

## **Auditors' Report to Members on Review of Interim Financial Information**

### *Introduction*

We have reviewed the accompanying condensed interim unconsolidated balance sheet of Habib Bank Limited ("the Bank") as at June 30, 2009 and the related condensed interim unconsolidated profit and loss account, condensed interim unconsolidated cash flow statement, condensed interim unconsolidated statement of changes in equity and condensed interim unconsolidated statement of comprehensive income for the six months period then ended (the interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as at June 30, 2009 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting.

The figures for the quarter ended June 30, 2009 in the condensed interim unconsolidated profit and loss account have not been reviewed and we do not express a conclusion on them.

**Date:**  
**Karachi**

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**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**  
**(Syed Iftikhar Anjum)**

**HABIB BANK LIMITED**  
**CONDENSED INTERIM UNCONSOLIDATED BALANCE SHEET**  
**AS AT JUNE 30, 2009**

	Note	(Unaudited) June 30, 2009	(Audited) December 31, 2008
(Rupees in '000)			
<b>ASSETS</b>			
Cash and balances with treasury banks		64,450,566	56,359,367
Balances with other banks		35,567,219	32,720,391
Lendings to financial institutions		22,184,363	6,193,787
Investments	6	136,501,914	124,615,444
Advances	7	438,867,549	438,879,970
Other assets		39,041,375	33,510,500
Operating fixed assets		14,629,070	14,567,933
Deferred tax asset		9,590,867	10,454,612
		760,832,923	717,302,004
<b>LIABILITIES</b>			
Bills payable		8,202,510	9,897,252
Borrowings from financial institutions	9	41,320,273	43,906,501
Deposits and other accounts	10	616,050,150	572,399,187
Sub-ordinated loans	11	4,072,855	3,954,925
Liabilities against assets subject to finance lease		-	-
Other liabilities		20,578,664	22,099,728
Deferred tax liability		-	-
		690,224,452	652,257,593
<b>NET ASSETS</b>		<b>70,608,471</b>	<b>65,044,411</b>
<b>REPRESENTED BY:</b>			
<b>Shareholders' equity</b>			
Share capital		9,108,000	7,590,000
Reserves		24,139,145	22,882,318
Unappropriated profit		31,050,542	30,818,496
		64,297,687	61,290,814
Surplus on revaluation of assets - net of deferred tax	12	6,310,784	3,753,597
		70,608,471	65,044,411
<b>CONTINGENCIES AND COMMITMENTS</b>	13		

The annexed notes 1 to 20 form an integral part of the condensed interim unconsolidated financial information.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**

**HABIB BANK LIMITED**  
**CONDENSED INTERIM UNCONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2009**

	Note	Six months ended		Quarter ended	
		January 01 to June 30, 2009	January 01 to June 30, 2008	April 01 to June 30, 2009	April 01 to June 30, 2008
------(Rupees in '000)-----					
Mark-up / return / interest earned	14	36,704,645	27,566,484	18,467,416	14,057,069
Mark-up / return / interest expensed	15	15,863,592	11,044,007	8,046,039	5,897,762
Net mark-up / interest income		20,841,053	16,522,477	10,421,377	8,159,307
Provision against non-performing loans and advances - net	7.2 / 7.3	5,189,656	1,108,001	2,806,938	643,815
(Reversal) / charge against off-balance sheet obligations		(123,110)	-	155,284	-
(Reversal) / charge against diminution in value of investments	6.2	(864,348)	11,779	54,383	16,983
Bad debts written off directly		-	-	-	-
		4,202,198	1,119,780	3,016,605	660,798
Net mark-up / interest income after provisions		16,638,855	15,402,697	7,404,772	7,498,509
<b>Non mark-up / interest income</b>					
Fee, commission and brokerage income		2,319,647	1,832,184	1,221,660	980,492
Income / gain on investments	16	90,890	651,315	271,609	79,946
Income from dealing in foreign currencies		761,389	977,998	419,482	620,421
Other income		1,523,382	1,063,218	833,452	522,053
Total non-mark-up / interest income		4,695,308	4,524,715	2,746,203	2,202,912
		21,334,163	19,927,412	10,150,975	9,701,421
<b>Non mark-up / interest expense</b>					
Administrative expenses		10,729,446	9,296,809	5,200,954	4,827,849
Other provisions / write offs - net		(28,508)	112,955	(114,497)	210,332
Other charges		873	1,037	535	161,190
Workers welfare fund		212,647	210,332	101,280	445
Total non mark-up / interest expenses		10,914,458	9,621,133	5,188,272	5,199,816
<b>Profit before taxation</b>		10,419,705	10,306,279	4,962,703	4,501,605
Taxation - current		3,921,625	3,953,121	1,587,961	2,054,518
- prior		388,502	1,062,330	208,502	1,062,330
- deferred		(444,590)	(1,065,765)	93,499	(1,091,139)
		3,865,537	3,949,686	1,889,962	2,025,709
<b>Profit after taxation</b>		6,554,168	6,356,593	3,072,741	2,475,896
------(Rupees)-----					
Basic and diluted earnings per share		7.20	6.98	3.37	2.72

The annexed notes 1 to 20 form an integral part of the condensed interim unconsolidated financial information.

