



# **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, 2012.

(Rupees in '000)

Profit for the year before tax	<b>8,929,242</b>
Taxation	<b>(3,418,722)</b>
Profit for the year after tax	<b>5,510,520</b>
Share of loss attributable to minority interest	<b>3,029</b>
Profit attributable to shareholders	<b>5,513,549</b>
Unappropriated profit brought forward	<b>3,767,998</b>
Transfer from surplus on revaluation of fixed assets - net of tax	<b>37,370</b>
Profit available for appropriation	<b>9,318,917</b>
Appropriations:	
Transfer to Statutory Reserve	<b>(1,089,303)</b>
Cash Dividend - 2011	<b>(2,196,493)</b>
Issue of Bonus Shares - 2011	<b>(1,317,896)</b>
	<b>(4,603,692)</b>
Un-appropriated profit carried forward	<b>4,715,225</b>
Earnings per share (after tax)	<b>Rs. 5.46</b>

### Pattern of Shareholding

The pattern of shareholding as at December 31, 2012 is annexed with the financial statements of Bank AL Habib Limited.

On behalf of the Board of Directors

Karachi: February 14, 2013

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 2012, 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. We have also expressed separate opinion and review conclusion on the financial statements of the Bank and its subsidiary company respectively. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of the Bank and its subsidiary company as at 31 December 2012 and the results of their operations for the year then ended.

Karachi: February 14, 2013

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



## Consolidated Statement of Financial Position As at 31 December 2012

	Note	2012 (Rupees in '000)	2011
<b>ASSETS</b>			
Cash and balances with treasury banks	8	27,464,345	22,957,988
Balances with other banks	9	9,747,248	6,744,643
Lendings to financial institutions	10	993,981	–
Investments	11	249,923,504	223,105,101
Advances	12	147,859,828	114,863,132
Operating fixed assets	13	11,211,423	10,791,345
Deferred tax assets		–	–
Other assets	14	6,153,613	6,063,405
		<b>453,353,942</b>	<b>384,525,614</b>
<b>LIABILITIES</b>			
Bills payable	15	5,257,191	4,979,720
Borrowings	16	69,622,055	43,441,594
Deposits and other accounts	17	340,386,558	302,097,187
Sub-ordinated loans	18	6,489,300	7,390,358
Liabilities against assets subject to finance lease	19	–	28
Deferred tax liabilities	20	1,929,441	1,232,433
Other liabilities	21	5,490,982	5,373,006
		<b>429,175,527</b>	<b>364,514,326</b>
<b>NET ASSETS</b>		<b>24,178,415</b>	<b>20,011,288</b>
<b>REPRESENTED BY :</b>			
Share capital	22	10,103,868	8,785,972
Reserves		6,464,546	5,324,689
Unappropriated profit		4,715,225	3,767,998
<b>Equity attributable to the shareholders of the Holding company</b>		<b>21,283,639</b>	<b>17,878,659</b>
Non-controlling interest		106,753	109,782
<b>Total equity</b>		<b>21,390,392</b>	<b>17,988,441</b>
Surplus on revaluation of assets - net of tax	23	2,788,023	2,022,847
		<b>24,178,415</b>	<b>20,011,288</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	24		
The annexed notes 1 to 48 form an integral part of these consolidated financial statements.			
ALI RAZA D. HABIB <i>Chairman</i>	ABBAS D. HABIB <i>Chief Executive and Managing Director</i>	SYED MAZHAR ABBAS <i>Director</i>	ANWAR HAJI KARIM <i>Director</i>



## Consolidated Profit and Loss Account For the year ended 31 December 2012

	Note	2012 (Rupees in '000)	2011
Mark-up / return / interest earned	26	41,474,034	36,529,237
Mark-up / return / interest expensed	27	(26,105,028)	(22,499,843)
Net mark-up / return / interest income		15,369,006	14,029,394
Provision against non-performing loans and advances	12.6	(466,101)	(1,820,788)
Reversal of provision for diminution in the value of investments		14	9
Bad debts written-off directly		—	—
		(466,087)	(1,820,779)
Net mark-up / return / interest income after provisions		14,902,919	12,208,615
<b>NON MARK-UP / INTEREST INCOME</b>			
Fees, commission and brokerage income		1,520,773	1,315,699
Dividend income		262,664	153,855
Income from dealing in foreign currencies		577,887	739,706
Gain on sale / redemption of securities - net	28	77,686	447
Unrealised gain / (loss) on revaluation of investments classified as held for trading		—	—
Share of profit from associates		140,224	84,546
Other income	29	479,600	440,408
Total non mark-up / interest income		3,058,834	2,734,661
		17,961,753	14,943,276
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	30	(8,834,298)	(7,621,965)
Other provisions / (write-offs) / gains	31	(12,060)	(16,064)
Other charges	32	(186,153)	(146,254)
Total non mark-up / interest expenses		(9,032,511)	(7,784,283)
Extra-ordinary / unusual items		—	—
<b>PROFIT BEFORE TAXATION</b>		8,929,242	7,158,993
Taxation – Current		(3,264,799)	(2,454,253)
– Prior years		122,893	—
– Deferred		(276,816)	(167,636)
	33	(3,418,722)	(2,621,889)
<b>PROFIT AFTER TAXATION</b>		5,510,520	4,537,104
<b>Attributable to:</b>			
Shareholders of the Holding company		5,513,549	4,537,656
Non-controlling interest		(3,029)	(552)
		5,510,520	4,537,104
<b>Basic and diluted earnings per share attributable to equity holders of the Holding company - Rupees</b>			
	34	5.46	Restated 4.49

The annexed notes 1 to 48 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 Statement of Comprehensive Income For the year ended 31 December 2012

	2012	2011
	(Rupees in '000)	
<b>Net profit for the year</b>	<b>5,510,520</b>	4,537,104
<b>Other comprehensive income</b>		
Exchange difference on translation of net investment in a foreign branch	<b>50,554</b>	25,729
<b>Total comprehensive income for the year</b>	<b>5,561,074</b>	4,562,833
<b>Attributable to:</b>		
Shareholders of the Holding company	<b>5,564,103</b>	4,563,385
Non-controlling interest	<b>(3,029)</b>	(552)
	<b>5,561,074</b>	4,562,833

The annexed notes 1 to 48 form an integral part of these consolidated financial statements.

ALI RAZA D. HABIB  
*Chairman*

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*Director*

ANWAR HAJI KARIM  
*Director*



## Consolidated Statement of Changes in Equity For the year ended 31 December 2012

	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 2011	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
Total comprehensive income for the year	-	-	-	-	50,554	5,513,549	5,564,103	(3,029)	5,561,074
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	37,370	37,370	-	37,370
Transfer to statutory reserve	-	1,089,303	-	-	-	(1,089,303)	-	-	-
Cash dividend (Rs. 2.5 per share)	-	-	-	-	-	(2,196,493)	(2,196,493)	-	(2,196,493)
Issue of bonus shares in the ratio of 15 shares for every 100 shares held	1,317,896	-	-	-	-	(1,317,896)	-	-	-
Balance as at 31 December 2012	10,103,868	5,630,172	126,500	540,000	167,874	4,715,225	21,283,639	106,753	21,390,392

The annexed notes 1 to 48 form an integral part of these consolidated financial statements.

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*Director*



## Consolidated Cash Flow Statement For the year ended 31 December 2012

	2012	2011
	(Rupees in '000)	
<b>Cash Flow From Operating Activities</b>		
Profit before taxation	<b>8,929,242</b>	7,158,993
Dividend income	<b>(262,664)</b>	(153,855)
	<b>8,666,578</b>	7,005,138
Adjustments for non - cash items:		
Depreciation	<b>810,500</b>	766,566
Amortisation	<b>32,996</b>	38,045
Provision against non-performing loans and advances	<b>466,101</b>	1,820,788
Reversal of provision for diminution in the value of investments	<b>(14)</b>	(9)
Gain on sale of operating fixed assets	<b>(65,085)</b>	(84,469)
Share of profit from associates	<b>(140,224)</b>	(84,546)
Financial charges on leased assets	<b>1</b>	23
Gain on sale / redemption of securities	<b>(77,686)</b>	(447)
Provision for compensated absences	<b>31,113</b>	23,242
Provision against off-balance sheet items	<b>12,060</b>	15,797
	<b>1,069,762</b>	2,494,990
	<b>9,736,340</b>	9,500,128
(Increase) / decrease in operating assets		
Lendings to financial institutions	<b>(993,981)</b>	1,139,268
Advances	<b>(33,462,797)</b>	9,089,372
Other assets	<b>(101,806)</b>	179,369
	<b>(34,558,584)</b>	10,408,009
Increase in operating liabilities		
Bills payable	<b>277,471</b>	1,989,731
Borrowings	<b>26,228,864</b>	22,030,466
Deposits	<b>38,289,371</b>	52,336,302
Other liabilities (excluding provision for taxation)	<b>184,878</b>	816,269
	<b>64,980,584</b>	77,172,768
	<b>40,158,340</b>	97,080,905
Income tax paid	<b>(3,285,625)</b>	(2,716,057)
Net cash flow from operating activities (Balance carried forward)	<b>36,872,715</b>	94,364,848





	Note	2012 (Rupees in '000)	2011
Net cash flow from operating activities (Balance brought forward)		<b>36,872,715</b>	94,364,848
<b>Cash Flow From Investing Activities</b>			
Net investments in available for sale securities		<b>(54,010,447)</b>	(70,082,696)
Net investments in held to maturity securities		<b>28,796,240</b>	(14,836,530)
Net investment in associates		<b>(157,789)</b>	31,992
Dividend received		<b>266,653</b>	152,496
Investments in operating fixed assets		<b>(1,274,301)</b>	(1,133,063)
Sale proceeds of operating fixed assets		<b>77,697</b>	107,484
Net cash used in investing activities		<b>(26,301,947)</b>	(85,760,317)
<b>Cash Flow From Financing Activities</b>			
Receipts of sub-ordinated loans		<b>–</b>	3,000,000
Payments of sub-ordinated loans		<b>(901,058)</b>	(451,902)
Payments of lease obligations		<b>(29)</b>	(381)
Dividend paid		<b>(2,162,870)</b>	(1,440,922)
Net cash (used in) / from financing activities		<b>(3,063,957)</b>	1,106,795
Exchange adjustment on translation of net investment in a foreign branch		<b>50,554</b>	25,729
Increase in cash and cash equivalents		<b>7,557,365</b>	9,737,055
Cash and cash equivalents at beginning of the year		<b>29,654,228</b>	19,917,173
Cash and cash equivalents at end of the year	35	<b>37,211,593</b>	29,654,228

The annexed notes 1 to 48 form an integral part of these consolidated financial statements.

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*Chairman*

ABBAS D. HABIB  
*Chief Executive and  
Managing Director*

SYED MAZHAR ABBAS  
*Director*

ANWAR HAJI KARIM  
*Director*



## Notes to the Consolidated Financial Statements For the year ended 31 December 2012

### 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) is a banking company 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 308 branches (2011: 290 branches), 82 sub-branches (2011: 61) and 02 representative offices (2011: 02). The branch network of the Bank includes a wholesale branch in the Kingdom of Bahrain (2011: 01), a branch in Karachi Export Processing Zone (2011: 01) and 13 Islamic Banking branches (2011: 11).

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 utilised and the appropriate portion of mark-up thereon. However, murabaha financing arrangements undertaken by the Islamic Banking branches are accounted for as a purchase and sale transaction of the underlying goods in these 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 45.



### 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 consolidated financial statements have been prepared under the historical cost convention except for the 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 described below:

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

The Group has adopted the following amended IFRS which became effective during the year:

IAS 12 – Income Taxes - Recovery of Underlying Assets (Amendment)

The adoption of the above amendment did not have any material effect on these consolidated 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 nostros accounts.

### 5.4 Repurchase / resale agreements

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

#### **Sale under repurchase obligation**

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

#### **Purchase under resale obligation**

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated 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 recognised 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 amortised cost.

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

Provision for diminution in the values of securities is made after considering impairment, if any, in their value and charged to profit and loss account. Impairment is recognised 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 investee's net assets.

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

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

#### **Ijarah finance**

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

#### **Murabaha**

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



## 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 realisation of surplus to the extent of the incremental depreciation charge for the year.

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

Gains and losses on disposal of fixed assets are included in income currently, except that the related surplus on revaluation of land and buildings (net of Deferred tax) is transferred directly to unappropriated profit.

### 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 amortisation and impairment, if any. Amortisation is based on straight line method by taking into consideration the estimated useful life of assets at the rates specified in note 13.3. Intangible assets are amortised on prorata basis i.e. full month amortisation in the month of purchase and no amortisation in the month of disposal. Intangible assets with indefinite useful lives are not amortised 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 unrecognised actuarial gains / losses relating to previous reporting periods in excess of the higher of 10% of present value of defined benefit obligation or 10% of the fair value of plan assets are recognised as income or expense over the estimated remaining working lives of the employees.

### **Defined contribution plan**

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

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 recognised 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 recognised 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

- (a) Mark-up / interest / return on advances and investments is recognised on accrual basis, except in case of advances classified under the Prudential Regulations on which mark-up is recognised on receipt basis. Markup / interest / return on rescheduled / restructured loans and advances and investments is recognised as permitted by the regulations of SBP.
- (b) Financing method is used in accounting for income from lease financing. Under this method, the unrealised lease income is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Gain / loss on termination of lease contracts, front end fee and other lease income are recognised as income on receipt basis.
- (c) The rentals from ijarah are recognised as income over the term of the contract net of depreciation expense relating to the ijarah assets.
- (d) Income from murabaha is accounted for on a time proportionate basis over the period of murabaha transaction.
- (e) Dividend income is recognised when the right to receive is established.
- (f) Gain or loss on sale of investments are recognised in profit and loss account in the year in which they arise.
- (g) Fee, commission and brokerage income are recognised as services are performed.

#### 5.12 Taxation

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

##### **Current**

Provision for current tax is based on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date and any adjustments to the tax payable in respect of previous years. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities.

##### **Deferred**

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

Deferred tax liabilities are recognised 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 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 tax asset to be utilised.

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

### 5.13 **Currency translation**

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

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



#### 5.15 **Derivative financial instruments**

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

#### 5.16 **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 recognised amount and the Group intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

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

Dividends and appropriations to reserves are recognised 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.

##### 5.18.1 **Business segments**

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

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

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

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

###### **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.

##### 5.18.2 **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). 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 2012.

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

	Note
Classification of investments and provision for diminution in the value of investments	5.5 & 11
Provision against non-performing advances	5.6 & 12
Useful lives of assets and methods of depreciation and amortisation	5.7 & 13
Defined benefit plan	5.8 & 37
Provisions against off-balance sheet obligations	5.10 & 21
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 and interpretation with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard, interpretation or amendment	Effective date (accounting periods beginning on or after)
IAS 1 – Presentation of Financial Statements – Presentation of items of other comprehensive income	01 July 2012
IAS 19 – Employee Benefits –(Amendment)	01 January 2013
IAS 32 – Offsetting Financial Assets and Financial liabilities – (Amendment)	01 January 2014
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	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' as described below:

Amendments to IAS 19 range from fundamental changes to simple clarification 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 recognised 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 recognised in other comprehensive income with no subsequent recycling to profit and loss.
- The distinction between short-term and other long-term employee benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits.
- 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.

