,396	1.76	595,629	1.12
Financial	2,693,662	2.25	6,501,749	2.15	1,009,373	1.90
Food and Allied	8,249,156	6.87	2,824,299	0.93	976,276	1.84
Ghee and Edible Oil	5,881,369	4.90	866,890	0.29	6,389,979	12.03
Individuals	3,417,816	2.85	191,617,198	63.43	5,475	0.01
Iron and Steel	4,423,216	3.69	1,050,440	0.35	1,535,498	2.89
Oil refinery / marketing	3,699,242	3.08	19,703,805	6.52	1,913,138	3.60
Paper and Board	1,945,457	1.62	111,307	0.04	475,018	0.89
Plastic products	1,636,376	1.36	185,599	0.06	2,589,957	4.87
Production and Transmission of Energy	5,755,209	4.80	6,353,833	2.10	1,202,568	2.26
Real estate / Construction	2,013,637	1.68	3,955,858	1.31	1,703,533	3.21
Services (other than financial)	496,901	0.41	10,057,095	3.33	592,458	1.11
Shoes and Leather garments	1,271,026	1.06	679,898	0.23	208,454	0.39
Sugar	4,250,475	3.54	1,371,828	0.45	110,388	0.21
Surgical Equipments	779,987	0.65	290,341	0.10	508,478	0.96
Textile						
Spinning	21,295,370	17.75	826,133	0.27	3,656,283	6.88
Weaving	8,011,212	6.68	772,394	0.26	1,389,818	2.62
Composite	16,884,454	14.07	1,771,836	0.58	2,851,233	5.35
Ready-made Garments	3,681,772	3.07	620,788	0.21	1,583,165	2.98
	49,872,808	41.57	3,991,151	1.32	9,480,499	17.83
Others	8,072,814	6.73	27,996,358	9.27	7,825,807	14.73
	119,994,310	100.00	302,097,187	100.00	53,138,104	100.00



2010

	Gross Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Agriculture / Agri business	1,894,948	1.47	219,098	0.09	707,709	1.18
Automobiles and Transportation						
Equipment	1,228,133	0.95	1,614,167	0.65	1,398,138	2.33
Cement	3,414,391	2.65	101,153	0.04	806,451	1.34
Chemicals / Pharmaceuticals	2,555,399	1.98	1,158,349	0.46	1,561,684	2.60
Commerce and Trade	11,403,511	8.83	9,741,662	3.90	10,114,461	16.86
Electronics and Electrical appliances	1,197,188	0.93	325,304	0.13	1,082,094	1.80
Fertilizers	1,143,115	0.89	3,229,404	1.29	747,131	1.25
Financial	2,013,004	1.56	10,869,318	4.36	306,698	0.51
Food and Allied	10,109,127	7.83	1,183,256	0.47	1,408,439	2.35
Ghee and Edible Oil	3,502,559	2.71	1,297,663	0.52	4,972,586	8.29
Individuals	2,844,900	2.20	149,165,862	59.72	875	–
Iron and Steel	4,131,632	3.20	1,785,014	0.71	2,303,189	3.84
Oil refinery / marketing	4,263,570	3.30	20,560,573	8.23	498,802	0.83
Paper and Board	333,550	0.26	79,078	0.03	1,202,597	2.00
Plastic products	834,580	0.65	153,248	0.06	1,942,838	3.24
Production and Transmission of Energy	6,589,713	5.10	6,720,076	2.69	2,077,661	3.46
Real estate / Construction	2,209,815	1.71	3,148,862	1.26	2,090,602	3.48
Services (other than financial)	1,423,306	1.10	7,437,744	2.98	1,336,680	2.23
Shoes and Leather garments	859,580	0.67	338,502	0.14	305,120	0.51
Sugar	3,154,165	2.44	1,547,768	0.62	335,325	0.56
Surgical Equipments	381,181	0.30	174,451	0.07	327,995	0.55
Textile						
Spinning	30,068,536	23.30	1,015,147	0.41	8,388,193	13.98
Weaving	11,361,829	8.80	532,759	0.21	2,397,848	4.00
Composite	13,753,432	10.65	1,034,081	0.42	2,770,880	4.62
Ready-made Garments	2,351,475	1.82	1,355,881	0.54	1,672,312	2.79
	57,535,272	44.57	3,937,868	1.58	15,229,233	25.39
Others	6,061,134	4.70	24,972,465	10.00	9,248,602	15.40
	<u>129,083,773</u>	<u>100.00</u>	<u>249,760,885</u>	<u>100.00</u>	<u>60,004,910</u>	<u>100.00</u>