President and Chief Executive Officer

Director

Director

Director

**HABIB BANK LIMITED**  
**CONDENSED INTERIM UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2009**

	RESERVES					Total
	Share capital	Exchange translation reserve	Statutory	General	Unappropriated profit	
----- (Rupees in '000) -----						
Balance as at December 31, 2007	6,900,000	2,535,923	10,018,849	6,073,812	25,212,980	50,741,564
Total comprehensive income for the period	-	2,205,646	-	-	6,356,593	8,562,239
Transferred from surplus on revaluation of fixed assets	-	-	-	-	24,239	24,239
Transferred to statutory reserves	-	-	635,659	-	(635,659)	-
Cash dividend at Rs. 4 per share	-	-	-	-	(2,760,000)	(2,760,000)
Issued as bonus shares	690,000	-	-	-	(690,000)	-
Balance as at June 30, 2008	7,590,000	4,741,569	10,654,508	6,073,812	27,508,153	56,568,042
Total comprehensive income for the period	-	1,047,990	-	-	3,644,387	4,692,377
Transferred from surplus on revaluation of fixed assets	-	-	-	-	30,395	30,395
Transferred to statutory reserves	-	-	364,439	-	(364,439)	-
Issue as bonus shares	-	-	-	-	-	-
Balance as at December 31, 2008	7,590,000	5,789,559	11,018,947	6,073,812	30,818,496	61,290,814
Total comprehensive income for the period	-	601,410	-	-	6,554,168	7,155,578
Transferred from surplus on revaluation of fixed assets	-	-	-	-	25,795	25,795
Transferred to statutory reserves	-	-	655,417	-	(655,417)	-
Cash dividend at Rs. 5.50 per share	-	-	-	-	(4,174,500)	(4,174,500)
Issued as bonus shares	1,518,000	-	-	-	(1,518,000)	-
Balance as at June 30, 2009	9,108,000	6,390,969	11,674,364	6,073,812	31,050,542	64,297,687

The annexed notes 1 to 20 form an integral part of the condensed interim unconsolidated financial information.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**

**HABIB BANK LIMITED**  
**CONDENSED INTERIM UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2009**

	<b>June 30, 2009</b>	<b>June 30, 2008</b>
	<b>(Rupees in '000)</b>	
<b>Profit for the period</b>	6,554,168	6,356,593
<b>Other comprehensive income</b>		
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	601,410	2,205,646
<b>Comprehensive income transferred to equity</b>	<u>7,155,578</u>	<u>8,562,239</u>
<b>Components of comprehensive income not reflected in equity</b>		
Surplus / (deficit) on revaluation of investments	3,891,319	(1,900,756)
Deferred tax on revaluation of investments	(1,308,607)	658,551
<b>Total comprehensive income</b>	<u><u>9,738,290</u></u>	<u><u>7,320,034</u></u>

The annexed notes 1 to 20 form an integral part of the condensed interim unconsolidated financial information.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**

**HABIB BANK LIMITED**  
**CONDENSED INTERIM UNCONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2009**

	<b>June 30, 2009</b>	<b>June 30, 2008</b>
	<b>(Rupees in '000)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	10,419,705	10,306,279
Dividend income	(166,256)	(470,010)
Loss / (Gain) on sale of investments - net	75,366	(181,305)
	<u>(90,890)</u>	<u>(651,315)</u>
	10,328,815	9,654,964
<b>Adjustment for:</b>		
Depreciation / amortisation / adjustments	752,354	751,582
(Reversal) / charge against diminution in value of investments	(864,348)	11,779
Provision against non-performing loans and advances - net of reversals	5,189,656	1,108,001
Exchange loss on sub-ordinated loans	117,930	319,850
Gain on sale of property and equipment - net	(20,290)	(29,599)
Miscellaneous provisions	(151,618)	112,955
	<u>5,023,684</u>	<u>2,274,568</u>
	15,352,499	11,929,532
<b>(Increase) / decrease in operating assets</b>		
Lendings to financial institutions	(15,990,576)	449,873
Loans and advances	(5,177,235)	(27,533,348)
Other assets - net	(3,548,764)	(1,647,406)
	<u>(24,716,575)</u>	<u>(28,730,881)</u>
<b>Increase / (decrease) in operating liabilities</b>		
Deposits and other accounts	43,650,963	54,570,362
Borrowings from financial institutions	(2,586,228)	(12,381,465)
Bills payable	(1,694,742)	(6,356,682)
Other liabilities - net	(1,408,031)	720,619
	<u>37,961,962</u>	<u>36,552,834</u>
	28,597,886	19,751,485
Income tax paid - net	(6,581,060)	(7,316,849)
<b>Net cash flows from operating activities</b>	<u>22,016,826</u>	<u>12,434,636</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investments in securities, associates and joint venture company	(7,206,169)	5,804,501
Dividend income received	483,584	447,098
Fixed capital expenditure	(823,677)	(1,481,161)
Proceeds from sale of fixed assets	30,476	32,162
Exchange adjustment on translation of balances in foreign branches	601,410	2,205,646
<b>Net cash flows (used in) / from investing activities</b>	<u>(6,914,376)</u>	<u>7,008,246</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(4,164,423)	(2,719,555)
<b>Net cash flows (used in) financing activities</b>	<u>(4,164,423)</u>	<u>(2,719,555)</u>
Increase in cash and cash equivalents during the period	10,938,027	16,723,327
Cash and cash equivalents at beginning of the year	86,921,541	71,912,915
Effects of exchange rate changes on cash and cash equivalents	2,158,217	3,006,949
	<u>89,079,758</u>	<u>74,919,864</u>
Cash and cash equivalents at end of the period	<u>100,017,785</u>	<u>91,643,191</u>

