

Director's Review

On behalf of the Board of Directors, I am pleased to present the condensed interim consolidated financial statements for the six months period ended June 30, 2010.

Financial Performance

The financial results of the Group are summarized below:	(Rs. in '000)
Profit after tax	<u>7,865,165</u>
Share of profit attributable to minority shareholders/investors	78,019
Profit attributable to shareholders	7,787,146
Earnings per share rupees (Basic & Diluted)	7.77

The Group achieved a Pre- Tax Profit of Rs. 12.76 billion for the six months period ended 30th June 2010, reflecting an increase of Rs. 2.89 billion and growth of 29 per cent over the corresponding period of last year. The Non Fund income of the Group has contributed significantly with a growth of Rs. 0.80 billion (excluding capital gain) which is 15.3 per cent higher. Capital gains also increased by Rs. 0.52 billion over the past period. Correspondingly the post tax profit increased by 29% to Rs. 7.87 billion.

The recovery from the global financial crisis is fragile and the effects of the crisis are expected to continue. With low overall productivity in the economy, banks will continue to see the impact as the economy adjusts to post crisis credit costs. As a result, we believe it is important to retain prudent balance sheet management whilst continuing to aggressively serve the productive sectors of the economy that promote sustainable growth. HBL's focus on developing new products to suite customer needs and improving service quality demonstrates a commitment to support our customers through challenging times. The bank strives to maintain its superior market positioning as it continues to improve its extensive branch network through technology upgrades as well as product innovation.

We are pleased to inform the shareholders that JCR VIS Credit Rating Company reaffirmed HBL's long term credit rating of "AA+" and its short term rating of "A-1+". In reaffirming the ratings, JCR cited that in the backdrop of increased credit risk in the environment, performance of the bank has shown resilience with capitalization levels remaining strong.

The bank has continued to improve its standing across the globe and has been awarded as the Best Emerging Market Bank 2010 by Global Finance. This award has been conferred on HBL in recognition of its superior performance, enhanced profitability, expanding asset base and innovative products and services.

Appreciation and Acknowledgement

In conclusion, I extend my sincere appreciation to our customers for their patronage, our shareholders for their confidence and the staff for their dedication & continued support. HBL is committed to providing a higher level of access to our customers while continuously improving quality of services.

On behalf of the Board

R. Zakir Mahmood
 President & Chief Executive Officer
 July 28, 2010

Condensed Interim Consolidated Statement Statement of Financial Position AS AT JUNE 30, 2010

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
Note	(Rupees in '000)	
ASSETS		
Cash and balances with treasury banks	81,539,890	79,839,836
Balances with other banks	27,105,357	40,366,687
Lendings to financial institutions	21,329,803	5,352,873
Investments	239,299,286	216,467,532
Advances	445,892,318	454,662,499
Other assets	35,074,336	41,262,754
Operating fixed assets	16,325,665	16,766,668
Deferred tax asset	8,884,760	9,205,944
	<u>875,451,415</u>	<u>863,924,793</u>
LIABILITIES		
Bills payable	8,834,380	10,041,542
Borrowings from financial institutions	47,985,263	52,542,978
Deposits and other accounts	699,629,635	682,750,079
Sub-ordinated loans	4,275,455	4,212,080
Liabilities against assets subject to finance lease	-	-
Other liabilities	28,440,164	30,008,316
Deferred tax liability	-	-
	<u>789,164,897</u>	<u>779,554,995</u>
NET ASSETS	<u><u>86,286,518</u></u>	<u><u>84,369,798</u></u>
REPRESENTED BY:		
Shareholders' equity		
Share capital	10,018,800	9,108,000
Reserves	27,698,190	27,527,380
Unappropriated profit	39,211,802	38,498,335
Total equity attributable to the equity holders of the Bank	76,928,792	75,133,715
Minority interest	1,146,458	1,143,241
Surplus on revaluation of assets - net of deferred tax	8,211,268	8,092,842.00
	<u><u>86,286,518.00</u></u>	<u><u>84,369,798.00</u></u>
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The annexed notes 1 to 20 form an integral part of the condensed interim consolidated financial information

**Condensed Interim Consolidated
Profit and Loss Account - (Unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2010**