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

	2011		2010	
	Classified Advances	Specific Provision held	Classified Advances	Specific Provision held
	(Rupees in '000)			
Agriculture / Agri business	74,156	74,156	74,156	73,912
Automobiles and Transportation Equipment	33,734	33,734	29,199	29,199
Chemical / Pharmaceuticals	5,169	5,169	5,169	5,169
Commerce and Trade	457,098	446,087	467,370	418,658
Electronics and electrical appliances	9,498	4,749	–	–
Food and Allied	–	–	10,937	3,513
Financial	292,327	210,201	190,378	95,180
Ghee and Edible oil	2,075	2,075	2,075	2,075
Individuals	53,687	49,739	51,476	43,236
Oil refinery / Marketing	17,998	17,998	17,998	8,999
Plastic products	92,278	88,528	87,350	63,214
Production and transmission of energy	–	–	18,000	18,000
Real estate / Construction	263,313	253,921	163,593	98,764
Services (other than financial)	–	–	840	420
Shoes and Leather garments	16,621	16,621	12,991	6,495
Textile				
Spinning	933,591	933,591	943,441	532,986
Weaving	23,443	11,722	–	–
Composite	837,414	811,428	799,835	263,820
Ready-made garments	10,125	9,825	10,220	9,096
	1,804,573	1,766,566	1,753,496	805,902
Others	81,103	29,303	58,835	9,561
	<b>3,203,630</b>	<b>2,998,847</b>	<b>2,943,863</b>	<b>1,682,297</b>

#### 45.1.5 Segment by sector

	2011					
	Gross Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Public / Government	10,286,591	8.57	43,549,021	14.42	7,380,745	13.89
Private	109,707,719	91.43	258,548,166	85.58	45,757,359	86.11
	<b>119,994,310</b>	<b>100.00</b>	<b>302,097,187</b>	<b>100.00</b>	<b>53,138,104</b>	<b>100.00</b>
	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	16.49	4,555,990	7.59
Private	115,269,990	89.30	208,586,098	83.51	55,448,920	92.41
	<b>129,083,773</b>	<b>100.00</b>	<b>249,760,885</b>	<b>100.00</b>	<b>60,004,910</b>	<b>100.00</b>



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

	2011		2010	
	Classified Advances	Specific Provision held (Rupees in '000)	Classified Advances	Specific Provision held
Public / Government	–	–	–	–
Private	3,203,630	2,998,847	2,943,863	1,682,297
	<b>3,203,630</b>	<b>2,998,847</b>	<b>2,943,863</b>	<b>1,682,297</b>

#### 45.1.7 GEOGRAPHICAL SEGMENT ANALYSIS

	2011			
	Profit before taxation	Total assets employed (Rupees in '000)	Net assets employed	Contingencies and Commitments
Pakistan	7,016,286	378,277,123	19,443,025	51,726,462
Middle East	142,707	6,248,491	568,263	1,411,642
	<b>7,158,993</b>	<b>384,525,614</b>	<b>20,011,288</b>	<b>53,138,104</b>
	2010			
	Profit before taxation	Total assets employed (Rupees in '000)	Net assets employed	Contingencies and Commitments
Pakistan	5,619,273	296,000,264	15,649,097	57,706,649
Middle East	105,162	5,796,082	567,686	2,298,261
	<b>5,724,435</b>	<b>301,796,346</b>	<b>16,216,783</b>	<b>60,004,910</b>

#### 45.2 Market risk

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

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

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



Dealing activities of the Bank include investment in government securities, term finance certificates, 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 SBP.