The annexed notes 1 to 20 form an integral part of the condensed interim unconsolidated financial information.

President and Chief Executive Officer

Director

Director

Director

## **HABIB BANK LIMITED**

### **NOTES TO THE CONDENSED INTERIM UNCONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED JUNE 30, 2009**

#### **1 STATUS AND NATURE OF BUSINESS**

Habib Bank Limited (the Bank) is incorporated in Pakistan and is engaged in commercial banking, modaraba management and asset management related services in Pakistan and overseas. The Bank's registered office is located at Habib Bank Tower, 4th Floor, Jinnah Avenue, Islamabad. The Bank's shares are listed on the stock exchanges in Pakistan.

#### **2 BASIS OF PREPARATION**

These financial statements are presented in condensed form in accordance with approved accounting standards as applicable in Pakistan for Interim Financial Reporting. These condensed Interim Financial Statements do not include all of the information required for full financial statements and should be read in conjunction with the financial statements of the Bank for the year ended December 31, 2008.

#### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and methods of computation followed for the preparation of these financial statements are the same as those applied in the preparation of the annual unconsolidated financial statements of the bank for the year ended December 31, 2008, except for the policies given below:

##### **IJARAH - IFAS - 2**

Pursuant to IBD circular no. 1 dated January 27, 2009 the Bank has adopted IFAS 2 - "Ijarah" for all Ijarah contracts entered on or after January 01, 2009. The policy adopted by the Bank is as follows:

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

These leases are shown as financing against lease under advances and further analysis is provided in the note of Islamic Banking activities (note 19).

##### **CUSTOMER LOYALTY PROGRAMMES - IFRIC - 13**

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

Furthermore, International Accounting Standard 1 (Revised) Presentation of financial statements and IFRS 8 Operating Segments became effective for financial periods beginning on or after January 01, 2009. The application of these standards has resulted in certain increased disclosures.

#### **4 ACCOUNTING ESTIMATES**

The basis for accounting estimates adopted in the preparation of these condensed interim unconsolidated financial statements are the same as those applied in the preparation of the annual unconsolidated financial statements of the Bank for the year ended December 31, 2008.

#### **5 FINANCIAL RISK MANAGEMENT**

The financial risk management objective and policies adopted by Bank are consistent with that disclosed in the financial statements of the Bank for the year ended December 31, 2008.

## 6 INVESTMENTS

Note	June 30, 2009			December 31, 2008			
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total	
------(Rupees in '000)-----							
<b>Held-for-trading securities (HFT)</b>							
- Pakistan investment bonds	198,152	-	198,152	-	-	-	
<b>Held-to-maturity securities (HTM)</b>							
<i>Federal Government Securities</i>							
- Pakistan investment bonds	6.1	8,476,521	-	8,476,521	9,865,095	-	9,865,095
<b>Overseas Government Securities</b>		76,431	-	76,431	74,604	-	74,604
<b>Debentures and Corporate Debt Instruments</b>		48,182	-	48,182	48,182	-	48,182
		8,799,286	-	8,799,286	9,987,881	-	9,987,881
<b>Available-for-sale securities (AFS)</b>							
<i>Federal Government Securities</i>							
- Market treasury bills		63,654,520	1,993,515	65,648,035	49,410,871	8,754,798	58,165,669
- Pakistan investment bonds		10,488,606	-	10,488,606	9,021,042	-	9,021,042
- Government of Pakistan guaranteed bonds		5,246,544	-	5,246,544	5,862,598	-	5,862,598
- Government of Pakistan bonds / sukuk / (US dollar / euro)		6,037,866	-	6,037,866	4,718,958	-	4,718,958
<b>Overseas Government Securities</b>		9,348,455	-	9,348,455	8,153,876	-	8,153,876
<i>Fully paid-up ordinary shares</i>							
- Listed companies		1,555,559	-	1,555,559	762,671	-	762,671
- Unlisted companies		709,623	-	709,623	437,657	-	437,657
<i>Debentures and Corporate Debt Instruments</i>							
- Listed securities		2,464,865	-	2,464,865	2,227,518	-	2,227,518
- Unlisted securities	6.3	15,064,985	-	15,064,985	14,726,554	-	14,726,554
<b>NIT units</b>		18,153	-	18,153	22,463	-	22,463
<b>Preference shares</b>		142,300	-	142,300	181,700	-	181,700
<b>Other investments</b>		1,116,343	-	1,116,343	782,003	-	782,003
		115,847,819	1,993,515	117,841,334	96,307,911	8,754,798	105,062,709
<b>Investment in subsidiary companies</b>		3,773,019	-	3,773,019	3,517,617	-	3,517,617
<b>Investment in associates and joint venture</b>	6.1	6,088,275	-	6,088,275	6,047,237	-	6,047,237
		<u>134,508,399</u>	<u>1,993,515</u>	<u>136,501,914</u>	<u>115,860,646</u>	<u>8,754,798</u>	<u>124,615,444</u>