While the Group is currently assessing the full impact of the above amendments which are effective from 01 January 2013 on the consolidated financial statements, it is expected that the adoption of the said amendments will result in retrospective change in the Group's accounting policy related to recognition of actuarial gains and losses (refer to note 5.8 to the consolidated financial statements) to recognise actuarial gains and losses in total in other comprehensive income in the period in which they occur. The potential impact of the said changes on the financial position and performance for the year 2012 upon adoption of the standards in 2013 is estimated as under:

	<b>2012</b> (Rupees in '000)
Net decrease in unappropriated profit as on 01 January 2012	175,782
Net decrease in other comprehensive income	7,984
Net increase in profit or loss for the year	8,898
Net increase in employees' benefit liability	174,668

The impact for the year 2013 has not yet been determined by the Bank.

In addition to the above amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2013. The Group expects that such improvements to the standards will not have any material impact on the Group's financial statements in the period of initial application.

Further, 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</b> <b>(annual periods beginning</b> <b>on or after)</b>
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2015
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	2012	2011
(Rupees in '000)			
<b>8. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
Local currency		<b>4,902,302</b>	4,013,530
Foreign currencies		<b>1,144,677</b>	591,887
National prize bonds		<b>27,353</b>	14,962
		<b>6,074,332</b>	4,620,379
In transit			
Local currency		<b>71,940</b>	10,000
Foreign currencies		<b>3,007</b>	–
		<b>74,947</b>	10,000
With State Bank of Pakistan in:			
Local currency current accounts	8.1	<b>13,024,891</b>	10,689,526
Local currency current account-Islamic Banking	8.2	<b>224,122</b>	198,378
Foreign currency deposit accounts			
Cash reserve account	8.3	<b>1,491,248</b>	1,466,115
Cash reserve account-Islamic Banking		<b>6,412</b>	3,778
Special cash reserve account	8.3	<b>4,473,744</b>	4,398,345
Local US Dollar collection account	8.4	<b>27,855</b>	34,107
		<b>19,248,272</b>	16,790,249
With National Bank of Pakistan in:			
Local currency current accounts		<b>2,066,794</b>	1,537,360
		<b>27,464,345</b>	22,957,988

- 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 mobilised under Circular FE-25 of 1998 to comply with statutory requirements.
- 8.4 Represents US Dollar collection account maintained with SBP in accordance with Circular FE-02 of 2004.



	Note	2012	2011
(Rupees in '000)			
<b>9. BALANCES WITH OTHER BANKS</b>			
In Pakistan			
Current accounts		751,293	734,227
Deposit accounts		–	350,000
Savings accounts	9.1	3,206	468,324
		<b>754,499</b>	1,552,551
Outside Pakistan			
Current accounts		2,697,112	846,210
Deposit accounts	9.2	6,295,637	4,345,882
		<b>8,992,749</b>	5,192,092
		<b>9,747,248</b>	6,744,643

9.1 These carry expected profit rates of 6% (2011: 6.99% to 8.25%) per annum.

9.2 These carry interest rates upto 0.09% (2011: upto 0.04%) per annum.

#### 10. LENDINGS TO FINANCIAL INSTITUTIONS

In local currency			
Repurchase agreement lendings (Reverse Repo)	10.1	993,981	–

#### 10.1 Securities held as collateral against repurchase agreement lendings

	2012			2011		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
(Rupees in '000)						
Market Treasury Bills	993,981	–	993,981	–	–	–

10.1.1 The market value of securities held as collateral against lendings to financial institutions amounted to Rs. 999.753 (2011: Nil) million.



## 11. INVESTMENTS

	Note	2012			2011		
		Held by Group	Given as collateral	Total	Held by Group	Given as collateral	Total
<b>11.1 Investments by type</b>							
		(Rupees in '000)					
<i>Available for sale securities</i>	11.5						
Market Treasury Bills		114,006,833	50,291,508	164,298,341	78,715,641	27,588,855	106,304,496
Pakistan Investment Bonds		13,446,569	-	13,446,569	14,617,483	-	14,617,483
Foreign Currency Bonds		1,108,499	-	1,108,499	979,474	-	979,474
Sukuks		3,508,008	-	3,508,008	6,947,740	-	6,947,740
Ordinary shares of listed companies		276,576	-	276,576	151,110	-	151,110
Ordinary shares of unlisted companies		39,570	-	39,570	39,570	-	39,570
Listed term finance certificates		502,829	-	502,829	584,461	-	584,461
Unlisted term finance certificates		532,820	-	532,820	249,920	-	249,920
Open ended mutual funds		1,727,189	-	1,727,189	1,478,000	-	1,478,000
		<b>135,148,893</b>	<b>50,291,508</b>	<b>185,440,401</b>	103,763,399	27,588,855	131,352,254
<i>Held to maturity securities</i>	11.2						
Market Treasury Bills		48,660,340	-	48,660,340	76,260,132	-	76,260,132
Pakistan Investment Bonds		12,503,552	-	12,503,552	13,482,722	-	13,482,722
Sukuks		229,705	-	229,705	266,900	-	266,900
Listed term finance certificates		246,931	-	246,931	343,681	-	343,681
Unlisted term finance certificates		41,667	-	41,667	125,000	-	125,000
		<b>61,682,195</b>	<b>-</b>	<b>61,682,195</b>	90,478,435	-	90,478,435
<i>Associates</i>	11.12						
Habib Sugar Mills Limited		281,831	-	281,831	248,315	-	248,315
Habib Asset Management Limited		40,013	-	40,013	35,254	-	35,254
First Habib Income Fund		556,646	-	556,646	541,283	-	541,283
First Habib Stock Fund		56,665	-	56,665	44,149	-	44,149
First Habib Cash Fund		318,760	-	318,760	104,094	-	104,094
First Habib Islamic Balanced Fund		25,358	-	25,358	-	-	-
		<b>1,279,273</b>	<b>-</b>	<b>1,279,273</b>	973,095	-	973,095
<b>Investments at cost</b>		<b>198,110,361</b>	<b>50,291,508</b>	<b>248,401,869</b>	195,214,929	27,588,855	222,803,784
Provision for diminution in the value of investments	11.4	(6,586)	-	(6,586)	(6,600)	-	(6,600)
<b>Investments (net of provisions)</b>		<b>198,103,775</b>	<b>50,291,508</b>	<b>248,395,283</b>	195,208,329	27,588,855	222,797,184
Surplus on revaluation of available for sale investments - net		1,437,899	90,322	1,528,221	162,058	145,859	307,917
<b>Investments after revaluation of available for sale investments</b>		<b>199,541,674</b>	<b>50,381,830</b>	<b>249,923,504</b>	195,370,387	27,734,714	223,105,101

11.2 The aggregate market value of held to maturity securities as at 31 December 2012 amounted to Rs. 62,824 (2011: Rs. 91,265) million.



	Note	2012	2011
(Rupees in '000)			
<b>11.3 Investments by segment</b>			
<i>Federal Government Securities</i>			
Market Treasury Bills	11.6	<b>212,958,681</b>	182,564,628
Pakistan Investment Bonds	11.7	<b>25,950,121</b>	28,100,205
Foreign Currency Bonds	11.10	<b>1,006,813</b>	620,558
Sukuks	11.8	<b>1,000,000</b>	4,000,000
		<b>240,915,615</b>	215,285,391
<i>Fully paid-up ordinary shares</i>			
Listed companies	11.5.5	<b>276,576</b>	151,110
Unlisted companies	11.11	<b>39,570</b>	39,570
		<b>316,146</b>	190,680
<i>Term finance certificates, sukuks and bonds</i>			
<i>Term Finance Certificates</i>			
Listed term finance certificates		<b>749,760</b>	928,142
Unlisted term finance certificates		<b>574,487</b>	374,920
	11.9	<b>1,324,247</b>	1,303,062
Sukuks	11.8	<b>2,737,713</b>	3,214,640
Foreign Currency Bonds	11.10	<b>101,686</b>	358,916
		<b>4,163,646</b>	4,876,618
<i>Others</i>			
Open ended mutual funds	11.5.9	<b>1,727,189</b>	1,478,000
Associates	11.12	<b>1,279,273</b>	973,095
		<b>3,006,462</b>	2,451,095
<b>Investments at cost</b>		<b>248,401,869</b>	222,803,784
Provision for diminution in the value of investments	11.4	<b>(6,586)</b>	(6,600)
<b>Investments - net of provisions</b>		<b>248,395,283</b>	222,797,184
Surplus on revaluation of available for sale investments - net		<b>1,528,221</b>	307,917
<b>Investments after revaluation of available for sale investments</b>		<b>249,923,504</b>	223,105,101







11.5.5 Ordinary shares of listed companies

2012	2011	Name of security	Face value	2012	2011	2012	2011	2012	2011
No. of shares			Rs.	Rating*		Cost		Carrying value	
(Rupees in '000)									
34,059	–	Attock Petroleum Limited	Rs.10	Unrated	–	15,207	–	17,438	–
3,595	–	Aisha Steel Limited	Rs.10	A-	–	–	–	36	–
35,954	35,954	Arif Habib Corporation Limited	Rs.10	AA	AA	1,477	1,477	954	932
9,806	9,806	Fatima Fertilizer Company Limited	Rs.10	A+	A+	–	–	259	225
2,700,415	1,201,952	Habib Metropolitan Bank Limited	Rs.10	AA+	AA+	36,204	22,139	37,840	20,301
251,000	251,000	Hub Power Company Limited	Rs.10	AA+	AA+	8,821	8,821	11,355	8,584
52,862	52,862	International Industries Limited	Rs.10	Unrated	Unrated	357	357	1,740	2,009
3,364,056	3,364,056	International Steel Limited	Rs.10	Unrated	Unrated	47,332	47,332	40,705	39,057
5,061	5,061	Jahangir Siddiqui & Company Limited	Rs.10	AA	AA	284	284	82	21
532	532	JS Investments Limited	Rs.10	A+	A+	22	22	4	1
107,268	–	Meezan Bank Limited	Rs. 10	AA-	–	3,028	–	3,223	–
234,075	–	Pakistan Oilfields Limited	Rs.10	Unrated	–	89,111	–	102,417	–
425,168	2,500	Pakistan Petroleum Limited	Rs.10	Unrated	Unrated	68,421	422	75,165	421
17,500	8,000	Packages Limited	Rs.10	AA	AA	1,429	668	2,645	662
200,000	–	Pakistan Telecommunication	Rs.10	Unrated	–	2,694	–	3,470	–
18,000	–	Shell Pakistan Limited	Rs.10	Unrated	–	2,189	–	2,452	–
–	850,717	Thal Limited	Rs. 10	–	–	–	69,588	–	69,588
						<b>276,576</b>	<b>151,110</b>	<b>299,785</b>	<b>141,801</b>

11.5.6 Ordinary shares of unlisted companies

2012	2011	Name of security							
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
		Pakistan Export Finance Guarantee							
569,958	569,958	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
						<b>39,570</b>	<b>39,570</b>	<b>33,870</b>	<b>33,870</b>

11.5.7 Listed term finance certificates

2012	2011	Name of security							
No. of certificates									
6,000	6,000	Allied Bank Limited	Rs.5,000	AA	AA –	29,928	29,940	30,261	30,273
33,800	33,800	Allied Bank Limited - II	Rs.5,000	AA	AA –	168,797	168,865	170,316	166,965
5,000	5,000	Askari Bank Limited - II	Rs.5,000	AA –	AA –	24,930	24,940	25,030	25,015
40,000	40,000	Engro Fertilizers Limited - III	Rs.5,000	A	AA	199,600	199,680	194,750	195,593
–	5,000	Jahangir Siddiqui & Company Ltd - IV	Rs.5,000	–	AA	–	12,478	–	13,027
6,600	6,600	NIB Bank Limited	Rs.5,000	A+	A+	32,941	32,954	33,026	32,297
–	20,000	Orix Leasing Pakistan Limited - III	Rs.5,000	AA+	AA+	–	16,654	–	16,570
20,000	20,000	Pak Arab Fertilizers Limited	Rs.5,000	AA	AA	30,000	74,000	30,031	74,000
5,000	5,000	United Bank Limited - III	Rs.5,000	AA	AA	16,633	24,950	16,877	25,315
						<b>502,829</b>	<b>584,461</b>	<b>500,291</b>	<b>579,055</b>



	2012	2011	Name of Security	Face value	2012	2011	2012	2011	2012	2011	
	No. of certificates / units			Rs.	Rating*		Cost		Carrying value		
							(Rupees in '000)				
11.5.8	Unlisted term finance certificates										
	150	150	Askari Bank Limited - IV	Rs.1,000,000	AA-	AA-	149,940	150,000	149,940	150,000	
	20,000	20,000	Bank Alfalah Limited - IV	Rs.5,000	AA-	AA-	99,880	99,920	99,880	99,920	
	56,600	-	Standard Chartered Bank (Pakistan) Limited	Rs.5,000	AAA	-	283,000	-	283,000	-	
							532,820	249,920	532,820	249,920	
11.5.9	Open ended mutual funds										
	5,380,103	6,004,292	ABL Cash Fund	Rs.10	AA	AA+	50,000	60,000	53,870	60,162	
	-	4,997,052	ABL Government Securities Fund	Rs.10	-	A+	-	50,000	-	50,100	
	3,984	483,822	Askari Sovereign Cash Fund	Rs.100	AAA	AA+	189	50,000	401	48,622	
	24,657	97,084	Atlas Money Market Fund	Rs.500	AA	AA+	12,000	50,000	12,453	48,889	
	-	2,500,000	BMA Empress Cash Fund	Rs.10	-	AA+	-	25,000	-	25,287	
	533,591	602,849	HBL Money Market Fund	Rs.100	AA	AA+	50,000	60,000	54,004	62,205	
	-	500,000	IGI Money Market Fund	Rs.100	-	AA+	-	50,000	-	50,341	
	269,857	78,234	MCB Cash Management Optimizer Fund	Rs. 100	AA	AA+	25,000	8,000	27,059	8,049	
	-	4,853,756	NAFA Government Securities Liquid Fund	Rs. 10	-	AAA	-	50,000	-	49,422	
	22,746,463	6,395,907	NIT Unit Fund	Rs.10	AM2-	AM2-	700,000	200,000	754,955	165,654	
	60,308,340	59,181,134	NIT Government Bond Fund	Rs.10	AA	AA	600,000	600,000	634,209	632,416	
	19,469,983	20,000,000	NIT Income Fund	Rs.10	A+	AA-	200,000	200,000	211,526	215,622	
	-	504,927	Pak Oman Advantage Islamic Income Fund	Rs. 50	-	A+	-	25,000	-	26,532	
	-	2,500,000	Pak Oman Government Securities Fund	Rs.10	-	AA	-	25,000	-	25,579	
	-	250,000	PICIC Cash Fund	Rs.100	-	AA+	-	25,000	-	25,069	
	789,747	-	Primus Cash Fund	Rs.100	AAA	-	50,000	-	52,558	-	
	426,706	-	UBL Liquidity Plus Fund	Rs.100	AA+	-	40,000	-	42,789	-	
							1,727,189	1,478,000	1,843,824	1,493,949	
							185,440,401	131,352,254	186,962,036	131,653,571	

\* 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 (2011: six months to one year), with yield ranging between 9.25% to 11.92% (2011: 11.78% to 13.91%) per annum.