	Note	January 01 to June 30, 2010	January 01 to June 30, 2009 (Restated)	April 01 to June 30, 2010	April 01 to June 30, 2009 (Restated)
------(Rupees in '000)-----					
Mark-up / return / interest earned	14	39,675,114	37,473,910	20,243,836	18,810,410
Mark-up / return / interest expensed	15	17,135,847	16,061,333	8,518,855	8,110,404
Net mark-up / interest income		22,539,267	21,412,577	11,724,981	10,700,006
Provision against non-performing loans and advances - net	7.2 / 7.4	3,213,167	5,285,783	1,793,511	2,892,445
Charge / (reversal) against off-balance sheet obligations		(3,474)	(123,110)	(49,920)	155,284
(Reversal) / charge against diminution in value of investments	6.2	(69,168)	(55,892)	(20,062)	(210,907)
Bad debts written off directly		-	-	-	-
		3,140,525	5,106,781	1,723,529	2,836,822
Net mark-up / interest income after provisions		19,398,742	16,305,796	10,001,452	7,863,184
Non mark-up / interest income					
Fee, commission and brokerage income		2,730,089	2,587,202	1,414,924	1,415,309
Income / gain on investments	16	711,003	(41,330)	345,923	178,907
Income from dealing in foreign currencies		1,349,916	869,436	795,228	476,221
Other income		1,515,019	1,556,738	681,307	785,070
Total non-mark-up / interest income		6,306,027	4,972,046	3,237,382	2,855,507
		25,704,769	21,277,842	13,238,834	10,718,691
Non mark-up / interest expense					
Administrative expenses		12,438,376	11,181,054	6,554,612	5,461,785
Other provisions / write offs - net		76,457	10,947	41,529	(94,663)
Other charges		177,485	873	6,214	535
Workers welfare fund		248,006	212,647	125,835	101,280
Total non mark-up / interest expenses		12,940,324	11,405,521	6,728,190	5,468,937
Profit before taxation		12,764,445	9,872,321	6,510,644	5,249,754
Taxation - current		4,337,381	4,072,424	1,934,398	1,666,014
- prior years		421,143	381,544	490,000	238,194
- deferred		140,756	(681,505)	36,101	99,574
		4,899,280	3,772,463	2,460,499	2,003,782
Profit after taxation		7,865,165	6,099,858	4,050,145	3,245,972
Attributable to:					
Equity holders of the Bank		7,787,146	6,174,810	4,037,879	3,194,789
Minority interest		33,370	57,817	19,038	12,754
Minority investor of HBL funds		44,649	(132,769)	(6,772)	38,429
		7,865,165	6,099,858	4,050,145	3,245,972
------(Rupees)-----					
Basic and diluted earnings per share		7.77	6.16	4.03	3.19

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

President and Chief Executive Officer

Director

Director

Director

**Condensed Interim Consolidated
Statement of Comprehensive Income - (Unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2010**

	June 30, 2010	June 30, 2009 (Restated) (Rupees in '000)
Profit for the period	7,865,165	6,099,858
Other comprehensive income		
Minority share of HBL funds transferred to other liabilities	(44,649)	132,769
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	(620,705)	1,476,913
Comprehensive income transferred to equity	<u>7,199,811</u>	<u>7,709,540</u>
Components of comprehensive income not reflected in equity		
Surplus on revaluation of investments	316,857	5,641,179
Deferred tax on revaluation of investments	(135,148)	(1,545,962)
	<u>7,381,520</u>	<u>11,804,757</u>
Total comprehensive income attributable to:		
Equity holders of the Bank	7,333,654	11,730,360
Minority interest	3,217	207,166
Minority investor	44,649	(132,769)
	<u>7,381,520</u>	<u>11,804,757</u>

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

President and Chief Executive Officer

Director

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**Condensed Interim Consolidated
Cash Flow Statement - (Unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2010**

	June 30, 2010	June 30, 2009 (Restated)
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	12,764,445	9,872,321
Dividend income and share of profit of associates and joint venture (Gain) / loss on sale of securities - net	(533,609) (202,347)	(269,628) 323,378
	(735,956)	53,750
	12,028,489	9,926,071
Adjustment for:		
Depreciation / amortisation	852,781	783,342
Provision against diminution in value of investments	(69,168)	(55,892)
Provision against non-performing loans and advances - net of reversal	3,213,167	5,285,783
Unrealised gain / (loss) in value of investments at fair value	24,953	(12,420)
Exchange loss on sub-ordinated loans	63,375	117,930
Gain on sale of property and equipment - net	(20,605)	(19,748)
Miscellaneous provisions	72,983	(112,163)
	4,137,486	5,986,832
	16,165,975	15,912,903
(Increase) / decrease in operating assets		
Lendings to financial institutions	(15,976,930)	(15,990,576)
Loans and advances	5,557,014	15,480,064
Other assets - net	6,474,792	(3,173,001)
	(3,945,124)	(3,683,513)
Increase / (decrease) in operating liabilities		
Deposits and other accounts	16,879,556	45,804,802
Borrowings from financial institutions	(4,557,715)	(602,036)
Bills payable	(1,207,162)	(1,590,448)
Other liabilities - net	(1,625,453)	(1,328,724)
	9,489,226	42,283,594
	21,710,077	54,512,984
Income tax paid - net	(5,078,117)	(7,213,668)
Net cash flows from operating activities	16,631,960	47,299,316
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in securities, associates and joint venture	(21,882,924)	(30,355,055)
Dividend income received	148,316	425,582
Fixed capital expenditure	(421,036)	(924,935)
Proceeds from sale of fixed assets	29,863	30,474
Exchange adjustment on translation of balances in foreign branches, subsidiaries, joint venture and associates	(588,628)	1,392,817
Net cash flows used in investing activities	(22,714,409)	(29,431,117)
CASH FLOWS FROM FINANCING ACTIVITIES		
Minority interest impact of exchange adjustment on translation of balances in subsidiary	(32,077)	84,096
Dividend paid	(5,446,750)	(4,166,338)
Net cash flows used in financing activities	(5,478,827)	(4,082,242)
Increase in cash and cash equivalents during the period	(11,561,276)	13,785,957
Cash and cash equivalents at beginning of the period	121,691,381	91,551,152
Effects of exchange rate changes on cash and cash equivalents	(1,484,858)	4,346,279
	120,206,523	95,897,431
Cash and cash equivalents at end of the period	108,645,247	109,683,388

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

President and Chief Executive Officer

Director

Director

Director

**Condensed Interim Consolidated
Statement of Changes in Equity - (Unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2010**