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

#### 45.2.1 Interest rate / yield risk

Interest rate risk is the risk of loss from adverse movements in interest rates. 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 categorizing 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), categorized into various time bands based on the earlier of their contractual repricing or maturity dates (or settlement dates for off-balance sheet instruments). Deposits with no fixed maturity dates (for example, saving deposits and treasurer's call deposits) are included in the lowest, one-month time band, but these are not expected to be payable within a one-month period. The difference between ISA and ISL for each time band signifies the gap in that time band, and provides a workable framework for determining the impact on net interest income.

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



## 45.2.2 Mismatch of interest rate sensitive assets and liabilities

2011

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	–	22,957,988	4,434,512	–	–	–	–	–	–	–	–	18,523,476
Balances with other banks	1.32%	6,744,643	5,640,920	–	–	–	–	–	–	–	–	1,103,723
Lendings to financial institutions	–	–	–	–	–	–	–	–	–	–	–	–
Investments	12.93%	223,105,101	6,060,076	17,714,223	65,127,013	104,926,382	5,646,183	1,322,197	7,094,040	12,572,272	–	2,642,715
Advances	11.14%	114,863,132	68,337,408	22,578,705	16,621,599	2,006,381	562,581	834,119	1,795,555	930,881	1,195,903	–
Other assets	–	4,750,561	–	–	–	–	–	–	–	–	–	4,750,561
		372,421,425	84,472,916	40,292,928	81,748,612	106,932,763	6,208,764	2,156,316	8,889,595	13,503,153	1,195,903	27,020,475
Liabilities												
Bills payable	–	4,979,720	–	–	–	–	–	–	–	–	–	4,979,720
Borrowings	11.02%	43,441,594	28,079,004	7,439,070	4,065,242	102,898	428,846	758,275	1,731,338	836,921	–	–
Deposits and other accounts	9.03%	302,097,187	124,051,749	30,933,268	16,340,993	33,078,710	5,461,899	9,878,104	3,420,295	–	–	78,932,169
Sub-ordinated loans	14.59%	7,390,358	448,830	1,497,700	1,000	450,228	2,800	1,994,000	2,995,800	–	–	–
Liabilities against assets subject to finance lease	12.27%	28	9	19	–	–	–	–	–	–	–	–
Other liabilities	–	4,301,322	–	–	–	–	–	–	–	–	–	4,301,322
		362,210,209	152,579,592	39,870,057	20,407,235	33,631,836	5,893,545	12,630,379	8,147,433	836,921	–	88,213,211
On-balance sheet gap		10,211,216	(68,106,676)	422,871	61,341,377	73,300,927	315,219	(10,474,063)	742,162	12,666,232	1,195,903	(61,192,736)
Off-balance sheet financial instruments												
Forward purchase of foreign exchange contracts		28,032,085	6,512,688	7,721,156	9,584,928	4,213,313	–	–	–	–	–	–
Forward sale of foreign exchange contracts		(25,331,776)	(12,266,746)	(10,495,052)	(2,529,630)	(40,348)	–	–	–	–	–	–
Forward purchase of securities		–	–	–	–	–	–	–	–	–	–	–
Forward commitments to extend credit		15,603	–	15,603	–	–	–	–	–	–	–	–
Off-balance sheet gap		2,715,912	(5,754,058)	(2,758,293)	7,055,298	4,172,965	–	–	–	–	–	–
Total interest / yield risk sensitivity gap		12,927,128	(73,860,734)	(2,335,422)	68,396,675	77,473,892	315,219	(10,474,063)	742,162	12,666,232	1,195,903	–
Cumulative interest / yield risk sensitivity gap			(73,860,734)	(76,196,156)	(7,799,481)	69,674,411	69,989,630	59,515,567	60,257,729	72,923,961	74,119,864	–