#### 11.7 Pakistan Investment Bonds

These securities have a maturity period of 3, 5, 7 and 10 years (2011: 3, 5, 7 and 10 years) with interest rates ranging between 9% to 12% (2011: 9% to 12%) per annum. These include securities costing Rs. 5 (2011: 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>2012</u>	<u>2011</u>	Redeemable value per certificate	Maturity Date	Name of Security	Rate	<u>2012</u>	<u>2011</u>
No. of certificates		(Rupees)				(Rupees in '000)	(Rupees in '000)
<b>Federal Government Securities</b>							
<b>Available for sale</b>							
-	30,000	-	Mar-12	Government of Pakistan Ijarah Sukuk - III	Weighted average 6 months T-Bills rate	-	3,000,000
<b>10,000</b>	10,000	100,000	May-14	Government of Pakistan Ijarah Sukuk - VIII	Weighted average 6 months T-Bills rate	<b>1,000,000</b>	1,000,000
						<b>1,000,000</b>	4,000,000
<b>Others</b>							
<b>Available for sale</b>							
-	20,000	-	Jul-12	Dar Al Arkan International Sukuk Company	3 months' LIBOR plus 225 bps	-	179,891
<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>	1,087,849	950	Mar-21	Liberty Power Tech Limited	3 months' KIBOR plus 300 bps	<b>1,033,008</b>	1,087,849
-	40,000	-	Dec-12	Sui Southern Gas Company Limited	3 months' KIBOR plus 20 bps	-	80,000
<b>150,000</b>	150,000	4,167	Jul-17	WAPDA Second Sukuk Company Limited	6 months' KIBOR less 25 bps	<b>625,000</b>	750,000
						<b>2,508,008</b>	2,947,740
<b>Held to maturity</b>							
-	5,000	-	Oct-12	WAPDA First Sukuk Company Limited	6 months' KIBOR plus 35 bps	-	25,000
<b>250,000</b>	250,000	919	Mar-21	Liberty Power Tech Limited	3 months' KIBOR plus 300 bps	<b>229,705</b>	241,900
						<b>229,705</b>	266,900
						<b>2,737,713</b>	3,214,640
						<b>3,737,713</b>	7,214,640

11.8.1 These Sukuks have face value of Rs. 5,000 per certificate except for 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

<u>2012</u>	<u>2011</u>	Redeemable value per certificate	Maturity Date	Name of Security	Rate	<u>2012</u>	<u>2011</u>
No. of certificates		(Rupees)				(Rupees in '000)	(Rupees in '000)
<b>Listed - Available for sale</b>							
<b>6,000</b>	6,000	4,988	Dec-14	Allied Bank Limited*	6 months' KIBOR plus 190 bps	<b>29,928</b>	29,940
<b>33,800</b>	33,800	4,994	Aug-19	Allied Bank Limited - II*	6 months' KIBOR plus 85 bps	<b>168,797</b>	168,865
<b>5,000</b>	5,000	4,986	Oct-13	Askari Bank Limited - II*	6 months' KIBOR plus 150 bps	<b>24,930</b>	24,940
<b>40,000</b>	40,000	4,990	Nov-15	Engro Fertilizers Limited - III	6 months' KIBOR plus 155 bps	<b>199,600</b>	199,680
-	5,000	-	May-12	Jahangir Siddiqui & Company Limited - IV	6 months' KIBOR plus 250 bps	-	12,478
<b>6,600</b>	6,600	4,991	Mar-16	NIB Bank Limited*	6 months' KIBOR plus 115 bps	<b>32,941</b>	32,954
-	20,000	-	May-12	Orix Leasing Pakistan Limited - III	6 months' KIBOR plus 150 bps	-	16,654
<b>20,000</b>	20,000	1,500	Feb-13	Pak Arab Fertilizer Limited	6 months' KIBOR plus 150 bps	<b>30,000</b>	74,000
<b>5,000</b>	5,000	3,327	Sep-14	United Bank Limited - III*	6 months' KIBOR plus 170 bps	<b>16,633</b>	24,950
						<b>502,829</b>	584,461



<u>2012</u>	<u>2011</u>	Redeemable value per certificate	Maturity Date	Name of Security	Rate	<u>2012</u>	<u>2011</u>
No. of certificates		(Rupees)				(Rupees in '000)	(Rupees in '000)
<b>Unlisted - Available for sale</b>							
150	150	999,600	Dec-21	Askari Bank Limited - IV*	6 months' KIBOR plus 175 bps	149,940	150,000
20,000	20,000	4,994	Dec-17	Bank Alfalah Limited - IV*	15.00% per annum	99,880	99,920
56,600	-	5,000	Jan-22	Standard Chartered Bank (Pakistan) Limited*	6 months' KIBOR plus 75 bps	283,000	-
						<b>532,820</b>	249,920
<b>Listed - Held to maturity</b>							
20,000	20,000	4,985	Feb-13	Askari Bank Limited*	6 months' KIBOR plus 150 bps	99,700	99,740
17,400	17,400	4,994	Aug-19	Allied Bank Limited - II*	6 months' KIBOR plus 85 bps	86,896	86,930
-	15,000	-	Nov-12	Bank Alfalah Limited - II*	6 months' KIBOR plus 150 bps	-	49,868
9,000	9,000	1,247	Feb-13	Faysal Bank Limited*	6 months' KIBOR plus 190 bps	11,223	22,455
5,000	5,000	1,247	May-13	Soneri Bank Limited*	6 months' KIBOR plus 160 bps	6,235	18,705
5,000	5,000	1,250	Feb-13	Standard Chartered Bank (Pakistan) Ltd. - III*	6 months' KIBOR plus 200 bps	6,250	17,480
-	1,070	-	Aug-12	United Bank Limited*	8.45% per annum	-	3,558
4,000	4,000	4,999	Mar-13	United Bank Limited - II*	9.49% per annum	19,994	19,995
5,000	5,000	3,327	Sep-14	United Bank Limited - III*	6 months' KIBOR plus 170 bps	16,633	24,950
						<b>246,931</b>	343,681
<b>Unlisted - Held to maturity</b>							
2,500	2,500	16,667	Jan-13	Orix Leasing Pakistan Limited - IV	6 months' KIBOR plus 120 bps	41,667	125,000
						<b>1,324,247</b>	1,303,062

\*These Term Finance Certificates are subordinated.

11.9.1 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>2012</u>	<u>2011</u>	Redeemable value per certificate	Maturity Date	Name of Security	Rate	<u>2012</u>	<u>2011</u>
No. of certificates of US \$ 100 each		(Rupees)				(Rupees in '000)	(Rupees in '000)
<b>Federal Government Securities - Available for sale</b>							
80,000	60,000	8,277	Jun-17	Government of Pakistan Bonds	6.875% p.a.	662,181	455,068
40,000	20,000	8,616	Mar-16	Government of Pakistan Bonds	7.125% p.a.	344,632	165,490
						<b>1,006,813</b>	620,558
<b>Others - Available for sale</b>							
-	40,000	-	Oct-12	Government of Srilanka Bonds	8.250% p.a.	-	358,916
10,000	-	10,169	Jan-15	Government of Srilanka Bonds	7.400% p.a.	101,686	-
						<b>101,686</b>	358,916
						<b>1,108,499</b>	979,474

11.10.1 Foreign Currency Bonds are redeemable semi-annually.



#### 11.11 Ordinary shares of unlisted companies

<u>2012</u>	<u>2011</u>	<u>Name of companies</u>	<u>Note</u>	<u>2012</u>	<u>2011</u>
No. of ordinary shares / units				(Rupees in '000)	
<b>3,000,000</b>	3,000,000	Khushhali Bank Limited Par value per share: Rs. 10 Break up value per share: Rs. 13.71 (2011: Rs. 13) based on audited financial statements for the year ended 31 December 2011 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 (2011: 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

<b>9,366,312</b>	9,366,312	Habib Sugar Mills Limited % of holding: 6.24% (2011: 6.24%) Par value per share: Rs. 5 Market value: Rs. 231.348 (2011: Rs. 205.216) million Chief Executive: Mr. Raeesul Hasan	11.12.1	<b>281,831</b>	248,315
<b>3,375,000</b>	3,375,000	Habib Asset Management Limited % of holding: 30% (2011: 30%) Par value per share: Rs. 10 Break up value per share: Rs. 10.87 (2011: Rs. 10.36) based on audited financial statements for the year ended 30 June 2012 Chief Executive: Mr. Imran Azim	11.12.2	<b>40,013</b>	35,254
<b>5,562,566</b>	5,266,842	First Habib Income Fund Average cost per unit: Rs. 98.88 (2011: Rs. 104.44) Net asset value: Rs. 100.07 (2011: Rs. 102.77) Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim		<b>556,646</b>	541,283
<b>500,000</b>	500,000	First Habib Stock Fund Average cost per unit: Rs. 100 (2011: Rs. 100) Net Asset Value: Rs. 113.33 (2011: Rs. 88.30) Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim		<b>56,665</b>	44,149
<b>3,182,506</b>	1,010,249	First Habib Cash Fund Average cost per unit: Rs. 94.27 (2011: Rs. 98.99) Net Asset Value: Rs. 100.16 (2011: Rs. 103.04) Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim	11.12.3	<b>318,760</b>	104,094
<b>252,322</b>	–	First Habib Islamic Balanced Fund Average cost per unit: Rs. 99.08 Net Asset Value: Rs. 100.50 Management Company: Habib Asset Management Limited Chief Executive of the Management Company: Mr. Imran Azim		<b>25,358</b>	–
				<b>1,279,273</b>	973,095



- 11.12.1 Due to common directorship in Habib Sugar Mills Limited, the Group considers the investee company as an associate.
- 11.12.2 Includes Rs. 24.750 (2011: 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.

	2012	2011
	(Rupees in '000)	
<b>11.13 Movement of investments in associates</b>		
Opening balance	<b>973,095</b>	916,681
Share of profit	<b>140,224</b>	84,546
Investment-net	<b>233,090</b>	52,949
Dividend received	<b>(67,136)</b>	(81,081)
Closing balance	<b>1,279,273</b>	973,095

11.14 Summary of audited financial information of associates

Name of associates	Based on the financial statements for the year ended	2012				
		Assets	Liabilities	Equity	Revenue	Profit
(Rupees in '000)						
First Habib Cash Fund	June 30, 2012	2,033,816	6,866	2,026,950	153,783	142,954
First Habib Income Fund	June 30, 2012	1,034,567	15,484	1,019,083	166,502	127,647
First Habib Stock Fund	June 30, 2012	114,354	1,322	113,032	10,873	4,001
Habib Asset Management Limited	June 30, 2012	126,755	4,420	122,335	46,467	5,804
Habib Sugar Mills Limited	September 30, 2012	5,277,629	1,222,778	4,054,851	7,205,601	781,150
First Habib Islamic Balanced Fund	Audited accounts not available					
2011						
(Rupees in '000)						
First Habib Cash Fund	June 30, 2011	574,434	4,445	569,989	22,452	19,568
First Habib Income Fund	June 30, 2011	1,264,765	13,302	1,251,463	217,227	161,947
First Habib Stock Fund	June 30, 2011	124,506	1,202	123,304	28,906	21,065
Habib Asset Management Limited	June 30, 2011	120,327	3,796	116,531	44,011	5,000
Habib Sugar Mills Limited	September 30, 2011	4,016,747	498,657	3,518,090	7,587,780	755,016
First Habib Islamic Balanced Fund	Audited accounts not available					



	Note	2012 (Rupees in '000)	2011
<b>12. ADVANCES</b>			
Loans, cash credits, running finances, etc.			
In Pakistan		<b>126,981,078</b>	101,962,223
Outside Pakistan		<b>8,203,074</b>	4,325,819
		<b>135,184,152</b>	106,288,042
Net investment in finance lease / ijarah financing			
In Pakistan	12.2	<b>501,124</b>	426,351
Outside Pakistan		<b>–</b>	–
		<b>501,124</b>	426,351
Ijarah financing under IFAS 2	12.3 & 5.6	<b>307,173</b>	109,668
Murabaha	12.4	<b>3,206,606</b>	2,007,557
Bills discounted and purchased (excluding market treasury bills)			
Payable in Pakistan		<b>1,924,843</b>	1,928,992
Payable outside Pakistan		<b>12,329,922</b>	9,233,700
		<b>14,254,765</b>	11,162,692
Advances - gross		<b>153,453,820</b>	119,994,310
Provision against non-performing loans and advances			
Specific provision	12.5	<b>(3,062,933)</b>	(2,998,847)
General provision against consumer advances (as per SBP regulations)	12.6.1	<b>(31,059)</b>	(32,331)
General provision	12.6.2	<b>(2,500,000)</b>	(2,100,000)
		<b>(5,593,992)</b>	(5,131,178)
Advances - net of provisions		<b>147,859,828</b>	114,863,132





**2012**                      **2011**  
(Rupees in '000)

**12.1 Particulars of advances - gross**

12.1.1 In local currency	<b>126,980,308</b>	98,292,544
In foreign currencies	<b>26,473,512</b>	21,701,766
	<b>153,453,820</b>	119,994,310
12.1.2 Short term (for upto one year)	<b>126,503,727</b>	99,426,895
Long term (for over one year)	<b>26,950,093</b>	20,567,415
	<b>153,453,820</b>	119,994,310

**12.2 Net investment in finance lease / ijarah financing**

	2012				2011			
	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	205,606	258,804	-	464,410	200,095	190,153	-	390,248
Residual value	29,450	83,940	-	113,390	30,555	74,032	-	104,587
Minimum lease / ijarah payments	235,056	342,744	-	577,800	230,650	264,185	-	494,835
Financial charges for future periods	(39,981)	(36,695)	-	(76,676)	(39,219)	(29,265)	-	(68,484)
Present value of finance lease / ijarah financing	<b>195,075</b>	<b>306,049</b>	-	<b>501,124</b>	191,431	234,920	-	426,351

**12.3 Ijarah financing under IFAS 2**

	2012							
	Cost		Accumulated Depreciation			Book Value		Rate of depreciation %
As at 01 Jan. 2012	Additions / (deletions)	As at 31 Dec. 2012	As at 01 Jan. 2012	Charge / (deletions)	As at 31 Dec. 2012	As at 31 Dec. 2012		
	(Rupees in '000)							
Equipment	272,385	325,362 (164,960)	432,787	178,009	112,278 (148,463)	141,824	290,963	
Vehicles	20,383	7,220	27,603	5,091	6,302	11,393	16,210	
	<b>292,768</b>	<b>332,582 (164,960)</b>	<b>460,390</b>	<b>183,100</b>	<b>118,580 (148,463)</b>	<b>153,217</b>	<b>307,173</b>	33.33
	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	
	<b>235,893</b>	<b>56,875</b>	<b>292,768</b>	<b>104,318</b>	<b>78,782</b>	<b>183,100</b>	<b>109,668</b>	33.33



12.3.1 Future ijarah payments receivable

2012 2011  
(Rupees in '000)

Not later than one year	149,447	69,594
Later than one year and not later than five years	189,244	41,657
	<u>338,691</u>	<u>111,251</u>

12.4 Murabaha - gross	3,381,017	2,126,887
Less: Deferred murabaha income	(53,465)	(43,169)
Profit receivable shown in other assets	(120,946)	(76,161)
Murabaha	<u>3,206,606</u>	<u>2,007,557</u>

12.5 Advances include Rs. 3,705.730 (2011: Rs 3,203.630) million which have been placed under non-performing status as detailed below:

Category of classification	2012								
	Classified advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Substandard	379,505	92,802	472,307	94,876	23,200	118,076	94,876	23,200	118,076
Doubtful	83,246	-	83,246	41,626	-	41,626	41,626	-	41,626
Loss	3,148,885	1,292	3,150,177	2,901,939	1,292	2,903,231	2,901,939	1,292	2,903,231
	<u>3,611,636</u>	<u>94,094</u>	<u>3,705,730</u>	<u>3,038,441</u>	<u>24,492</u>	<u>3,062,933</u>	<u>3,038,441</u>	<u>24,492</u>	<u>3,062,933</u>
	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>

12.5.1 For the purposes 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

Note	2012			2011		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	2,998,847	2,132,331	5,131,178	1,682,297	1,628,184	3,310,481
Charge for the year						
Specific provision	400,812	-	400,812	1,481,521	-	1,481,521
General provision for consumer portfolio	12.6.1	-	(1,272)	-	4,147	4,147
General provision for loans and advances	12.6.2	-	400,000	-	500,000	500,000
Reversals		(333,439)	(333,439)	(164,880)	-	(164,880)
		67,373	398,728	1,316,641	504,147	1,820,788
Amount written-off	12.7	(3,287)	(3,287)	(91)	-	(91)
Closing balance		<u>3,062,933</u>	<u>2,531,059</u>	<u>2,998,847</u>	<u>2,132,331</u>	<u>5,131,178</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 2012 amounts to Rs. 31.059 (2011: Rs. 32.331) 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 2012 amounts to Rs. 2,500 (2011: Rs. 2,100) million.