	Attributable to shareholders of the Group						Subtotal	Minority interest	Total
	Share capital	Exchange translation reserve	Reserves		Unappropriated profit				
			Statutory requirement	Other reserves					
		Joint venture and subsidiaries	Bank	General					
(Rupees in '000)									
Balance as at December 31, 2008 - as (Restated)	7,590,000	6,373,946	189,339	11,018,947	6,073,812	31,933,178	63,179,222	890,099	64,069,321
Total comprehensive income for the period									
Profit for the six months ended June 30, 2009 - (Restated)	-	-	-	-	-	6,042,041	6,042,041	57,817	6,099,858
Minority share of HBL funds transferred to other liabilities	-	-	-	-	-	132,769	132,769	-	132,769
- Other comprehensive income									
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	-	1,392,817	-	-	-	-	1,392,817	84,096	1,476,913
	-	1,392,817	-	-	-	6,174,810	7,567,627	141,913	7,709,540
Transactions with owners, recorded directly in equity									
Cash dividend at Rs. 5.50 per share	-	-	-	-	-	(4,174,500)	(4,174,500)	-	(4,174,500)
Issued as bonus shares	1,518,000	-	-	-	-	(1,518,000)	-	-	-
	1,518,000	-	-	-	-	(5,692,500)	(4,174,500)	-	(4,174,500)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	25,795	25,795	-	25,795
Transferred to statutory reserves	-	-	16,756	655,417	-	(672,173)	-	-	-
Minority share of surplus on revaluation of securities	-	-	-	-	-	-	-	65,253	65,253
Balance as at June 30, 2009	9,108,000	7,766,763	206,095	11,674,364	6,073,812	31,769,110	66,598,144	1,097,265	67,695,409
Total comprehensive income for the period									
Profit for the six months ended December 31, 2009	-	-	-	-	-	7,268,478	7,268,478	32,413	7,300,891
Minority share of HBL funds transferred to other liabilities	-	-	-	-	-	(53,836)	(53,836)	-	(53,836)
- Other comprehensive income									
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	-	1,216,041	-	-	-	-	1,216,041	2,376	1,218,417
	-	1,216,041	-	-	-	7,214,642	8,430,683	34,789	8,465,472
Transactions with owners, recorded directly in equity									
Cash dividend paid at Rs 0.50 per certificate by modaraba	-	-	-	-	-	-	-	(17,868)	(17,868)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	104,888	104,888	-	104,888
Transferred to statutory reserves	-	-	15,858	574,447	-	(590,305)	-	-	-
Minority share of surplus on revaluation of securities of subsidiaries	-	-	-	-	-	-	-	23,289	23,289
Minority share of surplus on revaluation of fixed assets of subsidiaries	-	-	-	-	-	-	-	5,766	5,766
Balance as at December 31, 2009	9,108,000	8,982,804	221,953	12,248,811	6,073,812	38,498,335	75,133,715	1,143,241	76,276,956
Total comprehensive income for the period									
Profit for the six months ended June 30, 2010	-	-	-	-	-	7,831,795	7,831,795	33,370	7,865,165
Minority share of HBL funds transferred to other liabilities	-	-	-	-	-	(44,649)	(44,649)	-	(44,649)
- Other comprehensive income									
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	-	(588,628)	-	-	-	-	(588,628)	(32,077)	(620,705)
	-	(588,628)	-	-	-	7,787,146	7,198,518	1,293	7,199,811
Transactions with owners, recorded directly in equity									
Cash dividend at Rs. 6 per share	-	-	-	-	-	(5,464,800)	(5,464,800)	-	(5,464,800)
Issued as bonus shares	910,800	-	-	-	-	(910,800)	-	-	-
	910,800	-	-	-	-	(6,375,600)	(5,464,800)	-	(5,464,800)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	61,359	61,359	-	61,359
Transferred to statutory reserves	-	-	17,108	742,330	-	(759,438)	-	-	-
Minority share of surplus on revaluation of securities of subsidiaries	-	-	-	-	-	-	-	1,924	1,924
Balance as at June 30, 2010	10,018,800	8,394,176	239,061	12,991,141	6,073,812	39,211,802	76,928,792	1,146,458	78,075,250

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

President and Chief Executive Officer

Director

Director

Director

Notes to the Condensed Interim Consolidated Financial Statements - (Unaudited) FOR THE SIX MONTHS ENDED JUNE 30, 2010

1 THE GROUP AND ITS OPERATIONS

Habib Bank Limited (the Bank) is incorporated in Pakistan and is engaged in commercial banking, modaraba management and asset management related services in Pakistan and overseas. The Bank's registered office is located at Habib Bank Tower, 4th Floor, Jinnah Avenue, Islamabad. The Bank's shares are listed on the stock exchanges in Pakistan. The Group consists of the Bank, its subsidiaries and associates, as given in its annual consolidated financial statements.

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 Group for the year ended December 31, 2009. Due to reasons fully explained in our latest audited annual financial statements for the year ended December 31, 2009, the comparative information has been restated and should be read in conjunction with the financial statements of the Group for the year ended December 31, 2009.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and the methods of computation followed for the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the Group for the year ended December 31, 2009.

4 ACCOUNTING ESTIMATES

The basis for accounting estimates adopted in the preparation of these condensed interim consolidated financial statements are the same as those applied in the preparation of the annual consolidated financial statements of the Group for the year ended December 31, 2009.