2010

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



### 45.2.3 Foreign exchange risk

Foreign exchange risk is the risk of loss from adverse changes in currency exchange rates. The Bank's foreign exchange exposure comprises forward contracts, purchase of foreign bills, foreign currency loans and investments, foreign currency cash in hand, balances with banks abroad, foreign currency deposits and foreign currency placements with 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 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>2011</b>			
	<b>Assets</b>	<b>Liabilities</b>	<b>Off-balance sheet items</b>	<b>Net currency exposure</b>
	(Rupees in '000)			
Pakistan Rupee	349,981,419	328,166,689	(2,713,485)	19,101,245
United States Dollar	33,022,206	30,352,922	(1,957,968)	711,316
Great Britain Pound	371,841	3,584,968	3,262,903	49,776
Japanese Yen	89,471	-	(10,988)	78,483
Euro	1,052,866	2,163,503	1,231,057	120,420
Other currencies	7,811	246,244	188,481	(49,952)
	<u>384,525,614</u>	<u>364,514,326</u>	<u>-</u>	<u>20,011,288</u>
	<b>2010</b>			
	<b>Assets</b>	<b>Liabilities</b>	<b>Off-balance sheet items</b>	<b>Net currency exposure</b>
	(Rupees in '000)			
Pakistan Rupee	269,550,890	250,951,067	(3,249,342)	15,350,481
United States Dollar	30,501,859	29,325,423	(422,716)	753,720
Great Britain Pound	461,527	3,088,898	2,659,110	31,739
Japanese Yen	52	1,995	2,113	170
Euro	1,241,040	2,209,083	1,032,092	64,049
Other currencies	40,978	3,097	(21,257)	16,624
	<u>301,796,346</u>	<u>285,579,563</u>	<u>-</u>	<u>16,216,783</u>





### 45.3 Liquidity risk

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

Liquidity risk is managed through the liquidity risk policy approved by the Board, careful monitoring of daily liquidity position by the Treasury Division and the Middle Office and regular review and monitoring of the liquidity position by 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 mobilization of low-cost core deposits from customers.
- To maintain a realistic balance between the behavioral maturity profiles of assets and liabilities.
- To maintain excellent credit rating (as borrowing costs and ability to raise funds are directly affected by credit rating).
- To have a written contingency funding plan to address any hypothetical situations when access to normal sources of funding is constrained.



#### 45.3.1 MATURITIES OF ASSETS AND LIABILITIES

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

	2011									
	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)									
<i>Assets</i>										
Cash and balances with treasury banks	22,957,988	22,957,988	-	-	-	-	-	-	-	-
Balances with other banks	6,744,643	6,744,643	-	-	-	-	-	-	-	-
Lendings to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	223,105,101	3,158,213	16,925,212	63,694,739	107,648,562	6,035,585	2,511,935	7,964,644	14,848,771	317,440
Advances	114,863,132	31,070,251	21,808,866	23,878,170	17,538,430	4,256,383	4,366,018	6,553,986	4,179,736	1,211,292
Operating fixed assets	10,791,345	105,127	178,180	204,772	369,360	658,224	555,261	2,884,346	701,023	5,135,052
Other assets	6,063,405	4,508,730	908,893	208,895	164,028	82,645	26,438	25,552	40,016	98,208
	384,525,614	68,544,952	39,821,151	87,986,576	125,720,380	11,032,837	7,459,652	17,428,528	19,769,546	6,761,992
<i>Liabilities</i>										
Bills payable	4,979,720	4,979,720	-	-	-	-	-	-	-	-
Borrowings	43,441,594	28,079,004	7,439,070	4,065,242	102,898	428,846	758,275	1,731,338	836,921	-
Deposits and other accounts	302,097,187	42,598,350	48,753,887	34,161,611	50,899,329	37,539,013	41,955,218	37,279,470	8,910,309	-
Sub-ordinated loans	7,390,358	448,830	700	1,000	450,528	3,400	751,000	1,747,100	3,987,800	-
Liabilities against assets subject to finance lease	28	9	19	-	-	-	-	-	-	-
Deferred tax liabilities	1,232,433	(312,088)	20,625	34,895	65,675	117,528	98,752	640,106	(13,522)	580,462
Other liabilities	5,373,006	3,716,920	124,230	270,480	759,218	7,353	8,858	86,519	-	399,428
	364,514,326	79,510,745	56,338,531	38,533,228	52,277,648	38,096,140	43,572,103	41,484,533	13,721,508	979,890
<i>Net assets</i>	20,011,288	(10,965,793)	(16,517,380)	49,453,348	73,442,732	(27,063,303)	(36,112,451)	(24,056,005)	6,048,038	5,782,102
Share capital	8,785,972									
Reserves	5,324,689									
Unappropriated profit	3,767,998									
Non-controlling interest	109,782									
Surplus on revaluation of assets - net of tax	2,022,847									
	20,011,288									