12.6.3 Particulars of provision against non-performing loans and advances

	2012			2011		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	2,968,839	2,531,059	5,499,898	2,997,354	2,132,331	5,129,685
In foreign currency	94,094	-	94,094	1,493	-	1,493
	<u>3,062,933</u>	<u>2,531,059</u>	<u>5,593,992</u>	<u>2,998,847</u>	<u>2,132,331</u>	<u>5,131,178</u>

12.7 Particulars of write-offs:

	2012	2011
	(Rupees in '000)	
12.7.1 Against provision	3,287	91
Directly charged to profit and loss account	-	-
	<u>3,287</u>	<u>91</u>
12.7.2 Write-offs of Rs. 500,000 and above	3,287	-
Write-offs of below Rs. 500,000	-	91
	<u>3,287</u>	<u>91</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 2012 is given in Annexure 1.

12.8 Particulars of Loans and Advances to Directors, Associated Companies etc.	Note	2012	2011
		(Rupees in '000)	
(i) Debts due by directors, executives or officers of the Group or any of them either severally or jointly with any other persons			
Balance at beginning of the year		1,397,327	1,124,509
Loans granted during the year		733,758	638,853
Repayments		(450,684)	(366,035)
Balance at end of the year		<u>1,680,401</u>	<u>1,397,327</u>
(ii) Debts due by companies or firms in which the directors of the Group are interested as directors, partners or in the case of private companies as members			
Balance at beginning of the year		1,404,261	369,808
Loans granted during the year		16,218,504	17,461,683
Repayments		(16,007,385)	(16,427,230)
Balance at end of the year		<u>1,615,380</u>	<u>1,404,261</u>
<b>13. OPERATING FIXED ASSETS</b>			
Capital work-in-progress	13.1	374,146	92,558
Property and equipment	13.2	10,748,449	10,648,811
Intangible assets	13.3	88,828	49,976
		<u>11,211,423</u>	<u>10,791,345</u>
<b>13.1 Capital work-in-progress</b>			
Civil works		308,150	90,770
Consultants' fee and other charges		65,996	1,788
		<u>374,146</u>	<u>92,558</u>



## 13.2 Property and equipment

2012

	Cost / Revalued Amount			Accumulated Depreciation			Book Value	
	As at 01 January 2012	Additions / (deletions) / adjustments*	As at 31 December 2012	As at 01 January 2012	Charge / (deletions) / adjustments*	As at 31 December 2012	As at 31 December 2012	Rate of depreciation %
(Rupees in '000)								
<i>Owned</i>								
Leasehold land	3,255,495	391	3,255,886	–	–	–	3,255,886	–
		–			–			
		–			–			
Buildings on leasehold land	5,014,738	153,042	5,161,155	89,996	153,594	243,381	4,917,774	2.22 - 10
		3,128*			43*			
		(9,753)*			(252)*			
Improvements to leasehold buildings	741,465	64,403	806,614	90,044	39,005	129,104	677,510	5
		(3,128)*			(43)*			
		3,874*			98*			
Furniture and fixtures	401,359	42,952	442,444	183,544	38,211	220,150	222,294	10
		(1,867)			(1,605)			
		–			–			
Electrical, office and computer equipments	2,741,318	420,071	3,149,592	1,616,668	417,778	2,023,480	1,126,112	20
		(11,797)			(10,966)			
		–			–			
Vehicles	852,888	247,616	1,011,300	378,200	161,912	462,427	548,873	20
		(89,774)			(78,255)			
		570*			570*			
	13,007,263	928,475	13,826,991	2,358,452	810,500	3,078,542	10,748,449	
		(103,438)			(90,826)			
		(5,309)			416			
<i>Leased</i>								
Vehicles	570	–	–	570	–	–	–	
		–			–			
		(570)*			(570)			
	570	–	–	570	–	–	–	
		–			–			
		(570)*			(570)*			
	13,007,833	928,475	13,826,991	2,359,022	810,500	3,078,542	10,748,449	
		(103,438)			(90,826)			
		(5,879)*			(154)*			



2011

	Cost / Revalued Amount				Accumulated Depreciation				Book Value		Rate of depreciation %
	As at 01 January 2011	Additions / (deletions) / adjustments	Reversal of accumulated depreciation / other adjustments	Revaluation Surplus / (deficit)	As at 31 December 2011	As at 01 January 2011	Charge / (deletions) / adjustments	Reversal of accumulated depreciation / other adjustments	As at 31 December 2011	As at 31 December 2011	
(Rupees in '000)											
Owned											
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	
Leased 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	



13.2.1 Details of disposal of fixed assets during the year:

Particulars	Cost	Book value	Sale price	Mode of disposal	Particulars of purchaser
		(Rupees in '000)			
<b>Items having book value in aggregate more than Rs. 250,000 or cost more than Rs. 1,000,000</b>					
Furniture and fixtures	1,736	244	282	Auction	Karachi Auction Mart, Karachi.
Electrical, office and computer equipments	9,114	474	1,582	Auction	Karachi Auction Mart, Karachi.
Electrical, office and computer equipments	507	261	315	Insurance claim	Habib Insurance Company Ltd (a related party), Karachi.
Vehicles	1,165	680	1,110	Sale	AL-Futtaim Motors, Dubai.
Vehicles	14,699	9,048	13,732	Insurance claim	Habib Insurance Company Ltd (a related party), Karachi.
Vehicles	1,240	181	919	Auction	Mr. Abdul Khaliq, Karachi.
Vehicles	1,284	-	1,276	Auction	Mr. Anwar Alam, Karachi.
Vehicles	1,082	-	1,012	Auction	Mr. Aqeel Ahmed, Karachi.
Vehicles	2,518	-	2,233	Auction	Mr. Faisal Abdul Aziz, Karachi.
Vehicles	1,392	-	1,311	Auction	Mr. Fazal Muhammad, Karachi.
Vehicles	3,159	394	2,461	Auction	Mr. Hasnain Abbas, Karachi.
Vehicles	2,551	-	2,202	Auction	Mr. Iqbal Mehmood, Karachi.
Vehicles	2,055	-	1,562	Auction	Mr. Iqbal Muhammad, Karachi.
Vehicles	6,299	121	4,266	Auction	Mr. Muhammad Ali, Karachi.
Vehicles	6,352	-	3,899	Auction	Mr. Muhammad Ali Akbar, Karachi.
Vehicles	15,682	476	11,751	Auction	Mr. Muhammad Kaleem Iqbal, Karachi.
Vehicles	1,928	-	1,528	Auction	Mr. Muhammad Yamin, Karachi.
Vehicles	5,560	559	4,353	Auction	Mr. Numeri Abrar, Karachi.
Vehicles	1,343	-	1,378	Auction	Mr. Shahid Aziz, Karachi.
Vehicles	2,155	-	2,291	Auction	Mr. Wasim Mirza, Karachi.
Vehicles	1,748	-	1,705	Auction	Mr. Zahid Qadri, Karachi.
Vehicles	3,338	-	3,054	Auction	Syed Muhammad Ali Warsi, 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	131	18	49		Various
Electrical, office and computer equipments	2,176	96	1,451		Various
Vehicles	14,224	60	11,975		Various
	<u>103,438</u>	<u>12,612</u>	<u>77,697</u>		

13.2.2 The leasehold land and buildings of the Bank were last revalued by independent professional valuers as at December 31, 2011. The revaluation was carried out by M/s. Iqbal A. Nanjee & Co on the basis of professional assessment of present market values and resulted in a surplus Rs. 218.243 million over the book value of the respective properties. Had there been no revaluation, the carrying amount of revalued assets at December 31, 2012 would have been as follows:

	2012	2011
	(Rupees in '000)	
Leasehold land	<b>2,634,212</b>	2,633,821
Buildings on leasehold land	<b>3,163,158</b>	3,106,889
	<u><b>5,797,370</b></u>	<u>5,740,710</u>



13.2.3 As at 31 December 2012, the gross carrying amount of fully depreciated assets still in use amounted to Rs. 1,131.914 (2011: Rs. 864.965) million.

### 13.3 Intangible assets

	2012							
	Cost		Accumulated Amortisation			Book Value		Rate of Amortisation %
	As at 01 January 2012	Additions	As at 31 December 2012	As at 01 January 2012	Charge	As at 31 December 2012	As at 31 December 2012	
				(Rupees in '000)				
Computer software	192,776	64,238	257,014	177,550	25,386	202,936	54,078	50
Stock Exchange Membership Card	34,750	-	34,750	-	-	-	34,750	
	<u>227,526</u>	<u>64,238</u>	<u>291,764</u>	<u>177,550</u>	<u>25,386</u>	<u>202,936</u>	<u>88,828</u>	
	2011							
				(Rupees in '000)				
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	
	<u>216,083</u>	<u>11,443</u>	<u>227,526</u>	<u>149,114</u>	<u>28,436</u>	<u>177,550</u>	<u>49,976</u>	

13.3.1 As at 31 December 2012, the gross carrying amount of fully amortised intangible assets still in use amounted to Rs.178.333 (2011: Rs. 149.952) million.

13.3.2 In accordance with the requirements of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 (The Act), the Company has received equity shares of KSE and a trading right entitlement in lieu of its membership card of KSE. The Company's entitlement in respect of KSE's shares is determined on the basis of valuation of assets and liabilities of KSE as approved by SECP and the Company has been allotted 4,007,383 shares of the face value of Rs. 10/- each out of which 2,404,430 shares are kept in the blocked account and the divestment of the same will be made in accordance with the requirements of the Act within two years from the date of Demutualization. The valuation of Trading Right Entitlement and the accounting treatment of shares received from KSE are being discussed in the Professional Standards and Technical Committee of the Institute of Chartered Accountants of Pakistan (ICAP) and will be finalised in due course.

	Note	2012	2011
		(Rupees in '000)	
<b>14. OTHER ASSETS</b>			
Mark-up / return / interest accrued in local currency		<b>4,500,941</b>	4,310,255
Mark-up / return / interest accrued in foreign currencies		<b>115,498</b>	99,198
Advances, deposits and prepayments		<b>931,798</b>	1,099,942
Unrealised gain on forward foreign exchange contracts		<b>251,487</b>	242,237
Stationery and stamps on hand		<b>134,729</b>	116,183
Receivable from SBP on encashment of Government Securities		<b>24,289</b>	26,268
Non-refundable deposits	14.1	<b>89,109</b>	96,719
Others		<b>105,762</b>	72,603
		<u><b>6,153,613</b></u>	<u>6,063,405</u>





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

	Note	2012 (Rupees in '000)	2011
<b>15. BILLS PAYABLE</b>			
In Pakistan		<b>5,257,191</b>	4,979,720
<b>16. BORROWINGS</b>			
In Pakistan		<b>67,902,505</b>	43,213,300
Outside Pakistan		<b>1,719,550</b>	228,294
		<b>69,622,055</b>	43,441,594
<b>16.1 Particulars of borrowings with respect to currencies</b>			
In local currency		<b>67,902,505</b>	43,213,300
In foreign currencies		<b>1,719,550</b>	228,294
		<b>69,622,055</b>	43,441,594
<b>16.2 Details of borrowings</b>			
<b>Secured</b>			
Borrowings from State Bank of Pakistan			
Export refinance scheme	16.3	<b>14,138,447</b>	11,537,652
Long term financing for export oriented projects	16.4	<b>369,695</b>	568,700
Long term financing for imported and locally manufactured plant and machinery	16.5	<b>3,015,612</b>	3,322,617
Financing facility for storage of agricultural produce	16.6	<b>47,703</b>	71,554
		<b>17,571,457</b>	15,500,523
Repurchase agreement borrowings	16.7	<b>50,331,048</b>	27,712,777
		<b>67,902,505</b>	43,213,300
<b>Unsecured</b>			
Overdrawn nostros		–	48,403
Borrowings from financial institutions	16.8	<b>1,719,550</b>	179,891
		<b>1,719,550</b>	228,294
		<b>69,622,055</b>	43,441,594

16.3 These carry mark-up rate of 8.50% (2011: 10%) 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% (2011: 4% to 5%) per annum having maturity periods upto 3 to 4 years.



- 16.5 These carry mark-up rates ranging from 8.20% to 9.50% (2011: 9.70% to 11%) per annum having maturity periods upto ten years.
- 16.6 This carries mark-up rate of 5.50% (2011: 5.50%) having maturity period upto two years.
- 16.7 These carry mark-up rate of 8.86% (2011: 11.50% to 11.90%) per annum, having maturity periods upto one month.
- 16.8 This carries mark-up rate of 0.65% to 0.80% (2011: 0.45%) having maturity period upto one month.