5 FINANCIAL RISK MANAGEMENT

The Financial risk management objectives and policies adopted by Group are consistent with that disclosed in the financial statements of the Group for the year ended December 31, 2009.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

6	INVESTMENTS	Note	June 30, 2010			December 31, 2009		
			Held by group	Given as collateral	Total	Held by group	Given as collateral	Total
(Rupees in '000)								
Held-for-trading (HFT)								
	- Pakistan Investment Bonds		1,128	-	1,128	9,652	-	9,652
	- Market Treasury Bills		914,536	-	914,536	387,191	-	387,191
	- Investments of Mutual Funds		143,390	-	143,390	245,913	-	245,913
			1,059,054	-	1,059,054	642,756	-	642,756
Held-to-maturity securities (HTM)								
<i>Federal Government Securities</i>								
	- Pakistan Investment Bonds	6.1	8,371,635	-	8,371,635	8,428,352	-	8,428,352
	Overseas Government Securities		-	-	-	78,963	-	78,963
	Debentures and Corporate Debt Instruments		183,669	-	183,669	48,182	-	48,182
			8,555,304	-	8,555,304	8,555,497	-	8,555,497
Available-for-sale securities (AFS)								
<i>Federal Government Securities</i>								
	- Market Treasury Bills		94,490,666	3,519,591	98,010,257	84,407,507	3,559,326	87,966,833
	- Pakistan Investment Bonds		10,229,278	-	10,229,278	8,840,806	-	8,840,806
	- Government of Pakistan Guaranteed Bonds		4,760,762	-	4,760,762	5,522,370	-	5,522,370
	- Government of Pakistan Bonds / Sukuk / (US Dollar / Euro)		2,764,616	-	2,764,616	6,784,749	-	6,784,749
	Overseas Government Securities		14,813,914	-	14,813,914	14,601,416	-	14,601,416
<i>Fully paid-up ordinary shares</i>								
	- Listed companies		1,182,801	-	1,182,801	1,090,273	-	1,090,273
	- Unlisted companies		731,704	-	731,704	730,244	-	730,244
<i>Debentures and Corporate Debt Instruments</i>								
	- Listed securities		4,601,096	-	4,601,096	4,482,005	-	4,482,005
	- Unlisted securities		83,948,104	-	83,948,104	69,095,974	-	69,095,974
	NIT Units		20,082	-	20,082	21,839	-	21,839
	Preference Shares		126,000	-	126,000	170,000	-	170,000
	Other Investments		1,661,423	-	1,661,423	1,523,641	-	1,523,641
	<i>Investments of Mutual Funds</i>		3,146,861	-	3,146,861	3,041,384	-	3,041,384
			222,477,307	3,519,591	225,996,898	200,312,208	3,559,326	203,871,534
Investment in associates and Joint Venture								
			3,688,030	-	3,688,030	3,397,745	-	3,397,745
			<u>235,779,695</u>	<u>3,519,591</u>	<u>239,299,286</u>	<u>212,908,206</u>	<u>3,559,326</u>	<u>216,467,532</u>

6.1 The market value of securities classified as "held-to-maturity" as at June 30, 2010 amounted to Rs. 7,170.028 million (2009: Rs 7,067.141 million).

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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 is as follows:

	June 30, 2010	December 31, 2009
	(Rupees in '000)	
Opening balance	2,572,470	2,143,709
Charge for the year - net	15,691	435,427
Impairment reversal on listed securities	(84,859)	(424,193)
Impairment loss on associate	-	335,261
Total charge - net	(69,168)	346,495
Amount written off	(957)	(78,116)
Other movement	(200,000)	27,529
Transfer of provision on consolidation of open end funds	-	131,019
Exchange adjustment	3,710	1,834
Closing balance	<u>2,306,055</u>	<u>2,572,470</u>

6.3 Summary of financial information of associates and joint venture company is as follows:

	Based on the financial statements as on	Currencies	Profit / Loss	
			Local currency (Amount in '000)	(Rupees in '000)
Diamond Trust Bank Limited, Kenya	December 31, 2009	Shs	355,625	384,832
Himalayan Bank Limited, Nepal	July 15, 2009	NRs	752,835	865,684
Kyrgyz Investment and Credit Bank	December 31, 2009	US \$	3,176	269,172
New Jubilee Life Insurance Co. Ltd.	March 31, 2010	PKR	35,650	35,650
New Jubilee Insurance Co. Ltd.	March 31, 2010	PKR	147,968	147,968

7 ADVANCES

	Note	June 30, 2010	December 31, 2009
		(Rupees in '000)	
Loans, cash credits, running finances, etc.			
In Pakistan		378,268,803	384,534,667
Outside Pakistan		67,955,250	68,435,996
		<u>446,224,053</u>	<u>452,970,663</u>
Net investment in finance lease - in Pakistan		3,752,303	3,763,556
Bills discounted and purchased (excluding Government treasury bills):			
Payable in Pakistan		9,279,339	8,319,104
Payable outside Pakistan		25,081,546	24,957,260
		34,360,885	33,276,364
Provision against non-performing advances	7.2	<u>(38,444,923)</u>	<u>(35,348,084)</u>
		<u>445,892,318</u>	<u>454,662,499</u>
Fully provided non-performing advances classified as loss for more than five years			
In Pakistan		13,075,260	12,914,798
Provision	7.4	<u>(13,075,260)</u>	<u>(12,914,798)</u>
		-	-

- 7.1 Advances include Rs. 51,349,865 million (2009: Rs. 49,438,255 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 a separate category.