2010

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



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

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

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

##### **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.

Equity position risk of the Bank is controlled through equity desk / dealer limits, broker limits, equity portfolio limits, and future contracts limits. Direct investment in equities and mutual funds is managed within the statutory limits as prescribed by SBP as well as the internal limits set by the Bank itself. Stress testing for equity price risk is carried out regularly to estimate the impact of decline in stock prices.

#### 45.5 **Operational risk**

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

Operational risk is managed through the operational risk policy and audit policy approved by the Board, along with the policies on prevention of frauds and forgeries and compliance with "Know Your Customer/Customer Due Diligence" and "Anti Money Laundering" requirements; 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., 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 organizational 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 and the Bank continues to improve its internal controls.

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

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



## 46. ISLAMIC BANKING BUSINESS

46.1 The Bank is operating 11 (2010: 08) Islamic banking branches in Pakistan. The statement of financial position and profit and loss account of these branches as at 31 December 2011 and for the year are as follows:

### 46.1.1 STATEMENT OF FINANCIAL POSITION

	2011	2010
	(Rupees in '000)	
<b>ASSETS</b>		
Cash and balance with treasury banks	270,353	262,642
Balances with and due from financial institutions	494,968	5,013
Investments	1,362,945	970,498
Financing and receivables		
– Murabaha	1,848,829	1,495,783
– Ijarah	154,480	311,897
– Diminishing musharika	2,099,681	1,320,098
– Export Refinance murabaha	158,727	522,813
– Export Refinance Istisna	1,086,631	326,000
– Istisna	11,102	–
Other assets	832,175	1,076,168
	<b>8,319,891</b>	<b>6,290,912</b>
<b>LIABILITIES</b>		
Bills payable	29,886	12,299
Due to financial institutions	1,192,491	842,716
Deposits and other accounts		
– Current accounts	986,652	699,030
– Saving accounts	519,840	273,493
– Term deposits	3,612,383	1,685,109
– Others	12,832	34,257
– Deposits from financial institutions - remunerative	315,594	1,670,567
– Deposits from financial institutions - non remunerative	562	416
Due to Head Office	195,478	230,000
Other liabilities	180,097	185,045
	<b>7,045,815</b>	<b>5,632,932</b>
<b>NET ASSETS</b>	<b>1,274,076</b>	<b>657,980</b>
<b>REPRESENTED BY</b>		
Islamic banking fund	900,000	500,000
Unremitted profit	372,106	156,360
	<b>1,272,106</b>	<b>656,360</b>
Surplus on revaluation of assets	1,970	1,620
	<b>1,274,076</b>	<b>657,980</b>



#### 46.1.2 PROFIT AND LOSS ACCOUNT

	2011	2010
	(Rupees in '000)	
Profit / return on financing and placements earned	1,029,044	561,052
Profit / return on deposits and other dues expensed	<u>(569,686)</u>	<u>(345,251)</u>
Net spread earned	459,358	215,801
<b>OTHER INCOME</b>		
Fee, commission and brokerage income	28,670	20,178
Income from dealing in foreign currencies	8,314	3,877
Other income	4,399	2,016
	41,383	26,071
<b>OTHER EXPENSES</b>		
Administrative expenses	(128,635)	(85,512)
<b>PROFIT BEFORE TAXATION</b>	372,106	156,360
46.2 Remuneration to Shariah Advisor / Board	1,230	990
46.3 <b>CHARITY FUND</b>		
Opening balance	2,059	454
Additions during the year	2,281	2,059
Payments / utilization during the year		
Health	(1,609)	(300)
Social welfare	(450)	(154)
	(2,059)	(454)
Closing balance	2,281	2,059

#### 47. SUBSEQUENT EVENT

Subsequent to the year end, the Board of Directors proposed a final cash dividend of Rs. 2.50 (2010: Rs. 2.0) per share and issue of bonus shares in the ratio of 15 (2010: 20) shares of every 100 shares held.