	Note	2012	2011
(Rupees in '000)			
<b>17. DEPOSITS AND OTHER ACCOUNTS</b>			
<b>Customers</b>			
Fixed deposits		96,079,552	120,176,785
Savings deposits		105,561,063	70,196,707
Current accounts - Remunerative		29,061,770	26,524,367
Current accounts - Non-remunerative		104,284,355	78,697,621
		<b>334,986,740</b>	295,595,480
<b>Financial institutions</b>			
Remunerative deposits		4,949,208	6,267,159
Non-remunerative deposits		450,610	234,548
		<b>5,399,818</b>	6,501,707
		<b>340,386,558</b>	302,097,187
<b>17.1 Particulars of deposits</b>			
In local currency		301,017,995	266,208,035
In foreign currencies		39,368,563	35,889,152
		<b>340,386,558</b>	302,097,187
<b>18. SUB-ORDINATED LOANS - unsecured</b>			
Term Finance Certificates (TFCs) - I - (Quoted)		–	897,658
Term Finance Certificates (TFCs) - II - (Quoted)	18.1	1,496,700	1,497,300
Term Finance Certificates (TFCs) - III - (Unquoted)	18.2	1,994,400	1,996,000
Term Finance Certificates (TFCs) - IV - (Unquoted)	18.3	2,998,200	2,999,400
		<b>6,489,300</b>	7,390,358
<b>18.1 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	



### 18.2 Term Finance Certificates - III (Unquoted)

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

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

Total issue	Rupees 3,000 million
Rating	<b>AA</b>
Rate	Payable six monthly at 15.00% p.a. for first 5 years and and 15.50% p.a. 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

	2012			2011		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
Not later than one year	-	-	-	28	-	28

(Rupees in '000)

Note                      **2012**                      2011  
(Rupees in '000)

## 20. DEFERRED TAX LIABILITIES

### Taxable temporary differences arising in respect of:

Accelerated depreciation		<b>929,371</b>	927,849
Surplus on revaluation of fixed assets	23.1	<b>616,069</b>	636,247
Surplus on revaluation of investments	23.2	<b>514,394</b>	94,147
		<b>2,059,834</b>	1,658,243

### Deductible temporary differences arising in respect of:

Provision against non-performing loans and advances		<b>(123,665)</b>	(424,567)
Lease obligations		-	(8)
Provision for compensated absences		<b>(6,158)</b>	(665)
Provision for diminution in the value of investments		<b>(570)</b>	(570)
		<b>(130,393)</b>	(425,810)
		<b>1,929,441</b>	1,232,433



20.1 Reconciliation of deferred tax

	Balance as at 01 January 2011	Recognised in profit and loss account	Recognised in deficit on revaluation of assets	Balance as at 31 December 2011	Recognised in profit and loss account	Recognised in surplus on revaluation of assets	Balance as at 31 December 2012
	(Rupees in '000)						
<b>Taxable temporary differences arising in respect of:</b>							
Accelerated depreciation	847,004	80,845	-	927,849	1,522	-	929,371
Surplus on revaluation of fixed assets	536,459	(19,114)	118,902	636,247	(20,123)	(55)	616,069
Surplus on revaluation of investments	-	-	94,147	94,147	-	420,247	514,394
	1,383,463	61,731	213,049	1,658,243	(18,601)	420,192	2,059,834
<b>Deductible temporary differences arising in respect of:</b>							
Deficit on revaluation of investments	(207,396)	-	207,396	-	-	-	-
Provision against non-performing loans and advances	(530,824)	106,257	-	(424,567)	300,902	-	(123,665)
Provision for diminution in the value of investments	(570)	-	-	(570)	-	-	(570)
Lease obligations	(65)	57	-	(8)	8	-	-
Provision for compensated absences	(255)	(410)	-	(665)	(5,493)	-	(6,158)
	(739,110)	105,904	207,396	(425,810)	295,417	-	(130,393)
	644,353	167,635	420,445	1,232,433	276,816	420,192	1,929,441

Note **2012** 2011  
(Rupees in '000)

21. OTHER LIABILITIES

Mark-up / return / interest payable in local currency		<b>2,387,134</b>	3,056,483
Mark-up / return / interest payable in foreign currencies		<b>26,341</b>	51,136
Provision for compensated absences	21.1	<b>234,770</b>	203,242
Taxation (Provision less payments)		<b>322,619</b>	466,338
Unclaimed dividends		<b>113,394</b>	79,771
Branch adjustment account		<b>303,174</b>	55,419
Special exporters' accounts in foreign currencies		<b>115,852</b>	23,825
Unearned commission income		<b>23,467</b>	2,694
Security deposits against leases / ijarah		<b>156,943</b>	138,285
Other security deposits		<b>214,794</b>	180,957
Workers' welfare fund		<b>456,716</b>	270,869
Accrued expenses		<b>208,629</b>	136,903
Provision against off-balance sheet items	21.2	<b>85,182</b>	73,122
Payable to SBP / NBP		<b>439,512</b>	408,295
Payable to supplier against murabaha		<b>129,069</b>	-
Charity payable		<b>9,782</b>	2,285
Others		<b>263,604</b>	223,382
		<b>5,490,982</b>	5,373,006

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:

	2012	2011
	(% per annum)	
Discount rate	<b>12.00%</b>	12.50%
Expected rate of increase in salary in future years	<b>11.00%</b>	11.50%



		2012	2011
		(Rupees in '000)	
<b>21.2 Provision against off-balance sheet items</b>			
Opening balance		73,122	57,325
Charge for the year		12,060	17,001
Reversals		-	(1,204)
Amount written-off		-	-
Closing balance		<u>85,182</u>	<u>73,122</u>
<b>22. SHARE CAPITAL</b>			
	2012          2011 (Number of shares)		
<b>Authorised 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>980,386,742</u>	<u>848,597,167</u>	Issued as bonus shares	<u>9,803,868</u>
			<u>8,485,972</u>
<u>1,010,386,742</u>	<u>878,597,167</u>		<u>10,103,868</u>
			<u>8,785,972</u>
22.1	As of statement of financial position date 166,648,241 (2011: 142,241,798) ordinary shares of Rs. 10/- each were held by the related parties.		
		Note	
			2012          2011 (Rupees in '000)
<b>23. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX</b>			
Operating fixed assets	23.1	1,760,240	1,803,278
Available for sale investments	23.2	1,027,783	219,569
		<u>2,788,023</u>	<u>2,022,847</u>
23.1 <b>Surplus on revaluation of operating fixed assets</b>			
Balance at the beginning of the year		2,439,525	2,275,893
(Adjustment) / surplus on revaluation of the Bank's properties during the year		(5,723)	218,243
Transfer to unappropriated profit in respect of incremental depreciation charged during the year		(57,493)	(54,611)
		<u>2,376,309</u>	<u>2,439,525</u>
Related deferred tax liability on:			
Balance at the beginning of the year		636,247	536,459
(Adjustment) / revaluation of Bank's properties during the year		(55)	118,902
Transfer to unappropriated profit in respect of incremental depreciation charged during the year		(20,123)	(19,114)
		<u>(616,069)</u>	<u>(636,247)</u>
		<u>1,760,240</u>	<u>1,803,278</u>



	2012	2011
	(Rupees in '000)	
<b>23.2 Available for sale investments</b>		
Federal Government Securities	1,386,550	319,757
Fully paid-up ordinary shares	24,097	(2,610)
Term finance certificates, sukuks, bonds and others	14,895	(19,380)
Open ended mutual funds	116,635	15,949
	<u>1,542,177</u>	<u>313,716</u>
Related deferred tax liability	(514,394)	(94,147)
	<u>1,027,783</u>	<u>219,569</u>
<b>24. CONTINGENCIES AND COMMITMENTS</b>		
<b>24.1 Direct Credit Substitutes</b>		
Financial institutions	166,232	79,615
Others	348,728	446,014
	<u>514,960</u>	<u>525,629</u>
<b>24.2 Transaction-related Contingent Liabilities</b>		
Government	9,446,751	8,008,832
Financial institutions	68,497	115,461
Others	6,279,180	4,544,785
	<u>15,794,428</u>	<u>12,669,078</u>
<b>24.3 Trade-related Contingent Liabilities</b>		
Letters of credit	50,183,933	32,838,848
Acceptances	8,647,034	7,104,549
	<u>58,830,967</u>	<u>39,943,397</u>
<b>24.4 Other contingencies</b>		

The Income tax returns of the Bank have been submitted upto and including the Bank's financial year 2011. The income tax assessments of the Bank have been made by the tax authorities upto and including the assessment / tax year 2012.

For tax years, 2005 to 2008, the CIT Appeals has passed appellate orders by disallowing certain expenses / deductions (including bad debts written-off, improvement in leasehold premises, provision against non-performing loans and advances) having an aggregate tax impact (net of provision) of Rs. 44.256 (2011: 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.



	2012	2011
	(Rupees in '000)	
<b>24.5 Commitments in respect of forward lending</b>		
Commitments to extend credit	<u>472,257</u>	<u>15,603</u>
<b>24.6 Commitments in respect of forward exchange contracts</b>		
Purchase	<u>15,272,338</u>	<u>28,032,085</u>
Sale	<u>16,888,512</u>	<u>25,331,776</u>
<b>24.7 Commitments for the acquisition of operating fixed assets</b>	<u>146,070</u>	<u>124,899</u>

## 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". Unrealised 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.

	2012	2011
	(Rupees in '000)	
<b>26. MARK-UP / RETURN / INTEREST EARNED</b>		
On loans and advances to:		
Customers	13,691,482	13,442,440
Financial institutions	190,356	236,509
	<u>13,881,838</u>	<u>13,678,949</u>
On investments:		
Available for sale securities	18,071,395	12,175,798
Held to maturity securities	9,345,391	10,333,202
	<u>27,416,786</u>	<u>22,509,000</u>
On deposits with financial institutions	83,132	75,450
On securities purchased under resale agreements	89,539	261,479
On call money lendings	2,739	4,359
	<u>41,474,034</u>	<u>36,529,237</u>
<b>27. MARK-UP / RETURN / INTEREST EXPENSED</b>		
Deposits	19,513,193	19,134,980
Sub-ordinated loans	995,475	893,190
Repurchase agreement borrowings	3,745,487	785,368
Borrowings from SBP	1,386,260	1,556,218
Other borrowings	464,613	130,087
	<u>26,105,028</u>	<u>22,499,843</u>



	Note	2012 (Rupees in '000)	2011
<b>28. GAIN ON SALE / REDEMPTION OF SECURITIES - NET</b>			
Listed shares		4,849	54
Government securities		6,132	393
Mutual funds		66,705	–
		<b>77,686</b>	<b>447</b>
<b>29. OTHER INCOME</b>			
Gain on sale of operating fixed assets		65,085	84,469
Recovery of expenses from customers	29.1	134,483	95,742
Lockers rent		4,368	5,221
Cheque book issuance / cheque return charges		181,010	139,045
Banking charges		45,753	62,824
Others		48,901	53,107
		<b>479,600</b>	<b>440,408</b>
29.1	Includes courier, SWIFT, postage and other charges recovered from customers.		
<b>30. ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances, etc.		3,836,494	3,181,285
Charge for defined benefit plan	37.8	114,232	103,403
Contribution to defined contribution plan		157,282	130,873
Provision for compensated absences		31,113	23,242
Non-executive directors' fee, allowances and other expenses		2,500	2,075
Rent, taxes, insurance, electricity, etc.		1,392,694	1,182,294
Legal and professional charges		58,508	54,469
Communications		233,884	203,704
Repairs and maintenance		442,331	407,643
Financial charges on leased assets		1	23
Security charges		403,204	329,852
Stationery and printing		221,391	212,013
Advertisement and publicity		249,215	251,020
Donations	30.1	28,750	24,650
Auditors' remuneration	30.2	6,116	4,356
Depreciation	13.2	810,500	766,566
Amortisation		32,996	38,045
Travelling and conveyance		59,309	49,903
Vehicle running expenses		300,449	233,934
Commission and brokerage		38,789	83,110
Subscriptions and publications		47,650	46,697
Clearing charges (NIFT)		55,494	47,931
Staff training		22,725	17,453
Staff refreshment		73,286	53,267
Cleaning charges		32,884	28,047
Others	30.3	182,501	146,110
		<b>8,834,298</b>	<b>7,621,965</b>





	2012	2011
	(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
GCU Endowment Fund Trust*	1,000	–
Habib Education Trust	900	900
Habib Medical Trust	925	925
Habib Poor Fund	900	900
Institute of Management Sciences, Bahauddin Zakariya University, Multan	500	500
Lahore University of Management Sciences / National Management Foundation	20,000	15,000
Panah Trust	500	–
Rahmatbai Habib Food & Clothing Trust	900	900
Rahmatbai Habib Widows & Orphans Trust	900	900
Sindh Institute of Urology and Transplantation	–	2,500
The Citizens Foundation	1,300	1,200
	<b>28,750</b>	<b>24,650</b>
* Mr. Shameem Ahmed, Director of Bank AL Habib Limited, is member of Executive Committee of GCU Endowment Fund Trust, GC University, Lahore.		
30.2 <b>Auditors' remuneration</b>		
Audit fee - standalone financial statements	2,100	1,250
Audit fee - consolidated financial statements	300	300
Half yearly review	650	475
Special certifications	2,575	1,850
Provident fund and gratuity fund	75	25
Out of pocket expenses	416	456
	<b>6,116</b>	<b>4,356</b>
30.3 Includes, amongst others, charitable expenses being payments made by the Group on account of sadqa, poor feeding, distribution of charity in the holy month of Ramzan, and other similar payments, amounting to Rs. 24.1 million during 2012.		
31. <b>OTHER PROVISIONS / WRITE-OFFS</b>		
Provision against off-balance sheet items	12,060	15,797
Provision against other assets	–	267
	<b>12,060</b>	<b>16,064</b>
32. <b>OTHER CHARGES</b>		
Workers' welfare fund	185,847	146,027
Penalties imposed by SBP	306	227
	<b>186,153</b>	<b>146,254</b>



		2012	2011
		(Rupees in '000)	
<b>33. TAXATION</b>			
For the year			
Current		3,264,799	2,454,253
Prior years		(122,893)	–
Deferred		276,816	167,636
		<u>3,418,722</u>	<u>2,621,889</u>
<b>33.1 Relationship between tax expense and accounting profit</b>			
Profit before taxation		<u>8,929,242</u>	<u>7,158,993</u>
Tax at the applicable rate of 35% (2011: 35%)		<u>3,125,235</u>	2,505,648
Tax effects of:			
Expenses that are not deductible in determining taxable income		475,031	173,432
Tax effect of prior years provisions		(122,893)	–
Dividend income taxed at reduced rate		(38,293)	(58,350)
Others		(20,358)	1,159
		<u>3,418,722</u>	<u>2,621,889</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>5,513,549</u>	<u>4,537,656</u>
		(Number) Restated	
Weighted average number of ordinary shares		<u>1,010,386,742</u>	<u>1,010,386,742</u>
		(Rupees) Restated	
Basic and diluted earnings per share		<u>5.46</u>	<u>4.49</u>
34.1 The weighted average number of shares for 2011 has been adjusted for the effect of bonus shares issued during the year.	Note	2012	2011
		(Rupees in '000)	
<b>35. CASH AND CASH EQUIVALENTS</b>			
Cash and balances with treasury banks	8	27,464,345	22,957,988
Balances with other banks	9	9,747,248	6,744,643
Overdrawn nostros	16.2	–	(48,403)
		<u>37,211,593</u>	<u>29,654,228</u>
		(Numbers)	
<b>36. STAFF STRENGTH</b>			
Permanent		4,882	4,482
Temporary / on contractual basis		198	177
Group's own staff at end of the year		<u>5,080</u>	4,659
Outsourced		1,497	1,392
Total staff strength		<u>6,577</u>	<u>6,051</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 2012 and the significant assumptions used for actuarial valuation were as follows:

	2012 % per annum	2011 % per annum
Discount rate	12.00	12.50
Expected rate of increase in salary in future years	11.00	11.50
Expected rate of return on plan assets	12.00	12.50

	2012 (Rupees in '000)	2011 (Rupees in '000)
<b>37.3 Movement in defined benefit plan</b>		
Charge for the year	114,232	103,403
Contribution to the fund	(114,232)	(103,403)
Closing balance	-	-
<b>37.4 Reconciliation of defined benefit plan</b>		
Present value of defined benefit obligations	883,142	706,730
Fair value of plan assets	(708,474)	(531,148)
Unrecognised actuarial loss	(174,668)	(175,582)
	-	-
<b>37.5 Movement in present value of defined benefit obligations</b>		
Opening balance	706,730	555,050
Current service cost	85,201	70,055
Interest cost	90,365	82,767
Benefits paid	(18,251)	(16,017)
Actuarial loss	19,097	14,875
Closing balance	883,142	706,730



	2012	2011			
	(Rupees in '000)				
<b>37.6 Movement in fair value of plan assets</b>					
Opening balance	531,148	384,224			
Expected return on plan assets	70,232	58,289			
Actuarial gain on plan assets	11,113	1,249			
Contribution to the fund	114,232	103,403			
Benefits paid	(18,251)	(16,017)			
Closing balance	<u>708,474</u>	<u>531,148</u>			
<b>37.7 Movement in unrecognised actuarial loss</b>					
Opening balance	175,582	170,826			
Amount recognised during the year	(8,898)	(8,870)			
Actuarial loss during the year	7,984	13,626			
Closing balance	<u>174,668</u>	<u>175,582</u>			
<b>37.8 Charge for defined benefit plan</b>					
Current service cost	85,201	70,055			
Interest cost	90,365	82,767			
Expected return on plan assets	(70,232)	(58,289)			
Actuarial loss recognised	8,898	8,870			
Charge for the year	<u>114,232</u>	<u>103,403</u>			
<b>37.9 Actual return on plan assets</b>	<u>81,345</u>	<u>59,538</u>			
<b>37.10 Historical information</b>					
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(Rupees in '000)				
Present value of defined benefit obligations	<u>(883,142)</u>	<u>(706,730)</u>	<u>(555,050)</u>	<u>(418,650)</u>	<u>(314,703)</u>
Fair value of plan assets	<u>708,474</u>	<u>531,148</u>	<u>384,224</u>	<u>268,835</u>	<u>181,364</u>
Deficit	<u>(174,668)</u>	<u>(175,582)</u>	<u>(170,826)</u>	<u>(149,815)</u>	<u>(133,339)</u>
Experience loss / (gain) on obligations	<u>19,097</u>	<u>14,875</u>	<u>33,065</u>	<u>21,596</u>	<u>47,098</u>
Experience gain / (loss) on plan assets	<u>11,113</u>	<u>1,249</u>	<u>4,342</u>	<u>(2,157)</u>	<u>(3,315)</u>





#### 40. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2012		2011	
	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	27,464,345	27,464,345	22,957,988	22,957,988
Balances with other banks	9,747,248	9,747,248	6,744,643	6,744,643
Lendings to financial institutions	993,981	993,981	-	-
Investments	249,923,504	251,022,489	223,105,101	223,857,614
Advances	147,859,828	147,859,828	114,863,132	114,863,132
Other assets	4,961,740	4,961,740	4,750,561	4,750,561
	<u>440,950,646</u>	<u>442,049,631</u>	<u>372,421,425</u>	<u>373,173,938</u>
<b>Liabilities</b>				
Bills payable	5,257,191	5,257,191	4,979,720	4,979,720
Borrowings	69,622,055	69,622,055	43,441,594	43,441,594
Deposits and other accounts	340,386,558	340,386,558	302,097,187	302,097,187
Sub-ordinated loans	6,489,300	6,489,300	7,390,358	7,390,358
Liabilities against assets subject to finance lease	-	-	28	28
Other liabilities	4,065,054	4,065,054	4,301,322	4,301,322
	<u>425,820,158</u>	<u>425,820,158</u>	<u>362,210,209</u>	<u>362,210,209</u>
<b>Off-balance sheet financial instruments</b>				
Commitment to extend credit	<u>472,257</u>	<u>472,257</u>	<u>15,603</u>	<u>15,603</u>
Forward purchase of foreign exchange contracts	<u>15,272,338</u>	<u>15,455,658</u>	<u>28,032,085</u>	<u>28,555,234</u>
Forward sale of foreign exchange contracts	<u>16,888,512</u>	<u>16,956,048</u>	<u>25,331,776</u>	<u>25,057,442</u>

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:

	2012				Total
	Retail Banking	Commercial Banking	Retail Brokerage (Rupees in '000)	Inter Segment Elimination	
Total income	20,858,764	41,178,432	29,686	(17,534,014)	44,532,868
Total expenses	(18,448,000)	(34,635,258)	(54,382)	17,534,014	(35,603,626)
Net income	<u>2,410,764</u>	<u>6,543,174</u>	<u>(24,696)</u>	<u>-</u>	<u>8,929,242</u>
Segment assets (net of provisions)	<u>309,061,714</u>	<u>437,756,090</u>	<u>346,174</u>	<u>(293,810,036)</u>	<u>453,353,942</u>
Segment non performing loans	<u>46,187</u>	<u>3,659,543</u>	<u>-</u>	<u>-</u>	<u>3,705,730</u>
Segment provision required	<u>43,747</u>	<u>3,019,186</u>	<u>-</u>	<u>-</u>	<u>3,062,933</u>
Segment liabilities	<u>307,890,399</u>	<u>414,892,102</u>	<u>203,062</u>	<u>(293,810,036)</u>	<u>429,175,527</u>
Segment return on net assets (%)*	<u>6.75%</u>	<u>9.41%</u>	<u>8.58%</u>		
Segment cost of funds (%)*	<u>5.99%</u>	<u>8.35%</u>	<u>26.78%</u>		
	2011				
	Retail Banking	Commercial Banking	Retail Brokerage (Rupees in '000)	Inter Segment Elimination	Total
Total income	16,764,482	35,609,124	38,152	(13,147,860)	39,263,898
Total expenses	(14,045,531)	(31,158,594)	(48,640)	13,147,860	(32,104,905)
Net income	<u>2,718,951</u>	<u>4,450,530</u>	<u>(10,488)</u>	<u>-</u>	<u>7,158,993</u>
Segment assets (net of provisions)	<u>258,617,003</u>	<u>367,376,285</u>	<u>422,531</u>	<u>(241,890,205)</u>	<u>384,525,614</u>
Segment non performing loans	<u>51,532</u>	<u>3,152,098</u>	<u>-</u>	<u>-</u>	<u>3,203,630</u>
Segment provision required	<u>47,584</u>	<u>2,951,263</u>	<u>-</u>	<u>-</u>	<u>2,998,847</u>
Segment liabilities	<u>256,723,923</u>	<u>349,395,580</u>	<u>285,028</u>	<u>(241,890,205)</u>	<u>364,514,326</u>
Segment return on net assets (%)*	<u>6.48%</u>	<u>9.69%</u>	<u>9.03%</u>		
Segment cost of funds (%)*	<u>5.47%</u>	<u>8.92%</u>	<u>17.06%</u>		

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



## 42. 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, other than those disclosed in note 13.2.1 and 22.1 are summarised as follows:

	2012				Total
	Associates	Non Executive Directors	Key Management Personnel (Rupees in '000)	Retirement Benefit Funds	
<b>Deposits</b>					
At beginning of the year	1,438,356	86,815	275,992	118,882	1,920,045
Placements during the year	75,338,485	631,362	1,169,514	7,365,961	84,505,322
Withdrawals during the year	(75,085,259)	(571,583)	(1,150,739)	(7,333,240)	(84,140,821)
At end of the year	<u>1,691,582</u>	<u>146,594</u>	<u>294,767</u>	<u>151,603</u>	<u>2,284,546</u>
<b>Advances</b>					
At beginning of the year	1,404,261	426	30,252	-	1,434,939
Given during the year	16,218,504	2,976	41,608	-	16,263,088
Repaid during the year	(16,007,385)	(3,051)	(43,255)	-	(16,053,691)
At end of the year	<u>1,615,380</u>	<u>351</u>	<u>28,605</u>	<u>-</u>	<u>1,644,336</u>
<b>Investments</b>					
At beginning of the year	973,095	-	-	-	973,095
Investment made during the year	225,000	-	-	-	225,000
Redeemed / adjusted during the year	81,178	-	-	-	81,178
At end of the year	<u>1,279,273</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,279,273</u>
<b>Contingencies and commitments</b>					
	<u>532,693</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>532,693</u>
Purchase of fixed assets	1,734	-	-	-	1,734
Sale of securities	3,436	-	-	-	3,436
Redemption of mutual funds units	59	-	-	-	59
Purchase of mutual funds units	225,000	-	-	-	225,000
Mark-up earned	131,746	2	1,764	-	133,512
Mark-up expensed	92,825	13,588	26,001	17,668	150,082
Bank charges and commission	910	245	197	-	1,352
Gain on sale of securities	4	-	-	-	4
Salaries and allowances	-	-	172,338	-	172,338
Bonus	-	-	24,238	-	24,238
Contribution to defined contribution plan	-	-	7,578	-	7,578
Contribution to defined benefit plan	-	-	12,075	-	12,075
Staff provident fund	-	-	-	157,282	157,282
Staff gratuity fund	-	-	-	114,232	114,232
Directors' fee	-	2,500	-	-	2,500
Insurance claim received	20,945	-	-	-	20,945
Insurance premium paid	146,029	-	-	-	146,029
Dividend income	67,136	-	-	-	67,136
Brokerage and advisory income	758	-	-	-	758





	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	<u>1,438,356</u>	<u>86,815</u>	<u>275,992</u>	<u>118,882</u>	<u>1,920,045</u>
<b>Advances</b>					
At beginning of the year	369,808	214	17,525	–	387,547
Given during the year	17,461,683	1,653	31,744	–	17,495,080
Repaid during the year	(16,427,230)	(1,441)	(19,017)	–	(16,447,688)
At end of the year	<u>1,404,261</u>	<u>426</u>	<u>30,252</u>	<u>–</u>	<u>1,434,939</u>
<b>Investments</b>					
At beginning of the year	916,681	–	–	–	916,681
Investment made during the year	100,000	–	–	–	100,000
Redeemed / adjusted during the year	(43,586)	–	–	–	(43,586)
At end of the year	<u>973,095</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>973,095</u>
<b>Contingencies and commitments</b>					
	<u>518,781</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>518,781</u>
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
Brokerage and advisory income	667	–	–	–	667



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

#### 43.1 Scope of application

The Bank is the only entity in the Group to which Basel II capital adequacy framework applies. The Bank has ownership in the following subsidiary, where the Bank holds more than 50% of voting shares as at 31 December 2012:

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

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

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

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

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

#### 43.2 Capital adequacy

The Basel II Framework for 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 maximises the return to shareholders while providing sufficient buffer to absorb risks, including those from any unexpected events. Therefore, the Bank carefully monitors its capital adequacy ratio and endeavours to maintain it at a level sufficiently higher than the minimum regulatory requirement. The capital adequacy assessment process will continue to be further improved and refined, keeping in view the guidelines of 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	Standardised Approach
Market risk	Standardised Approach
Operational risk	Basic Indicator Approach

Total regulatory capital should be at least 10% of risk-weighted assets and the Bank's capital adequacy ratio is 16.12% (2011: 16.86%).



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 2012 is Rs. 9 billion. The Bank's paid-up capital as of 31 December 2012 is Rs. 10.104 billion.

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

### 43.3 Capital structure

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

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

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

	2012	2011
	(Rupees in '000)	
<i>Tier I Capital</i>		
Share capital	10,103,868	8,785,972
Reserves	6,296,672	5,207,369
Unappropriated profit	4,715,225	3,767,998
Non-controlling interest	106,753	109,782
Less: Adjustment for investments in associates*	(20,006)	(17,627)
Intangible assets	(88,828)	(49,977)
<b>Total Tier I Capital</b>	<b>21,113,684</b>	<b>17,803,517</b>
<i>Tier II Capital</i>		
Subordinated loans (upto 50% of total Tier I Capital)	4,837,000	5,536,420
General provisions subject to 1.25% of total risk weighted assets	2,341,526	1,976,286
Exchange translation reserve	167,874	117,320
Revaluation reserves (upto 45%)	1,757,031	1,236,351
Less: Adjustment for investments in associates*	(20,006)	(17,627)
<b>Total Tier II Capital</b>	<b>9,083,425</b>	<b>8,848,750</b>
<i>Eligible Tier III Capital</i>	-	-
<b>Total Eligible Regulatory Capital</b>	<b>30,197,109</b>	<b>26,652,267</b>

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



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

	Capital Requirements		Risk Weighted Assets	
	2012	2011	2012	2011
	(Rupees in '000)			
<b>Credit Risk</b>				
Sovereign	255,500	138,574	2,555,005	1,385,736
Public sector enterprises	735,574	119,701	7,355,743	1,197,007
Corporates	11,546,804	10,132,755	115,468,035	101,327,551
Banks	556,950	345,077	5,569,496	3,450,785
Retail	681,367	797,859	6,813,668	7,978,595
Residential mortgages	58,429	49,911	584,289	499,108
Equities, regulatory instruments, and mutual funds	448,849	349,786	4,488,492	3,497,863
Other assets	1,361,405	1,247,963	13,614,050	12,479,630
	<b>15,644,878</b>	<b>13,181,626</b>	<b>156,448,778</b>	<b>131,816,275</b>
<b>Market Risk</b>				
Interest rate risk	26,922	57,292	336,524	716,145
Foreign exchange risk	40,639	18,768	507,986	234,605
	<b>67,561</b>	<b>76,060</b>	<b>844,510</b>	<b>950,750</b>
<b>Operational Risk</b>	<b>2,402,305</b>	<b>2,026,871</b>	<b>30,028,814</b>	<b>25,335,886</b>
<b>Total</b>	<b>18,114,744</b>	<b>15,284,557</b>	<b>187,322,102</b>	<b>158,102,911</b>
<b>Capital Adequacy Ratio</b>				
Total eligible regulatory capital (a)	30,197,109	26,652,267		
Total risk weighted assets (b)	187,322,102	158,102,911		
Capital Adequacy Ratio [(a) / (b) x 100]	16.12%	16.86%		

#### 44. RISK MANAGEMENT

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

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



#### 44.1 Credit risk

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

It is the Bank's policy that all credit exposures shall be adequately collateralised, except when specially exempted by 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 collateralisation of exposures.

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

The Bank has implemented its own internal risk rating system for the credit portfolio, as per guidelines of 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 Standardised Approach to calculate capital charge for credit risk as per Basel II regulatory framework, with comprehensive approach for credit risk mitigation.