Category of classification	June 30, 2010								
	Non-performing loans			Provision required and held			Net non-performing loans		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Specific provision									
Other assets especially mentioned	1,637,709	-	1,637,709	5,893	-	5,893	1,631,816	-	1,631,816
Substandard	5,158,063	4,344,101	9,502,164	1,249,411	892,681	2,142,092	3,908,652	3,451,420	7,360,072
Doubtful	5,734,523	2,203,235	7,937,758	3,067,789	1,239,065	4,306,854	2,666,734	964,170	3,630,904
Loss	22,621,558	9,650,676	32,272,234	21,734,682	9,550,104	31,284,786	886,876	100,572	987,448
	35,151,853	16,198,012	51,349,865	26,057,775	11,681,850	37,739,625	9,094,078	4,516,162	13,610,240
General provision	-	-	-	335,592	369,706	705,298	-	-	-
	35,151,853	16,198,012	51,349,865	26,393,367	12,051,556	38,444,923	9,094,078	4,516,162	13,610,240

Category of classification	December 31, 2009								
	Non-performing loans			Provision required and held			Net non-performing loans		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Specific provision									
Other assets especially mentioned	1,760,738	-	1,760,738	-	-	-	1,760,738	-	1,760,738
Substandard	4,387,109	4,520,458	8,907,567	1,036,043	840,753	1,876,796	3,351,066	3,679,705	7,030,771
Doubtful	7,613,079	2,615,169	10,228,248	3,859,790	1,252,599	5,112,389	3,753,289	1,362,570	5,115,859
Loss	18,917,280	9,624,422	28,541,702	18,031,320	9,603,632	27,634,952	885,960	20,790	906,750
	32,678,206	16,760,049	49,438,255	22,927,153	11,696,984	34,624,137	9,751,053	5,063,065	14,814,118
General provision	-	-	-	345,341	378,606	723,947	-	-	-
	32,678,206	16,760,049	49,438,255	23,272,494	12,075,590	35,348,084	9,751,053	5,063,065	14,814,118

7.2 Particulars of provision against non-performing advances

Note	June 30, 2010			December 31, 2009		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	34,624,137	723,947	35,348,084	27,226,948	869,449	28,096,397
Exchange adjustment / other movement	230,779	(3,866)	226,913	1,126,460	55,593	1,182,053
Charge for the period / year	3,736,862	13,338	3,750,200	10,044,991	26,750	10,071,741
Reversals	(104,210)	(28,121)	(132,331)	(577,793)	(227,845)	(805,638)
	3,632,652	(14,783)	3,617,869	9,467,198	(201,095)	9,266,103
Write offs	(119,094)	-	(119,094)	(1,550,687)	-	(1,550,687)
Transferred to over 5 years category	(628,849)	-	(628,849)	(1,645,782)	-	(1,645,782)
Closing balance	37,739,625	705,298	38,444,923	34,624,137	723,947	35,348,084

- 7.3 In accordance with BSD Circular No. 2 dated January 27, 2009 issued by the State Bank of Pakistan, the Bank has availed the benefit of FSV against the non-performing advances (excluding consumer housing finance portfolio). Had the benefit of FSV not been availed by the Bank the specific provision against non-performing advances would have been higher and consequently profit before taxation and advances (net of provisions) as at June 30, 2010 would have been lower by approximately Rs 954 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, 2010	December 31, 2009
	(Rupees in '000)	
Opening balance	12,914,798	11,976,479
Reversal	(404,702)	(471,543)
Transferred during the period / year	628,849	1,645,782
Write offs	(63,685)	(235,920)
	13,075,260	12,914,798

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

June 30, 2010				December 31, 2009			
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 Group or any of them either severally or jointly with any other persons:

- in respect of directors	-	-	-	-	-	-	-
- in respect of executives * (Other than KMPs)	1,250,300	1,277,800	386,184	173,884	1,038,000	1,054,700	155,890
- in respect of key management personnel / Companies in which key management personnel or their spouse are interested	527,278	544,378	236,178	239,484	530,584	542,484	247,511

Debts due by companies or firms in which the directors of the Group are interested as directors, partners or in the case of private companies as members

	1,119,640	1,157,647	160,391	196,251	1,155,500	1,155,500	1,657,401	1,393,532
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Debts due by companies in which key management personnel are nominated by the Bank as directors

- Guaranteed by Government	13,628,965	13,628,965	8,378,674	7,414,174	12,664,465	14,055,572	20,143,120	9,577,800
- Others	48,580	51,979	1,735	5,884	52,729	854,840	1,043,707	1,164,741

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

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

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

8 OPERATING FIXED ASSETS

8.1 Addition to fixed assets

For the six months ended	
June 30, 2010	June 30, 2009
(Rupees in '000)	

The following additions have been made to tangible and intangible fixed assets during the period ended June 30, 2010:

Land	2,268	155,377
Building including related machinery	149,939	163,010
Furniture, fixtures and office equipments	254,741	433,671
Vehicles	6,974	54,780
Intangible assets	1,674	12,085
Capital work-in-progress	5,440	106,012
	<u>421,036</u>	<u>924,935</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, 2010:

Land	-	1,741
Building including related machinery	5,568	4,096
Furniture, fixtures and office equipments	123,643	91,740
Vehicles	23,694	18,152
Intangible assets	3,182	75
	<u>156,087</u>	<u>115,804</u>