#### 48. GENERAL

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

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

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

#### 49. DATE OF AUTHORIZATION

These consolidated financial statements were authorized for issue in the Board of Directors' meeting held on February 21, 2012

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 2011

(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.	Texo Terry International C/31-A, S.I.T.E., Karachi.	Aijaz Ahmed Sheikh (CNIC No. 42201-0704832-7)	Muhammad Din	9,899	777	-	10,676	-	1,009	-	1,009
		Imran Aijaz Sheikh (CNIC No. 42201-0704797-9)	Aijaz Ahmed Sheikh								
		Aamir Aijaz Sheikh (CNIC No. 42201-0704795-9)	Aijaz Ahmed Sheikh								
2.	Ghulam Hussain 9-B, Paracha Mansion Burns Road, Karachi.	Ghulam Hussain (CNIC No. 42301-4640346-1)	Abbas	1,038	865	-	1,903	-	777	-	777
3.	Barkat Steel Mills Bhani Road Shadi Pura Lahore.	Ch. Sajjad Imran (CNIC No. 35201-1613553-3)	Ch. Barkat Ali	14,986	501	-	15,487	-	679	-	679
		Sakina Khanum (CNIC No. 35201-1441726-8)	Ch. Barkat Ali								
4.	Iftikhar & Company 645/XX, Gulberg Colony, Masoom Shah Road Multan.	Muhammad Iftikhar (CNIC No. 36302-2606635-5)	Muhammad Hanif	7,275	562	-	7,837	-	1,357	230	1,587
			Total	33,198	2,705	-	35,903	-	3,822	230	4,052

Note: 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, 2011, 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 realized from sources or by means prohibited by Shariah rules and principles have been credited to charity account.

Karachi: February 21, 2012

ISMATULLAH  
**Shariah Advisor**  
Islamic Banking Division





## Branch Network

The Bank has a network of 351 branches including 61 sub-branches, a wholesale branch in the Kingdom of Bahrain, a branch in Karachi Export Processing Zone and 11 Islamic Banking branches. The Bank has branches / sub-branches in the following cities:

- Abbotabad
- Badin
- Bahawalpur
- Bhiria Road (Naushero Feroz)
- Burewala
- Chakwal
- Chenab Nagar
- Dadyal (A.K.)
- Daharki
- Daska
- Dera Ghazi Khan
- Dinga
- Faisalabad
- Fazilpur
- Ferozwatoan
- Gaggo Mandi
- Gawadar
- Gambat
- Ghakhar
- Gharo
- Ghotki
- Gilgit
- Gujar Khan
- Gujranwala
- Gujrat
- Hafizabad
- Haripur
- Hingorja (Khairpur)
- Hub
- Hyderabad
- Islamabad
- Jacobabad
- Jhelum
- Joharabad
- Kamalia Sugar Mills (Kamalia)
- Kandhkot
- Karachi
- Karkhana Bazar (Vehari)
- Kasur
- Khanbela
- Khanewal
- Khanpur
- Kharian
- Khurrianwala
- Khushab
- Kotla Arab Ali Khan
- Kunri
- Lahore
- Lala Musa
- Larkana
- Mandi Bahauddin
- Mathanichangan Swabi
- Mehar
- Mehrabpur
- Mian Channu
- Mirpur (A.K.)
- Mirpurkhas
- Moro
- Multan
- Muridke
- Muzaffargarh
- Narowal
- Nawabshah
- Nooriabad (Jamshoro)
- Okara
- Peshawar
- Pir Mahal
- Pull Kharan (Shujabad)
- Qasba Gujrat
- Qazi Ahmed
- Quetta
- Rahim Yar Khan
- Rawalpindi
- Rohillan Wali
- Sadiqabad
- Sahiwal
- Saleh Khana
- Sanghar
- Sargodha
- Shahdadkot
- Shahdadpur
- Shahpur Chakar
- Sheikhpura
- Shikarpur
- Sialkot
- Skardu
- Sukkur
- Tando Adam
- Tando Bagho
- Tando Allahyar
- Tibba Sultanpur
- Toba Tek Singh
- Turbat
- Uch Sharif
- Wazirabad
- Wah Cantt
- Zahir Pir