6.1 The market value of investment classified as held-to-maturity (HTM) and investment in listed associates and joint venture is as follows:

	June 30, 2009		December 31, 2008	
	Cost	Market value	Cost	Market value
------(Rupees in '000)-----				
- Investment classified as held-to-maturity	8,552,952	7,028,002	9,959,699	7,370,797
- Investment in listed associates and joint venture	5,087,252	5,037,597	5,087,251	12,994,610

## 6.2 Particulars of provision held against diminution in value of investments

The balances above are stated net of specific provision held. The analysis of total provision held are as follows:

	June 30, 2009	December 31, 2008
	(Rupees in '000)	
Opening balance	2,409,942	421,729
Charge for the period / year	16,697	139,189
Impairment loss / (reversal) due to disposal of impaired shares or change in value of associates / subsidiary	(881,045)	2,036,931
Other movement	(100,000)	-
Write offs	(58,697)	(187,907)
Closing balance	<u>1,386,897</u>	<u>2,409,942</u>

6.3 Unlisted Term Finance Certificates amounting to Rs. 24,049.374 million (2008: Rs. 3,171.310 million) have been reclassified to loans and advances.



7 ADVANCES	Note	June 30, 2009	December 31, 2008
		(Rupees in '000)	
Loans, cash credits, running finances, etc:			
In Pakistan		364,604,946	367,897,038
Outside Pakistan		51,082,879	54,993,653
		<u>415,687,825</u>	<u>422,890,691</u>
Net investment in finance lease - in Pakistan		3,101,610	3,506,812
Unlisted Term Finance Certificates		24,049,374	3,171,310
Bills discounted and purchased (excluding Government treasury bills):			
Payable in Pakistan		8,958,745	12,227,536
Payable outside Pakistan		15,613,651	21,619,633
		24,572,396	33,847,169
Provision against non-performing advances	7.2	(28,543,656)	(24,536,012)
		<u>438,867,549</u>	<u>438,879,970</u>
		-	-
<b>Fully provided non-performing advances classified as loss for more than five years</b>			
In Pakistan		13,055,264	11,976,479
Provision	7.4	(13,055,264)	(11,976,479)
		<u>-</u>	<u>-</u>

7.1 Advances include Rs. 39,429,518 million (2008: Rs. 36,086,044 million) which have been placed under non-performing status, other than those accounts classified as loss and fully provided for more than five years which have been placed in separate category:

Category of classification	June 30, 2009								
	Non-performing loans			Provision required and held			Net non-performing loans		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
<b>Specific provision</b>									
Other assets especially mentioned	1,113,903	-	1,113,903	-	-	-	1,113,903	-	1,113,903
Substandard	6,326,745	987,529	7,314,274	1,531,342	219,123	1,750,465	4,795,403	768,406	5,563,809
Doubtful	7,102,145	1,297,411	8,399,556	3,551,073	930,154	4,481,227	3,551,072	367,257	3,918,329
Loss	16,162,144	6,439,641	22,601,785	15,311,458	6,357,124	21,668,582	850,686	82,517	933,203
	30,704,937	8,724,581	39,429,518	20,393,873	7,506,401	27,900,274	10,311,064	1,218,180	11,529,244
<b>General provision</b>	-	-	-	410,197	233,185	643,382	-	-	-
	30,704,937	8,724,581	39,429,518	20,804,070	7,739,586	28,543,656	10,311,064	1,218,180	11,529,244
Category of classification	December 31, 2008								
	Non-performing loans			Provision required and held			Net non-performing loans		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
<b>Specific provision</b>									
Other assets especially mentioned	1,187,363	-	1,187,363	-	-	-	1,187,363	-	1,187,363
Substandard	6,271,877	428,534	6,700,411	1,507,622	151,419	1,659,041	4,764,255	277,115	5,041,370
Doubtful	9,825,144	564,337	10,389,481	5,063,114	398,206	5,461,320	4,762,030	166,131	4,928,161
Loss	11,457,340	6,351,449	17,808,789	10,391,600	6,279,135	16,670,735	1,065,740	72,314	1,138,054
	28,741,724	7,344,320	36,086,044	16,962,336	6,828,760	23,791,096	11,779,388	515,560	12,294,948
<b>General provision</b>	-	-	-	460,974	283,942	744,916	-	-	-
	28,741,724	7,344,320	36,086,044	17,423,310	7,112,702	24,536,012	11,779,388	515,560	12,294,948