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

9 BORROWINGS FROM FINANCIAL INSTITUTIONS

	June 30, 2010 (Rupees in '000)	December 31, 2009
Secured		
Borrowings from State Bank of Pakistan under:		
Export refinance scheme	19,055,951	22,267,455
Long term financing facility - locally manufactured and imported plant & machinery	3,451,540	1,575,542
Long term finance - export oriented projects	4,132,040	5,196,466
Repurchase agreement borrowings	3,495,174	4,497,374
	<u>30,134,705</u>	<u>33,536,837</u>
Unsecured		
In Pakistan:		
Interbank call money borrowings including borrowings by domestic subsidiaries	8,690,000	6,441,696
Outside Pakistan:		
Overdrawn nostro accounts	36,383	434,821
Borrowings of overseas branches and subsidiaries	9,124,175	12,129,624
	<u>9,160,558</u>	<u>12,564,445</u>
	<u>17,850,558</u>	<u>19,006,141</u>
	<u><u>47,985,263</u></u>	<u><u>52,542,978</u></u>

10 DEPOSITS AND OTHER ACCOUNTS

Customers		
Fixed deposits	177,516,855	208,459,070
Savings chequing account	336,073,632	314,040,743
Current accounts - remunerative	1,928,603	1,811,833
Current accounts - non-remunerative	177,398,071	149,221,644
	<u>692,917,161</u>	<u>673,533,290</u>
Financial institutions		
Remunerative deposits	1,724,924	1,616,443
Non-remunerative deposits	4,987,550	7,600,346
	<u>6,712,474</u>	<u>9,216,789</u>
	<u><u>699,629,635</u></u>	<u><u>682,750,079</u></u>

11 SUB-ORDINATED LOANS

The Group has obtained loan from "International Finance Corporation" (IFC) amounting to US \$ 50 million (2009: US \$ 50 million). The principal amount is repayable in four equal half yearly installments commencing from the year 2013. Interest is payable on bi - annual basis at LIBOR + 1.75%. The loan is unsecured and subordinated as to payment of principal and interest to all other indebtedness of the group (including deposits). The loan may not be prepaid or repaid before maturity without the prior written approval of the State Bank of Pakistan. The Bank is not exposed to significant exchange risk as the loan forms part of the Bank's foreign currency net open position.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

12 SURPLUS ON REVALUATION OF ASSETS - net of deferred tax

Note	June 30, 2010 (Rupees in '000)	December 31, 2009
Surplus arising on revaluation of:		
- fixed assets	12.1 8,526,740	8,588,099
- investments	12.2 (315,472)	(495,257)
Surplus on revaluation of assets - net of deferred tax	<u>8,211,268</u>	<u>8,092,842</u>
12.1 Surplus on revaluation of fixed assets		
Surplus on revaluation of fixed assets as at January 1	9,512,531	7,809,013
Surplus on revaluation of bank's properties recognised during the period / year	-	1,879,393
Surplus realised on disposal of revalued properties during the period / year	-	(46,754)
Transferred to accumulated profit in respect of incremental depreciation charged during the period / year - net of deferred tax	(61,359)	(83,929)
Related deferred tax liability of incremental depreciation charged during the period / year	<u>(33,040)</u>	<u>(45,192)</u>
Surplus on revaluation of fixed assets as at period / year end	9,418,132	9,512,531
Less: related deferred tax liability on:		
- revaluation as at January 1	924,432	593,067
- revaluation of bank's properties recognised during the period / year	-	376,827
- surplus realised on disposal of revalued properties during the period / year	-	(270)
- incremental depreciation charged during the period / year transferred to profit and loss account	<u>(33,040)</u>	<u>(45,192)</u>
	891,392	924,432
	<u>8,526,740</u>	<u>8,588,099</u>
12.2 Surplus / (deficit) on revaluation of investments		
Market Treasury Bills	(38,336)	94,651
Pakistan Investment Bonds	(690,182)	(700,540)
Sukuk and Euro Bonds	33,380	(532,377)
Listed Securities	102,983	314,408
NIT Units	8,554	10,311
Other Investments	23,721	(61,266)
	(559,880)	(874,813)
Add: related deferred tax asset	244,408	379,556
	<u>(315,472)</u>	<u>(495,257)</u>
13 CONTINGENCIES AND COMMITMENTS		
13.1 Direct credit substitutes - financial guarantees		
Guarantees in favour of:		
- Government	986,271	7,220,955
- Financial institutions	23,356	641,533
- Others	34,881,565	50,716,165
	<u>35,891,192</u>	<u>58,578,653</u>