### Off Shore Branches

- Export Processing Zone, Karachi
- Manama, Bahrain

### Representative Office

- Dubai, U.A.E.
- Istanbul, Turkey

**Principal Office**  
Mackinnons Building, I. I. Chundrigar Road, Karachi.  
Phones: (92-21) 32412421, 32446916 & 111-786-110  
Fax: (92-21) 32419752

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

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



January 18, 2012

**TO ALL MEMBERS / SHAREHOLDERS OF THE COMPANY**

**SUBMISSION OF CNIC**

Dear Sir / Madam,

With reference to the notification of Securities and Exchange Commission of Pakistan (SECP), SRO 779 (I) / 2011, dated August 18, 2011 (quoted below) the Members / Shareholders who have not yet submitted photocopy of their valid Computerized National Identity Cards (CNIC) to the Company are requested to send the same at the earliest directly to the Company's Share Registrars, Gangjees Registrar Services (Pvt) Ltd., 516 – Clifton Centre, Khayaban-e-Roomi, Block-5, Clifton, Karachi-75600.

Please ensure compliance with the above requirement of SECP. In case of non-receipt of copy of valid CNIC (or NICOP, if applicable), the Company may be constrained not to issue dividend warrants to non-compliant members / shareholders in future.

**A. Saeed Siddiqui**  
Company Secretary

Copy to : The Director Enforcement, SECP Islamabad  
: The General Manager, Karachi Stock Exchange (Guarantee) Limited, Karachi.  
: The Secretary, Lahore Stock Exchange (Guarantee) Limited, Lahore.  
: The Secretary, Islamabad Stock Exchange (Guarantee) Limited, Islamabad.

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**Copy of the Notification of Securities and Exchange Commission of Pakistan dated August 18, 2011**

S.R.O. 779 (I) / 2011. In exercise of the powers conferred by section 506B of the Companies Ordinance, 1984 (XLVII) of 1984) the Securities and Exchange Commission of Pakistan is pleased to direct all the listed companies to issue dividend warrant(s) only crossed as "A/C payee only" in the name of registered member or in the name of the authorized person where a registered member authorizes the company to pay dividend on his behalf to any other person. The dividend warrant(s) should also bear the Computerized National Identity Card Number of the registered member or the authorized person, except in the case of minor(s) and corporate members.

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January 18, 2012

**TO ALL MEMBERS / SHAREHOLDERS OF THE COMPANY**

Dear Sir / Madam,

1. According to the Company's records, certain members / shareholders have not collected their shares, including shares lodged for transfer, and the same are lying with the Company.

Members / shareholders who have not yet collected their shares are requested to please contact the Shares Department of the Company and after completion of the necessary formalities may collect these shares.

2. Further, it is also noted that Divided Warrants of certain members / shareholders have been returned to the Company due to either changed or incomplete address. Members / shareholders are requested to please contact the Company or Share Registrars for their outstanding dividend warrants and provide their new addresses and telephone numbers.

**A. Saeed Siddiqui**  
Company Secretary

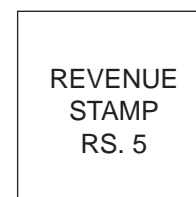
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## Form of Proxy

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

I/We \_\_\_\_\_  
of \_\_\_\_\_  
a member(s) of Bank AL Habib Limited and holding \_\_\_\_\_  
ordinary shares, as per Register Folio No./CDC Account and Participant's I.D. No. \_\_\_\_\_  
hereby appoint \_\_\_\_\_ Folio No. \_\_\_\_\_  
of \_\_\_\_\_  
or failing him/her \_\_\_\_\_ Folio No. \_\_\_\_\_  
of \_\_\_\_\_  
another member of the Bank to vote for me/us and on my/our behalf at the Twenty First Annual General Meeting  
of the Bank to be held on Wednesday, March 28, 2012 and at any adjournment thereof.  
As witness my/our hand this \_\_\_\_\_ day of \_\_\_\_\_ 2012.



SIGNATURE OF MEMBER (S)

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

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

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

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