## 7.2 Particulars of provision for non-performing financing

	Note	June 30, 2009			December 31, 2008		
		Specific	General	Total	Specific	General	Total
		(Rupees in '000)					
Opening balance		23,791,096	744,916	24,536,012	17,592,094	898,604	18,490,698
Exchange adjustment / other movement		611,139	11,052	622,191	1,341,487	79,216	1,420,703
Charge for the period / year		6,024,434	5,114	6,029,548	7,607,586	73,033	7,680,619
Reversals		(512,870)	(117,700)	(630,570)	(144,702)	(305,937)	(450,639)
		5,511,564	(112,586)	5,398,978	7,462,884	(232,904)	7,229,980
Write offs		(664,307)	-	(664,307)	(1,043,186)	-	(1,043,186)
Transferred to over 5 years category	7.4	(1,349,218)	-	(1,349,218)	(1,562,183)	-	(1,562,183)
Closing balance		27,900,274	643,382	28,543,656	23,791,096	744,916	24,536,012

## 7.3 Amendments in Prudential Regulations in respect of provisioning against non-performing advances

In accordance with BSD Circular No. 2 dated January 27, 2009 issued by State Bank of Pakistan, the Bank has availed the benefit of FSV against the non-performing advances (excluding consumer housing finance portfolio). Had the benefit of FSV not been availed by the Bank the specific provision against non-performing advances would have been higher and consequently profit before taxation and advances (net of provisions) as at June 30, 2009 would have been lower by approximately Rs 850.686 million. Increase in profit would not be available for the distribution of cash and stock dividend to share holders.

## 7.4 Particulars of provision against fully provided non-performing advances classified as loss for more than five years

	Note	June 30, 2009	December 31, 2008
		(Rupees in '000)	
Opening balance		11,976,479	11,909,930
Reversal		(209,322)	(483,463)
Transferred during the period / year	7.2	1,349,218	1,562,183
Write offs		(61,111)	(1,012,171)
		<u>13,055,264</u>	<u>11,976,479</u>

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

	June 30, 2009				December 31, 2008			
	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the period	Loan repaid during the period	Balance outstanding	Maximum total amount of loans and advances including temporary advances outstanding **	Limit sanctioned during the year	Loan repaid during the year
------(Rupees in '000)-----								
Debts due by directors or executives of the Bank or any of them either severally or jointly with any other persons								
- in respect of directors	-	-	-	-	-	-	-	-
- in respect of executives *	1,034,904	1,059,096	53,520	24,192	1,005,576	1,039,416	341,604	33,840
- in respect of key management personnel	624,895	632,429	200,925	158,399	582,369	594,534	278,284	12,288
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members	897,901	908,661	1,313,106	1,306,835	891,631	894,419	15,295,761	15,737,463
Debts due by								
- Subsidiary company	25,500	56,685	64,950	167,122	127,672	235,405	357,519	373,867
- Associate companies								
- Guaranteed by Government	14,052,267	14,052,267	18,024,563	6,071,441	2,099,145	2,883,582	6,533,245	6,034,147
- Others	57,045	416,401	342,453	459,171	173,763	562,180	659,263	488,106
- Retirement benefit funds	-	-	-	-	-	1,033,720	-	1,033,720

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

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

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

## 8 OPERATING FIXED ASSETS

## 8.1 Addition to fixed assets

For the six months ended	
June 30, 2009	June 30, 2008
(Rupees in '000)	

The following additions have been made to tangible and intangible fixed assets during the period ended June 30, 2009:

Land	78,918	494,646
Building including related machinery	155,454	18,891
Furniture, fixtures and office equipments	416,492	553,225
Vehicles	54,717	90,929
Intangible assets	12,085	121,079
Capital work-in-progress	106,011	202,391
	<u>823,677</u>	<u>1,481,161</u>

## 8.2 Disposal of fixed assets

The following disposals have been made from tangible and intangible fixed assets during the period ended June 30, 2009:

Land	1,741	-
Building including related machinery	4,096	-
Furniture, fixtures and office equipments	90,667	84,223
Vehicles	18,098	36,288
Intangible asset	75	262
	<u>114,677</u>	<u>120,773</u>