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

	June 30, 2010	December 31, 2009
	(Rupees in '000)	
13.2 Transaction-related contingent liabilities		
Guarantees in favour of:		
- Government	934,636	2,153,320
- Financial institutions	186,286	112,588
- Others	30,234,657	20,437,508
	<u>31,355,579</u>	<u>22,703,416</u>
13.3 Trade-related commitments		
Credit cash	103,210,100	97,707,388
Credit documentary acceptances	10,656,935	10,085,276
Credit acceptances	18,599,546	28,852,010
	<u>132,466,581</u>	<u>136,644,674</u>
13.4 Other contingencies		
Claims against the Group not acknowledged as debts	<u>75,775,346</u>	<u>80,967,499</u>
13.5 Commitments in respect of forward lending		
The Group makes commitments to extend credit in the normal course of its business but none of these commitments are irrevocable and do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
13.6 Commitments in respect of forward foreign and local exchange contracts	June 30, 2010	December 31, 2009
	(Rupees in '000)	
Purchase	52,734,300	43,970,316
Sale	52,608,014	43,978,039
The above commitments have maturities falling within one year.		
Commitments in respect of foreign currency options		
Purchase	2,680,958	2,556,777
Sale	2,680,958	2,556,777
Commitments in respect of local currency interest rate swaps		
Purchase	434,042	456,208
Sale	434,042	456,208
13.7 Commitments for acquisition of operating fixed assets / intangibles	445,166	548,975
13.8 Taxation		
The income tax returns of Habib Bank Limited have been submitted upto and including the bank's financial year 2008. The tax authorities have concluded the audit of years 2002 through 2008.		
While amending the assessment under section 122(5A) of the Income Tax Ordinance, 2001 for the tax year 2006 the tax authorities have disallowed double income tax relief relating to Azad Jammu & Kashmir (AJK) branches amounting to Rs. 2,923 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.		
Appeal against this issue is pending at appellate stage. Although the bank has made partial payment of tax assessed, under protest, no provision has been made in the financial statements for the above liability, as the management is confident that the eventual outcome of this issue will be in the favor of the bank.		

Through Finance Finance Act, 2010 certain amendments have been introduced in Seventh Schedule to the Income Tax Ordinance, 2001. The provision for advances & off balance sheet items will now be allowed at 5% of total gross advances for consumer & SMEs (as defined in SBP prudential Regulation). The provision for advances and off balance sheet items other than those falling in definition of consumer & SMEs will be allowed upto 1% of such total gross advances.

Further a new Rule 8(A) has been introduced in Seventh Schedule to allow the amounts provided for in tax year 2008 and prior to said tax year for doubtful debts, which were neither claimed nor allowed as tax deductible in any year shall be allowed as deduction in tax year in which such doubtful debts are written off.

With reference to allowability of provision, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognized deferred tax asset on such provision amounting to Rs. 2.419 billion.

13.9 Benazir Employees Stock Option Scheme

The Federal Cabinet approved "Benazir Employees Stock Option Scheme (BESOS)" on August 5, 2009 for empowerment of employees of State Owned Entities through transfer of 12% of Government of Pakistan share holding. According to scheme, 12% shares owned by GoP are to be transferred to an employees Trust to be registered. As the Bank was privatized in 2004 and its shares are held by State Bank of Pakistan as per Federal Government instructions under Section 17(6A) of SBP Act 1947, it is unclear how transfer of such shares to the employees trust will take place. Pending resolution of such uncertainties, the cost of such scheme has not been accounted for in these financial statements.

14 MARK-UP / RETURN / INTEREST EARNED

	For the six months ended	
	June 30, 2010	June 30, 2009
	(Rupees in '000)	
<i>On loans and advances to:</i>		
- Customers	26,788,667	28,390,555
- Financial institutions	153,772	61,025
<i>On investments:</i>		
- Available-for-sale	11,281,494	7,128,915
- Held-for-trading	22,835	7,634
- Held-to-maturity	243,008	273,393
On deposits with financial institutions	329,255	744,512
On lendings to financial institutions	856,083	867,876
	<u>39,675,114</u>	<u>37,473,910</u>

15 MARK-UP / RETURN / INTEREST EXPENSED

Deposits	15,500,686	14,878,739
Securities sold under repurchase agreement borrowings	171,513	167,205
Other short term borrowings	1,218,731	790,600
Long term borrowings	244,917	224,789
	<u>17,135,847</u>	<u>16,061,333</u>

16 INCOME / GAIN ON INVESTMENTS

Dividend income	146,274	112,061
Share of profit of associates and joint venture	387,335	157,567
Gain / (loss) on sale of securities - net	202,347	(323,378)
Unrealised (loss) / gain in value of investments at fair value	(24,953)	12,420
	<u>711,003</u>	<u>(41,330)</u>

17 RELATED PARTY TRANSACTIONS

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

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

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

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

	June 30, 2010	December 31, 2009
	(Rupees in '000)	
Balances outstanding as at the period / year end		
- Borrowings / Deposits from		
- Joint venture and associates	2,313,324	2,774,917
- Retirement benefit funds	912,101	7,841,600
- Companies in which directors are interested	51,803	34,573
- Companies in which key management personnel are nominated by the Bank as directors	86,055	104,424
- AKFED Group Companies	473,029	1,572,335
- Investments in companies in which directors are interested	161,132	216,460
- Investment in companies in which key management personnel are nominated by the Bank as directors	34,113	34,113
- Payable / Receivable from defined benefit schemes	351,766	7,086,636
- Receivables from:		
- Companies in which key management personnel are nominated by the Bank as directors / Companies in which directors are interested	540,002	590,571
- Payables to:		
- AKFED Group Companies	46	2
- Companies in which key management personnel are nominated by the Bank as directors	439	429
- Companies in which directors are interested	1,799	1,290
- Associates	442	529
- Retirement benefit funds	88,052	347,068
- Overdrawn nostro balances with joint venture and associates / companies in which key management personnel are nominated by the Bank as directors / AKFED Group Companies	373,222	210,208
- Acceptances	-	7,966