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



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

The Bank uses the ratings issued by The Pakistan Credit Rating Agency Limited (PACRA) and JCR-VIS Credit Rating Company Limited (JCR-VIS) for its local currency exposures and ratings issued by Moody's, S&P, and Fitch for its foreign currency exposures. These External Credit Assessments Institutions (ECAIs) have been approved by 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	3	3	–	–
Banks	3	3	3	–
Sovereigns	–	–	3	3
Small and Medium Enterprises	–	–	–	–
Securitisations	–	–	–	–
Others (public sector enterprises)	3	3	–	–

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 Standardised Approach

Risk buckets	Amount outstanding/ credit equivalent (rated and unrated)	Credit Risk Mitigation (CRM) deduction	Net amount
		(Rupees in '000)	
0%	291,260,686	–	291,260,686
20%	21,709,629	566,125	21,143,504
35%	1,669,397	–	1,669,397
50%	22,352,066	1,025,220	21,326,846
75%	12,208,095	3,123,204	9,084,891
100%	137,101,366	3,100,704	134,000,662
150%	157,030	51,674	105,356
	<u>486,458,269</u>	<u>7,866,927</u>	<u>478,591,342</u>

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

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



#### 44.1.3 Segment by class of business

2012

	Gross Advances		Deposits		Contingencies and Commitments	
	(Rupees in '000)	%	(Rupees in '000)	%	(Rupees in '000)	%
Agriculture / agri business	2,210,977	1.44	317,034	0.09	1,366,191	1.82
Automobiles and transportation equipment	928,223	0.60	1,242,271	0.36	2,620,963	3.49
Cement	585,206	0.38	70,492	0.02	289,846	0.39
Chemicals / pharmaceuticals	3,185,449	2.08	1,808,832	0.53	2,302,915	3.06
Commerce and trade	9,259,016	6.03	14,856,632	4.36	11,960,693	15.92
Electronics and electrical appliances	171,860	0.11	347,378	0.10	1,227,607	1.63
Fertilizers	607,413	0.40	4,169,917	1.23	69,186	0.09
Financial	4,283,011	2.79	5,399,818	1.59	1,370,623	1.82
Food and allied	28,206,992	18.38	2,983,610	0.88	2,464,831	3.28
Ghee and edible oil	3,927,721	2.56	947,494	0.28	7,224,412	9.61
Individuals	3,457,090	2.25	241,523,050	70.95	13,860	0.02
Iron and steel	7,495,526	4.88	1,596,071	0.47	3,925,636	5.22
Oil refinery / marketing	1,563,332	1.02	10,374,129	3.05	1,588,844	2.11
Paper and board	1,736,539	1.13	95,685	0.03	332,428	0.44
Plastic products	1,713,649	1.12	435,890	0.13	3,296,186	4.39
Production and transmission of energy	10,586,705	6.90	1,082,843	0.32	1,789,234	2.38
Real estate / construction	1,586,594	1.03	4,451,451	1.31	3,103,729	4.13
Services (other than financial)	1,476,647	0.96	9,977,542	2.93	1,497,228	1.99
Shoes and leather garments	996,765	0.65	578,336	0.17	334,860	0.45
Sugar	3,161,360	2.06	1,467,343	0.44	609,057	0.83
Surgical equipments	687,175	0.45	385,881	0.11	634,632	0.84
Textile						
Spinning	21,595,676	14.07	1,578,789	0.46	9,494,332	12.64
Weaving	9,768,467	6.37	855,448	0.25	3,751,720	4.99
Composite	19,200,670	12.51	1,689,800	0.50	4,370,065	5.82
Ready-made garments	4,219,638	2.75	933,643	0.27	2,863,392	3.81
	54,784,451	35.70	5,057,680	1.48	20,479,509	27.26
Others	10,842,119	7.08	31,217,179	9.17	6,637,885	8.83
	<u>153,453,820</u>	<u>100.00</u>	<u>340,386,558</u>	<u>100.00</u>	<u>75,140,355</u>	<u>100.00</u>



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
	<u>119,994,310</u>	<u>100.00</u>	<u>302,097,187</u>	<u>100.00</u>	<u>53,138,104</u>	<u>100.00</u>





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

	2012		2011	
	Classified Advances	Specific Provision held (Rupees in '000)	Classified Advances	Specific Provision held
Agriculture / agri business	74,156	74,156	74,156	74,156
Automobiles and transportation equipment	33,769	33,769	33,734	33,734
Chemical / pharmaceuticals	—	—	5,169	5,169
Commerce and trade	447,105	447,105	457,098	446,087
Electronics and electrical appliances	4,058	4,058	9,498	4,749
Financial	292,327	90,056	292,327	210,201
Ghee and edible oil	2,075	2,075	2,075	2,075
Individuals	51,558	49,120	53,687	49,739
Oil refinery / marketing	17,998	17,998	17,998	17,998
Plastic products	91,676	91,676	92,278	88,528
Real estate / construction	260,346	260,346	263,313	253,921
Shoes and leather garments	5,849	5,849	16,621	16,621
Surgical equipments	2,797	2,797	—	—
Textile				
Spinning	961,282	942,162	933,591	933,591
Weaving	251,362	108,814	23,443	11,722
Composite	994,954	872,101	837,414	811,428
Ready-made garments	164,233	44,290	10,125	9,825
	<b>2,371,831</b>	<b>1,967,367</b>	1,804,573	1,766,566
Others	50,185	16,561	81,103	29,303
	<b>3,705,730</b>	<b>3,062,933</b>	3,203,630	2,998,847

#### 44.1.5 Segment by sector

	2012					
	Gross Advances (Rupees in '000)		Deposits (Rupees in '000)		Contingencies and Commitments (Rupees in '000)	
		%		%		%
Public / Government	33,456,872	21.80	27,499,134	8.08	8,252,289	10.98
Private	119,996,948	78.20	312,887,424	91.92	66,888,066	89.02
	<b>153,453,820</b>	<b>100.00</b>	<b>340,386,558</b>	<b>100.00</b>	<b>75,140,355</b>	<b>100.00</b>
	2011					
	Gross Advances (Rupees in '000)		Deposits (Rupees in '000)		Contingencies and Commitments (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>



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

	2012		2011	
	Classified Advances	Specific Provision held (Rupees in '000)	Classified Advances	Specific Provision held
Public / Government	—	—	—	—
Private	3,705,730	3,062,933	3,203,630	2,998,847
	<b>3,705,730</b>	<b>3,062,933</b>	<b>3,203,630</b>	<b>2,998,847</b>

#### 44.1.7 Geographical segment analysis

	2012			
	Profit before taxation	Total assets employed (Rupees in '000)	Net assets employed	Contingencies and commitments
Pakistan	8,662,663	442,348,435	23,174,470	70,403,181
Middle East	266,579	11,005,507	1,003,945	4,737,174
	<b>8,929,242</b>	<b>453,353,942</b>	<b>24,178,415</b>	<b>75,140,355</b>
	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>

#### 44.2 Market risk

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

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

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



Dealing activities of the Bank include investment in government securities, term finance certificates, sukuks / 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 as well as Bank's internal policy.

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

#### 44.2.1 Interest rate / yield risk

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

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

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

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

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

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

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



44.2.2 Mismatch of interest rate sensitive assets and liabilities

2012

	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	-	27,464,345	4,505,096	-	-	-	-	-	-	-	-	22,959,249
Balances with other banks	0.02%	9,747,248	8,657,584	-	-	-	-	-	-	-	-	1,089,664
Lendings to financial institutions	8.75%	993,981	993,981	-	-	-	-	-	-	-	-	-
Investments	10.56%	249,923,504	40,906,218	63,430,590	59,723,528	59,863,152	1,329,443	2,287,865	6,290,528	12,635,428	-	3,456,752
Advances	9.82%	147,859,828	96,592,497	30,756,817	14,801,098	544,025	811,925	915,702	1,242,651	773,125	1,421,988	-
Other assets	-	4,961,740	-	-	-	-	-	-	-	-	-	4,961,740
		440,950,646	151,655,376	94,187,407	74,524,626	60,407,177	2,141,368	3,203,567	7,533,179	13,408,553	1,421,988	32,467,405
Liabilities												
Bills payable	-	5,257,191	-	-	-	-	-	-	-	-	-	5,257,191
Borrowings	8.56%	69,622,055	52,388,284	6,919,877	6,970,516	377,627	617,118	656,261	1,019,825	672,547	-	-
Deposits and other accounts	7.81%	340,386,558	159,178,670	18,351,569	19,422,776	22,455,908	9,396,968	3,846,405	2,999,296	-	-	104,734,966
Sub-ordinated loans	14.84%	6,489,300	-	1,497,100	1,000	1,400	1,994,000	1,200	2,994,600	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	4,065,054	-	-	-	-	-	-	-	-	-	4,065,054
		425,820,158	211,566,954	26,768,546	26,394,292	22,834,935	12,008,086	4,503,866	7,013,721	672,547	-	114,057,211
On-balance sheet gap		15,130,488	(59,911,578)	67,418,861	48,130,334	37,572,242	(9,866,718)	(1,300,299)	519,458	12,736,006	1,421,988	(81,589,806)
Off-balance sheet financial instruments												
Forward purchase of foreign exchange contracts		15,272,338	5,575,942	3,782,904	3,874,199	2,039,293	-	-	-	-	-	-
Forward sale of foreign exchange contracts		(16,888,512)	(9,981,099)	(3,247,329)	(2,753,805)	(906,279)	-	-	-	-	-	-
Forward commitments to extend credit		472,257	503	-	471,754	-	-	-	-	-	-	-
Off-balance sheet gap		(1,143,917)	(4,404,654)	535,575	1,592,148	1,133,014	-	-	-	-	-	-
Total interest / yield risk sensitivity gap		13,986,571	(64,316,232)	67,954,436	49,722,482	38,705,256	(9,866,718)	(1,300,299)	519,458	12,736,006	1,421,988	
Cumulative interest / yield risk sensitivity gap			(64,316,232)	3,638,204	53,360,686	92,065,942	82,199,224	80,898,925	81,418,383	94,154,389	95,576,377	



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 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	



### 44.2.3 Foreign exchange risk

Foreign exchange risk is the risk of loss from adverse changes in currency exchange rates. The Bank's foreign exchange exposure comprises forward contracts, purchase of foreign bills, foreign currency loans and investments, foreign currency cash in hand, balances with banks abroad, foreign currency deposits and foreign currency placements with 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>2012</b>			
	<b>Assets</b>	<b>Liabilities</b>	<b>Off-balance sheet items</b>	<b>Net currency exposure</b>
		(Rupees in '000)		
Pakistan Rupee	<b>409,475,010</b>	<b>387,791,038</b>	<b>1,617,592</b>	<b>23,301,564</b>
United States Dollar	<b>41,446,186</b>	<b>34,425,693</b>	<b>(6,072,866)</b>	<b>947,627</b>
Great Britain Pound	<b>871,690</b>	<b>4,221,366</b>	<b>3,347,636</b>	<b>(2,040)</b>
Japanese Yen	<b>81,871</b>	–	<b>(121,822)</b>	<b>(39,951)</b>
Euro	<b>1,309,654</b>	<b>2,323,450</b>	<b>981,461</b>	<b>(32,335)</b>
Other currencies	<b>169,531</b>	<b>413,980</b>	<b>247,999</b>	<b>3,550</b>
	<b>453,353,942</b>	<b>429,175,527</b>	–	<b>24,178,415</b>
	<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)
	384,525,614	364,514,326	–	20,011,288



### 44.3 Liquidity risk

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

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

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

- To maintain a comfortable margin of excess liquidity in the form of cash and readily marketable assets to meet the Bank's funding requirements at any time.
- To keep a strong focus on mobilisation of low-cost core deposits from customers.
- To maintain a realistic balance between the behavioural 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.

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



#### 44.3.1 Maturities of assets and liabilities - based on expected maturities as determined by ALCO

For assets and liabilities that have a contractual maturity, the expected maturity is considered to be the same as contractual maturity. Assets and Liabilities that do not have a contractual maturity have been categorised on the basis of expected maturities as determined by ALCO. In case of saving and current accounts, their historical net withdrawal pattern over the next one year was reviewed, based on year-end balances for the last three years. Thereafter, taking a conservative view, ALCO categorised these deposits in various maturity bands. Other assets and liabilities have been categorised on the basis of assumptions / judgments that are believed to be reasonable.

	2012									
	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	27,464,345	27,464,345	-	-	-	-	-	-	-	-
Balances with other banks	9,747,248	9,747,248	-	-	-	-	-	-	-	-
lendings to financial institutions	993,981	993,981	-	-	-	-	-	-	-	-
Investments	249,923,504	38,434,669	62,897,387	58,054,852	63,077,728	2,526,058	2,680,452	7,771,480	14,125,164	355,714
Advances	147,859,828	47,624,578	34,093,116	21,159,165	18,032,876	7,862,798	6,444,278	9,101,032	2,105,560	1,436,425
Operating fixed assets	11,211,423	237,963	202,032	270,833	501,817	720,829	2,795,610	609,037	747,797	5,125,505
Other assets	6,153,613	4,711,031	709,525	268,633	171,176	84,787	42,754	44,137	49,377	72,193
	453,353,942	129,213,815	97,902,060	79,753,483	81,783,597	11,194,472	11,963,094	17,525,686	17,027,898	6,989,837
<i>Liabilities</i>										
Bills payable	5,257,191	5,257,191	-	-	-	-	-	-	-	-
Borrowings	69,622,055	52,388,284	6,919,877	6,970,516	377,627	617,118	656,261	1,019,825	672,547	-
Deposits and other accounts	340,386,558	45,045,584	42,670,242	43,741,449	46,774,581	53,170,579	47,620,016	49,204,773	12,159,334	-
Sub-ordinated loans	6,489,300	-	700	1,000	1,700	751,000	750,700	1,992,000	2,992,200	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	1,929,441	403,511	24,572	36,197	66,636	123,492	657,565	43,730	(917)	574,655
Other liabilities	5,490,982	3,568,400	107,018	400,762	798,507	8,979	29,342	107,253	-	470,721
	429,175,527	106,662,970	49,722,409	51,149,924	48,019,051	54,671,168	49,713,884	52,367,581	15,823,164	1,045,376
<i>Net assets</i>	24,178,415	22,550,845	48,179,651	28,603,559	33,764,546	(43,476,696)	(37,750,790)	(34,841,895)	1,204,734	5,944,461
Share capital	10,103,868									
Reserves	6,464,546									
Unappropriated profit	4,715,225									
Non-controlling interest	106,753									
Surplus on revaluation of assets - net of tax	2,788,023									
	24,178,415									





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)									
<b>Assets</b>										
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
<b>Liabilities</b>										
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
<b>Net assets</b>	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									



#### 44.3.2 Maturities of assets and liabilities - based on contractual maturities

The following maturity profile is based on contractual maturities for assets and liabilities that have a contractual maturity. Assets and liabilities that do not have a contractual maturity have been categorised in the shortest maturity band.