## 9 BORROWINGS FROM FINANCIAL INSTITUTIONS

## Secured

Borrowings from State Bank of Pakistan under:

- Export refinance scheme
- Long term finance - export oriented projects

Repurchase agreement borrowings

June 30, 2009	December 31, 2008
(Rupees in '000)	

19,881,638	15,620,296
6,363,795	5,756,791
<u>1,938,178</u>	<u>8,684,350</u>
28,183,611	30,061,437

## Unsecured

In Pakistan

- Interbank call money borrowing

## Outside Pakistan

- Overdrawn nostro accounts
- Borrowings of overseas branches

3,100,000	100,000
593,422	1,793,871
<u>9,443,240</u>	<u>11,951,193</u>
10,036,662	13,745,064
<u>13,136,662</u>	<u>13,845,064</u>
<u>41,320,273</u>	<u>43,906,501</u>

**10 DEPOSITS AND OTHER ACCOUNTS**

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	<b>(Rupees in '000)</b>	
<b>Customers</b>		
Fixed deposits	168,280,149	166,681,991
Savings chequing account	304,872,160	270,210,101
Current accounts - remunerative	2,663,566	2,739,418
Current accounts - non-remunerative	<u>130,151,854</u>	<u>127,271,437</u>
	<u>605,967,729</u>	<u>566,902,947</u>
<b>Financial institutions</b>		
Remunerative deposits	<u>973,818</u>	<u>2,368,970</u>
Non-remunerative deposits	<u>9,108,603</u>	<u>3,127,270</u>
	<u>10,082,421</u>	<u>5,496,240</u>
	<u>616,050,150</u>	<u>572,399,187</u>

**11 SUB-ORDINATED LOANS**

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

**12 SURPLUS ON REVALUATION OF ASSETS - net of deferred tax**

	<b>Note</b>	<b>June 30, 2009</b>	<b>December 31, 2008</b>
		<b>(Rupees in '000)</b>	
Surplus arising on revaluation of:			
- fixed assets	12.1	7,190,421	7,215,946
- investments	12.2	<u>(879,637)</u>	<u>(3,462,349)</u>
Surplus on revaluation of assets - net of deferred tax		<u>6,310,784</u>	<u>3,753,597</u>

**12.1 Surplus on revaluation of fixed assets**

Surplus on revaluation of fixed assets as at January 1	7,809,013	7,889,744
Surplus realised on disposal of revalued properties during the period / year	(1,582)	(6,168)
Transferred to accumulated profit in respect of incremental depreciation charged during the period / year - net of deferred tax	(24,213)	(48,466)
Related deferred tax liability of incremental depreciation charged during the period / year	<u>(13,038)</u>	<u>(26,097)</u>
Surplus on revaluation of fixed assets as at period / year end	7,770,180	7,809,013
Less: related deferred tax liability on:		
- revaluation as at January 1	593,067	619,930
- surplus realised on disposal of revalued properties during the period / year	(270)	(766)
- incremental depreciation charged during the period / year transferred to profit and loss account	<u>(13,038)</u>	<u>(26,097)</u>
	<u>579,759</u>	<u>593,067</u>
	<u>7,190,421</u>	<u>7,215,946</u>

**12.2 Surplus / (deficit) on revaluation of investments**

Market treasury bills	161,630	(60,586)
Pakistan investment bonds	(618,884)	(2,272,277)
Sukuk and euro bonds	(953,356)	(2,393,398)
Listed securities	119,693	(47,104)
NIT units	7,039	11,350
Other investments	<u>(144,675)</u>	<u>(557,857)</u>
	<u>(1,428,553)</u>	<u>(5,319,872)</u>
Add: related deferred tax asset	548,916	1,857,523
	<u>(879,637)</u>	<u>(3,462,349)</u>

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	<b>(Rupees in '000)</b>	
<b>13 CONTINGENCIES AND COMMITMENTS</b>		
<b>13.1 Direct credit substitutes - financial guarantees</b>		
Guarantees in favour of:		
- Government	7,576,328	5,960,958
- Financial institutions	1,993,222	137,947
- Others	42,350,833	38,699,414
	<u>51,920,384</u>	<u>44,798,319</u>
<b>13.2 Transaction-related contingent liabilities</b>		
Guarantees in favour of:		
- Government	1,874,361	2,569,019
- Financial institutions	105,076	167,196
- Others	15,573,352	14,572,054
	<u>17,552,789</u>	<u>17,308,269</u>
<b>13.3 Trade-related commitments</b>		
Credit cash	92,085,804	100,179,596
Credit documentary acceptances	10,878,660	11,315,943
Credit acceptances	15,637,786	16,021,669
	<u>118,602,250</u>	<u>127,517,208</u>
<b>13.4 Other contingencies</b>		
Claims against the Bank not acknowledged as debts	<u>56,543,984</u>	<u>46,863,991</u>