	For the six months ended	
	June 30, 2010	June 30, 2009
	(Rupees in '000)	
Profit / Expense for the period		
- Interest expense		
- Joint venture and associates	36,414	115,143
- Retirement benefit funds	417,228	158,995
- Companies in which Directors are interested	1,133	25,705
- Companies in which key management personnel are nominated by the Bank as directors	1,854	2,373
- AKFED Group Companies	4,639	1,233
- Premium paid to companies in which directors are interested	151,744	152,353
- Interest income		
- Joint venture and associates	48	57,199
- Companies in which Directors are interested	14,168	12,889
- Companies in which key management personnel are nominated by the Bank as directors	750,012	213,698
- In respect of debts due by key management personnel	25,900	28,300
- Other expenses	115,763	126,590
- Other income from associates	278,093	151,707
- Share of profit of associates and joint venture - net of tax	285,812	78,839
- Donations paid on behalf of HBL Foundation	26,000	-
- Charge during the period on account of HBL Foundation	230,000	-
- Dividend income		
- Companies in which Directors are interested	4,000	38,334
- Companies in which key management personnel are nominated by the Bank as directors	4,927	-

17.1 Key management personnel

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

	For the six months ended	
	June 30, 2010	June 30, 2009
	(Rupees in '000)	
Managerial remuneration (including allowances)	511,369	482,902
Contribution to provident and benevolent fund	9,112	8,574
Medical	12,367	13,162
	<u>532,848</u>	<u>504,638</u>
Number of persons	<u>150</u>	<u>149</u>

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

18 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	For the six months ended June 30, 2010					
	Retail banking	Corporate / commercial banking	Treasury	International banking group	Head Office / support services	Total
	(Rupees in million)					
Net interest income - External	(7,671)	21,558	6,270	2,020	361	22,538
Inter segment revenue - net	22,643	(17,525)	(5,901)	-	783	-
Non-funded income	2,048	1,485	867	1,713	194	6,307
Net interest and non-markup income	17,020	5,518	1,236	3,733	1,338	28,845
Total expenses excluding provision against doubtful advances	5,234	530	(24)	2,268	4,860	12,868
Provision against doubtful advances	688	2,897	-	7	(379)	3,213
Inter segment administrative cost	3,245	649	94	357	(4,345)	-
Total expenses including provision	9,167	4,076	70	2,632	136	16,081
Net income before tax	7,853	1,442	1,166	1,101	1,202	12,764
Segment assets (gross)	97,896	401,254	171,127	172,172	74,395	916,844
Segment non-performing loans	8,937	25,890	-	16,198	325	51,350
Segment provision required including general provision	5,848	22,191	-	12,621	733	41,393
Segment liabilities including equity	530,895	100,132	16,832	147,399	80,193	875,451
Segment return on net liability / asset	11.54%	12.76%	9.49%	5.09%	1.91%	-
Segment cost of funds	4.82%	10.11%	7.98%	1.33%	0.08%	-

	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)					
	(Restated)					
Net interest income - External	(7,041)	20,286	5,320	2,422	427	21,414
Inter segment revenue - net	20,623	(15,577)	(4,890)	-	(156)	-
Non-funded income	1,866	1,354	442	1,560	(251)	4,971
Net interest and non-markup income	15,448	6,063	872	3,982	20	26,385
Total expenses excluding provision against doubtful advances	4,658	258	(466)	1,935	4,841	11,226
Provision against doubtful advances	990	3,848	-	743	(295)	5,286
Inter segment administrative cost	2,102	420	61	232	(2,815)	-
Total expenses including provision	7,750	4,526	(405)	2,910	1,731	16,512
Net income / (loss) before tax	7,698	1,537	1,277	1,072	(1,711)	9,873
Segment assets (gross)	89,320	336,948	153,203	149,667	105,046	834,184
Segment non-performing loans	7,589	22,052	-	11,501	2,406	43,548
Segment provision required including general provision	4,576	14,566	586	11,051	3,880	34,659
Segment liabilities including equity	477,913	100,506	8,403	113,866	98,837	799,525
Segment return on net liability / asset	12.42%	14.28%	8.92%	5.99%	2.84%	-
Segment cost of funds	5.43%	10.81%	7.64%	1.73%	0.03%	-

19 **ISLAMIC BANKING BRANCH AND FIRST HABIB BANK MODARABA**

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

Note	June 30, 2010 (Rupees in '000)	December 31, 2009 (Rupees in '000)
ASSETS		
Cash and balances with treasury banks	29,341	8,748
Balances with other banks	22,113	6,585
Investments - net	302,862	167,283
Murabaha	121,008	434,455
Ijara	886,225	1,024,023
Musharaka	50,000	100,000
Other assets	48,455	29,786
Operating fixed assets	452	610
	<u>1,460,457</u>	<u>1,771,490</u>
LIABILITIES		
Borrowings from financial institutions	-	41,696
Deposit and other accounts	401,286	60,320
Other liabilities	155,978	832,777
	<u>557,264</u>	<u>934,793</u>
NET ASSETS	<u>903,193</u>	<u>836,697</u>
REPRESENTED BY:		
Islamic banking fund / certificate capital	647,072	497,072
Reserves	195,736	190,924
Unappropriated profit	55,130	143,538
	<u>897,939</u>	<u>831,534</u>
Surplus on revaluation of assets	5,254	5,163
	<u>903,193</u>	<u>836,697</u>

The commitment in respect of letters of credit of Islamic Banking branch of Habib Bank Limited is Rs. 0.019 (2009: Rs. 136.303 million).

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

20. **DATE OF AUTHORISATION FOR ISSUE**

These consolidated financial statements were authorised for issue in the Board of Directors meeting held on July 28, 2010.

President and Chief Executive Officer

Director

Director

Director