	2012									
	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	27,464,345	27,464,345	-	-	-	-	-	-	-	-
Balances with other banks	9,747,248	9,747,248	-	-	-	-	-	-	-	-
Lendings to financial institutions	993,981	993,981	-	-	-	-	-	-	-	-
Investments	249,923,504	43,238,418	62,812,290	58,038,142	59,706,261	2,476,662	2,626,920	7,595,133	13,429,678	-
Advances	147,859,828	47,624,578	34,093,116	21,159,165	18,032,876	7,862,798	6,444,278	9,101,032	2,105,560	1,436,425
Operating fixed assets	11,211,423	5,490,905	136,090	199,374	374,099	663,401	534,174	609,017	747,797	2,456,566
Other assets	6,153,613	4,997,856	686,945	129,938	103,811	84,787	42,754	44,137	49,377	14,008
	453,353,942	139,557,331	97,728,441	79,526,619	78,217,047	11,087,648	9,648,126	17,349,319	16,332,412	3,906,999
<i>Liabilities</i>										
Bills payable	5,257,191	5,257,191	-	-	-	-	-	-	-	-
Borrowings	69,622,055	52,388,284	6,919,877	6,970,516	377,627	617,118	656,261	1,019,825	672,547	-
Deposits and other accounts	340,386,558	263,913,637	18,351,569	19,422,776	22,455,908	9,396,968	3,846,405	2,999,295	-	-
Sub-ordinated loans	6,489,300	-	700	1,000	1,700	751,000	750,700	1,992,000	2,992,200	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	1,929,441	1,017,901	21,211	31,156	56,553	103,328	81,823	43,730	(917)	574,656
Other liabilities	5,490,982	4,562,604	103,618	4,000	780,644	8,979	29,342	1,795	-	-
	429,175,527	327,139,617	25,396,975	26,429,448	23,672,432	10,877,393	5,364,531	6,056,645	3,663,830	574,656
<i>Net assets</i>	24,178,415	(187,582,286)	72,331,466	53,097,171	54,544,615	210,255	4,283,595	11,292,674	12,668,582	3,332,343
Share capital	10,103,868									
Reserves	6,464,546									
Unappropriated profit	4,715,225									
Non-controlling interest	106,753									
Surplus on revaluation of assets										
- net of tax	2,788,023									
	24,178,415									



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	6,095,005	16,911,113	63,663,958	105,011,717	6,029,052	2,514,068	8,007,197	14,872,991	-
Advances	114,863,132	31,070,250	21,808,866	23,878,170	17,538,430	4,256,384	4,366,018	6,553,986	4,179,736	1,211,292
Operating fixed assets	10,791,345	5,279,973	114,207	179,206	334,568	600,641	497,678	617,535	701,054	2,466,483
Other assets	6,063,405	4,753,412	889,251	119,527	105,936	82,645	26,438	25,552	40,016	20,628
	384,525,614	76,901,271	39,723,437	87,840,861	122,990,651	10,968,722	7,404,202	15,204,270	19,793,797	3,698,403
<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	202,983,918	30,933,268	16,340,993	33,078,710	5,461,899	9,878,104	3,420,295	-	-
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	322,480	17,266	29,856	55,598	97,374	78,598	64,320	(13,522)	580,463
Other liabilities	5,373,006	4,473,969	122,630	16,384	741,484	7,353	8,858	2,328	-	-
	364,514,326	241,287,930	38,512,953	20,453,475	34,429,218	5,998,872	11,474,835	6,965,381	4,811,199	580,463
<i>Net assets</i>	20,011,288	(164,386,659)	1,210,484	67,387,386	88,561,433	4,969,850	(4,070,633)	8,238,889	14,982,598	3,117,940
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									



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

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

##### **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.

#### 44.5 **Operational risk**

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

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

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

The Bank places a high priority on conducting all business dealings with integrity and fairness, as laid down in the Code of Conduct (formally Statement of Ethics & Business Practices), which is required to be compiled 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.



## 45. ISLAMIC BANKING BUSINESS

45.1 The Bank is operating 13 (2011: 11) Islamic banking branches in Pakistan. The statement of financial position and profit and loss account of these branches as at 31 December 2012 and for the year are as follows:

### 45.1.1 STATEMENT OF FINANCIAL POSITION

	Note	2012	2011
		(Rupees in '000)	
<b>ASSETS</b>			
Cash and balances with treasury banks		322,418	270,353
Balances with and due from financial institutions		2,786	494,968
Investments		1,573,586	1,362,945
Islamic financing and related assets	45.1.1.1	7,698,981	5,903,778
Operating fixed assets		41,123	35,719
Other assets		254,653	252,128
		<b>9,893,547</b>	<b>8,319,891</b>
<b>LIABILITIES</b>			
Bills payable		44,896	29,886
Due to financial institutions		1,081,647	1,192,491
Deposits and other accounts		6,824,034	5,447,863
– Current accounts		1,469,285	986,652
– Saving accounts		713,014	519,840
– Term deposits		3,981,713	3,612,383
– Others		58,863	12,832
– Deposits from financial institutions - remunerative		600,625	315,594
– Deposits from financial institutions - non-remunerative		534	562
Due to Head Office		360,000	195,478
Other liabilities		315,081	180,097
		<b>(8,625,658)</b>	<b>(7,045,815)</b>
<b>NET ASSETS</b>		<b>1,267,889</b>	<b>1,274,076</b>
<b>REPRESENTED BY:</b>			
Islamic banking fund		950,000	900,000
Unremitted profit		310,177	372,106
		<b>1,260,177</b>	<b>1,272,106</b>
Surplus on revaluation of assets		7,712	1,970
		<b>1,267,889</b>	<b>1,274,076</b>



#### 45.1.1.1 Islamic financing and related assets

	2012	2011
	(Rupees in '000)	
Murabaha	3,125,006	1,848,829
Ijarah	3,926	44,812
Net book value of assets / investment in ijarah under IFAS 2	307,173	109,668
Diminishing musharika	2,851,554	2,099,681
Export refinance murabaha	81,600	158,727
Export refinance istisna	1,000,047	1,086,631
Istisna	44,644	11,102
Gross financing	7,413,950	5,359,450
Less: general provisioning against consumer financing	(231)	-
Net financing	7,413,719	5,359,450
Advance against murabaha	277,979	488,786
Advance against ijarah	7,283	55,542
Islamic financing and related assets - net off provision	<u>7,698,981</u>	<u>5,903,778</u>

#### 45.1.1.2 Islamic financing and related assets

Financings / inventory / receivables	7,413,950	5,359,450
Advances	285,262	544,328
Less: general provision against consumer financing	(231)	-
	<u>7,698,981</u>	<u>5,903,778</u>

#### Islamic modes of financing

Subsequent to the year end, SBP issued BSD Circular Letter No. 03 dated January 22, 2013 whereby all Islamic Banks and Banks with Islamic banking Branches are required to present all financing, advances against murabaha, inventories and any other related items pertaining to Islamic mode of financing under the caption "Islamic Financing and Related Assets" in the Statement of Financial Position. Previously, Advances against Murabaha and Inventories were reported under "Other Assets" separately from the financing balances. This change in presentation is effective from 31 December 2012 and accordingly the Bank has revised the presentation of the Financial position of Islamic Banking Branches. Corresponding figures for 2012 have been adjusted accordingly.



	2012	2011
	(Rupees in '000)	
<b>45.2 PROFIT AND LOSS ACCOUNT</b>		
Profit / return on financing and placements earned	<b>1,076,165</b>	1,029,044
Profit / return on deposits and other dues expensed	<b>(566,121)</b>	(569,686)
Provision against non performing loans and advances	<b>510,044</b>	459,358
Net spread earned	<b>(231)</b>	-
	<b>509,813</b>	459,358
<b>OTHER INCOME</b>		
Fee, commission and brokerage income	<b>29,808</b>	28,670
Income from dealing in foreign currencies	<b>8,764</b>	8,314
Other income	<b>5,269</b>	4,399
	<b>43,841</b>	41,383
	<b>553,654</b>	500,741
<b>OTHER EXPENSES</b>		
Administrative expenses	<b>(243,477)</b>	(128,635)
	<b>310,177</b>	372,106
<b>45.3 Remuneration to Shariah Advisor / Board</b>	<b>1,530</b>	1,230
<b>45.4 CHARITY FUND</b>		
Opening balance	<b>2,281</b>	2,059
Additions during the year	<b>9,779</b>	2,281
Payments / utilisation during the year		
Health	<b>(1,356)</b>	(1,609)
Social welfare	<b>(925)</b>	(450)
	<b>(2,281)</b>	(2,059)
Closing balance	<b>9,779</b>	2,281

#### 45.5 PROFIT AND LOSS DISTRIBUTION AND POOL MANAGEMENT

##### 45.5.1 The number and nature of pools maintained by the Islamic Banking Branch along with their key features and risk and reward characteristics :

We have a single pool mechanism with the depositors. The pool operates on Mudarba basis. Since we are operating in a single pool structure the risk and reward are proportionately shared by the depositor.

##### Parameters associated with risk and rewards:

Following are the key consideration attached with risk and reward of the pool:

Period, return, safety, security and liquidity of the investment.

Maturities of funds obtained from Principal Office, Islamic Banking Institutions and Shariah compliant organisations as regulated in Pakistan.



Element of risk attached to various types of investment.

SBP rules and Shariah clearance.

#### 45.5.2 **Avenues / sectors of economy / business where Mudaraba based deposits have been deployed**

The Mudaraba based funds have been deployed in the following avenues / sectors / business:

Chemical & pharmaceuticals  
Agribusiness  
Textile  
Sugar  
Shoes and leather garments  
GOP ijarah sukuk  
Production and transmission of energy  
Food and tobacco except sugar  
Individuals  
Others (Ship breaking, Plastic product)

#### 45.5.3 **Parameters used for allocation of profit, charging expenses and provisions etc. along with a brief description of their major components**

The Bank's Islamic Banking Division (IBD) is currently accepting Pak Rupees Term Deposits and Saving Deposits under Mudaraba Arrangements, wherein the Bank is Mudarib and depositors are Rab-UI-Maal. The bank also commingles its funds with those of depositors.

The funds so generated shall be invested by the Bank in Shariah compliant modes of financing such as Murabaha, Ijarah, Istisna, Diminishing Musharaka and Ijarah Sukuk.

The Bank calculates the profit of the pool after every quarter. Profit is distributed at the Gross Income level. The Gross Income is calculated after deducting costs and expenses such as cost of Murabaha, cost of Takaful, Depreciation directly incurred in deriving that Income.

Gross Income of the deposit pool is being shared between the Bank (Mudarib) and depositors (Rab ul Maal) on the basis of a pre-determined profit sharing ratio.

The Bank's profit sharing ratio during the year was 60% (2011: 60%) of Gross Income and depositor profit sharing ratio was 40% (2011: 40%) of Gross Income.

The profit is distributed among the account holders on the basis of predetermined weightages, announced at the beginning of the quarter based on their respective category / tiers. In case of loss, Rab-UI-Maal has to bear the loss in the ratio of investment.

In case of provisioning, the general and specific provisions created against non-performing financing and diminution in the value of investments as under prudential regulations and other SBP directives shall be borne by the IBD as Mudarib. However, write-offs of financings and loss on sale of investments shall be charged to the pool along with other direct expenses.





#### 45.5.4 Mudarib share (in amount and percentage of Distributable Income)

	2012 (Rupees in Million)	2011
Distributable Income	953	952
Mudarib Share	572	571
Mudarib Share (percent)	60%	60%

#### 45.5.5 Amount and percentage of Mudarib share transferred to the depositors through Hiba

Mudarib Share	572	571
Hiba	189	169
Hiba percentage of Mudarib Share	33%	30%

#### 45.5.6 Profit rate earned vs. profit rate distributed to the depositors during the year

Profit Rate Earned	12.30%	13.71%
Profit Rate Distributed	7.48%	8.86%

#### 46. SUBSEQUENT EVENT

Subsequent to the year end, the Board of Directors proposed a final cash dividend of Rs. 3 (2011: Rs. 2.50) per share.

#### 47. GENERAL

- 47.1 Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparative and to conform with changes in presentation in the current year.
- 47.2 Captions, as prescribed by BSD Circular No. 04, dated 17 February 2006, in respect of which there are no amounts have not been reproduced in these financial statements, except for the captions of the statement of financial position and profit and loss account.
- 47.3 Figures have been rounded off to the nearest thousand rupees.
- 47.4 Effective this year, the cost of foreign exchange forward swap contracts has been netted off against mark-up / return / interest expense. This was previously included in income from dealing in foreign currencies. Accordingly, comparative figure in respect of swap cost for the year ended 31 December 2012 amounting to Rs. 126.855 million has been reclassified in these financial statements. There are no other major reclassification to report.

#### 48. DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue in the Board of Directors' meeting held on February 14, 2013.

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 2012**

(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.	Tooba Garments Industries 19/2/2, Sector-12 C, North Karachi Indl Area, Karachi	Rukhsana (CNIC No. 42101-1264204-2)	S. Moin-ul-Haq Farooqi	5,665	1,200	-	6,865	665	1,214	167	2,046
2.	Tabassum / Shahnawaz Khan G-23/IIA, 5th Gizri Street, Gizri Avenue, Phase-IV DHA Karachi	Tabassum Shahnawaz (CNIC No. 42401-1813128-4) M. Shahnawaz Khan (CNIC No. 42401-0530477-7)	M. Shahnawaz Khan Yousuf Zai M. Basharat Khan Yousuf Zai	2,964	3,195	-	6,159	-	3,195	-	3,195
3.	R.A. Associates (Pvt) Ltd Flat No. 2, Asif Palace, BS-2 Block-13, F.B. Area Karachi	Syed Muhammad Pervez Jafri (CNIC No. 42101-3191477-7) Nabeela Jafri (CNIC No. 42101-9822525-0)	Syed Muhammad Ahsan Jafri Syed Muhammad Pervez Jafri	5,169	198	-	5,367	1,167	270	-	1,437
4.	M.H. Oil Mills (Pvt) Ltd E-32, S.I.T.E, Karachi	Mr. Abdul Hai (CNIC No. 42101-6938667-5) Mr. Muhammad Arshad Hai (CNIC No. 42101-5007544-9) Mr. Muhammad Asim Hai (CNIC No. 42101-8957508-9)	Muhammad Umer Abdul Hai Abdul Hai	16,573	6,678	-	23,251	1,455	7,968	-	9,423
			<b>Total</b>	<b>30,371</b>	<b>11,271</b>	<b>-</b>	<b>41,642</b>	<b>3,287</b>	<b>12,647</b>	<b>167</b>	<b>16,101</b>

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

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



## Report of Shariah Advisor

We have examined, on test check basis, each class of transaction, the relevant documentation and procedures adopted by Islamic Banking Branches / Division of Bank AL Habib Limited (IBB-BAHL), and we hereby report, for the year ended December 31, 2012, that in our opinion;

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

Karachi: February 14, 2013

ISMATULLAH  
**Shariah Advisor**  
Islamic Banking Division



## Branch Network

The Bank has a network of 390 branches including 82 sub-branches, a wholesale branch in the Kingdom of Bahrain, a branch in Karachi Export Processing Zone and 13 Islamic Banking branches. The Bank has branches / sub-branches / representative offices in the following cities:

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

### Off Shore Branches

- Export Processing Zone, Karachi
- Manama, Bahrain

### Representative Offices

- 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)



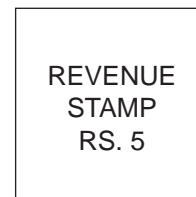
## Form of Proxy

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 Second Annual General Meeting of the Bank to be held on Tuesday, March 26, 2013 and at any adjournment thereof.

As witness my/our hand this \_\_\_\_\_ day of \_\_\_\_\_ 2013.



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.