**13.5 Commitments in respect of forward lending**

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	<b>(Rupees in '000)</b>	
<b>13.6 Commitments in respect of forward foreign and local exchange contracts</b>		
Purchase	28,202,546	26,840,479
Sale	32,739,689	26,722,359
The above commitments have maturities falling within one year.		
<b>Commitments in respect of foreign currency swaps / options</b>		
Purchase	274,477	123,241
Sale	274,477	123,241
<b>Commitments in respect of local currency interest rate swaps</b>		
Purchase	442,286	35,000
Sale	442,286	35,000
<b>13.7 Commitments for acquisition of operating fixed assets / intangibles</b>	546,165	761,514

**13.8 Taxation**

The income tax returns of Habib Bank Limited have been submitted upto and including the bank's financial year 2007. The tax authorities have concluded the audit of years 2002 through 2006 and audit of year 2007 is in process.

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

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

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

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

The Finance Act, 2009 has made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. Through these amendments the deduction for provisions for advances and off balance sheet items will be allowed upto 1% of total advances. Provisioning in excess of 1% would be allowed to be carried over to succeeding years. The amount of bad debts classified as Substandard under Prudential Regulation issued by State Bank of Pakistan would not be allowed as an expense. The amendments are applicable for financial year ending 31 December 2009.

The management has carried out an exercise at period end and concluded that they would be able to get deduction of provision in excess of 1% of total advances (pro-rated for half year) and have recognized deferred tax asset on such provision amounting to Rs. 1.257 billion.

The amendments introduced in the Seventh Schedule do not provide for any transitional mechanism i.e. how and when the provision for bad debts disallowed upto 31 December 2008 would be allowed as a deduction. The Institute of Chartered Accountants of Pakistan (ICAP) and Pakistan Banks Association (PBA) have taken up this matter with Federal Board of Revenue (FBR). However, pending the final resolution of the matter, ICAP considers that reversal of deferred tax assets in relation thereto may not be made until the end of the financial year by which time the matter is expected to be decided by the FBR as proposed by the ICAP and the PBA. Accordingly, the deferred tax asset recognized through 31 December 2008 relating to provisions for advances and off balance sheet items amounting to Rs. 7.1 billion has been carried forward.

#### 14 MARK-UP / RETURN / INTEREST EARNED

	<b>For the six months ended</b>	
	<b>June 30, 2009</b>	<b>June 30, 2008</b>
	<b>(Rupees in '000)</b>	
<i>On loans and advances to:</i>		
- Customers	29,017,403	20,224,032
- Financial institutions	-	101,532
<i>On investments:</i>		
- Available-for-sale	5,963,366	6,222,573
- Held-for-trading	7,634	-
- Held-to-maturity	271,401	316,911
On deposits with financial institutions	576,966	586,150
On lendings to financial institutions	867,875	115,286
	<u>36,704,645</u>	<u>27,566,484</u>

#### 15 MARK-UP / RETURN / INTEREST EXPENSED

Deposits	14,720,612	8,896,221
Securities sold under repurchase agreement borrowings	167,205	1,377,177
Other short term borrowings	750,986	519,618
Long term borrowings	224,789	250,991
	<u>15,863,592</u>	<u>11,044,007</u>

#### 16 INCOME / GAIN ON INVESTMENTS

Dividend income	166,256	470,010
Loss / gain on sale of securities	(75,366)	181,305
	<u>90,890</u>	<u>651,315</u>

#### 17 RELATED PARTY TRANSACTIONS

Aga Khan Fund for Economic Development S.A Switzerland holds 51% shares of the Bank. The bank has related party relationship with its subsidiaries, associated undertakings, joint venture company employee benefit plans of the Bank / related party, and members of the Key Management Personnel of the Bank / related party, including both Executive and Non-Executive Directors and Executive officers.

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than normal risk (i.e. under the comparable uncontrolled price method) other than those under terms of employment. Details of loans and advances to related parties are given in note 7.5 to these financial statements.

Contributions to and accruals in respect of staff retirement and other benefits plans are made in accordance with the actuarial valuation / terms of the contribution plan. There are no transactions with key management personnel other than under their terms of employment.

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	<b>(Rupees in '000)</b>	
<b>Balances outstanding as at the period / year end</b>		
<b>- Borrowings / Deposits from</b>		
- Joint venture and associates	3,210,101	4,429,970
- Subsidiary companies	282,236	157,103
- Retirement benefit funds	2,899,117	2,050,404
- Companies in which Directors are interested	1,341,270	1,679,139
- Investments in Companies in which the Bank has nominated key management personnel	45,512	45,512
- Receivable from defined benefit plan	7,048,132	6,572,013
- Receivable from associates and subsidiary companies	4,667,743	5,319,633
- Payable to associates, joint venture and subsidiary companies	2,779,606	3,632,930
- Placements with Subsidiary companies and associates	9,291,530	8,367,764
- Nostro balances with associates and joint venture / companies in which directors are interested	1,298,665	1,362,259
	<b>For the six months ended</b>	
	<b>June 30, 2009</b>	<b>June 30, 2008</b>
	<b>(Rupees in '000)</b>	
<b>Profit / Expense for the period</b>		
<b>- Interest paid</b>		
- Joint venture and associates	92,050	50,326
- Subsidiary companies	23,334	7,338
- Retirement benefit funds	158,995	1,589
- Companies in which Directors are interested	24,409	2,121
- Premium paid to companies in which Directors are interested	152,353	200,030
<b>- Interest income</b>		
- Joint venture and associates	8,190	-
- Subsidiary companies	26,851	2,585
- Retirement benefit funds	-	36,112
- Companies in which Directors are interested	12,889	15,135
- Modaraba management fees	3,457	3,801
- Other income - joint venture, subsidiaries and associates	151,725	7,399
- Other expense - joint venture subsidiaries	1,467	8,861
<b>- Dividend income</b>		
- Joint venture and associates	76,985	358,494
- Subsidiary companies	3,250	4,875

### 17.1 Key management personnel

Key Management Personnel comprises Member of Management Committee, Regional Management , Country Managers and Senior Executives:

	For the six months ended	
	June 30, 2009	June 30, 2008
	(Rupees in '000)	
Managerial remuneration (including allowances)	362,636	336,787
Contribution to provident and benevolent fund	8,081	8,746
Medical	12,996	8,885
	<u>383,713</u>	<u>354,418</u>
Number of persons	<u>136</u>	<u>145</u>

### 18. SEGMENT DETAIL WITH RESPECT TO BUSINESS ACTIVITIES

	For the six months ended June 30, 2009					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head office / support services	Total
	----- (Rupees in million) -----					
Net interest and non-markup income	15,812	6,252	873	3,490	(891)	25,536
Total expenses including provision	7,725	5,035	(405)	2,010	752	15,117
Net income (loss)	8,087	1,217	1,278	1,480	(1,643)	10,419
Segment assets (gross)	89,320	336,948	153,203	96,565	115,053	791,089
Segment non-performing loans	7,361	22,281	-	8,724	1,064	39,430
Segment provision required including general provision	4,576	14,566	586	6,832	3,696	30,256
Segment liabilities including equity	477,913	100,506	8,403	81,060	92,951	760,833
Segment return on net liability / asset (%)	11.73%	14.64%	11.03%	3.92%	7.58%	-
Segment cost of funds (%)	5.41%	11.64%	10.18%	1.22%	0.69%	-
	----- (Rupees in million) -----					
	For the six months ended June 30, 2008					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	Total
	----- (Rupees in million) -----					
Net interest and non-markup income	12,743	3,795	1,077	2,861	571	21,047
Total expenses including provision	7,013	1,482	203	1,703	340	10,741
Net income	5,730	2,313	874	1,158	231	10,306
Segment assets (gross)	110,331	309,914	153,770	97,397	46,156	717,568
Segment non-performing loans	5,137	11,662	-	6,691	1,618	25,108
Segment provision required including general provision	3,280	7,760	-	2,673	7,270	20,983
Segment liabilities including equity	431,738	99,338	18,660	70,800	76,049	696,585
Segment return on net liability / asset (%)	9.41%	11.42%	9.16%	6.65%	3.40%	-
Segment cost of funds (%)	3.63%	9.23%	8.76%	2.67%	0.18%	-

**19. ISLAMIC BANKING BRANCH**

Financial figures of the Islamic Banking Branch, are as follows:

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	<b>(Rupees in '000)</b>	
<b>ASSETS</b>		
Cash and balances with treasury banks	7,646	6,440
Investments - net	48,182	48,182
Ijarah - (note 19.1)	379,994	389,173
Musharaka	150,000	150,000
Other assets	13,351	20,412
	<u>599,173</u>	<u>614,207</u>
<b>LIABILITIES</b>		
Deposit and other accounts	10,328	18,655
Other liabilities	446,126	456,107
	<u>456,454</u>	<u>474,762</u>
<b>NET ASSETS</b>	<u>142,719</u>	<u>139,445</u>
<b>REPRESENTED BY:</b>		
Islamic banking fund	100,000	100,000
Unappropriated profit	42,719	39,445
	<u>142,719</u>	<u>139,445</u>

The commitment in respect of letters of credit of islamic banking branches of Habib Bank Ltd amount is Nil (2008: 17.402 million).

**19.1** This represents fixed assets given to customers under Ijarah agreement.

**20. DATE OF AUTHORISATION FOR ISSUE**

These unconsolidated condensed interim financial statements were authorised for issue in the Board of Directors meeting held on August 21, 2009.

**President and Chief Executive Officer**

**Director**

**Director**

**Director**