

## Director's Review

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

## Financial Performance

The financial results of the Bank are summarized below: (Rs. in '000)

Profit after tax 7,423,304

Earnings per share rupees (Basic & Diluted) 7.41

The Bank achieved a Pre- Tax Profit of Rs. 12.11 billion for the six months period ended 30<sup>th</sup> June 2010, reflecting an increase of Rs. 1.69 billion and growth of 16 per cent over the corresponding period of last year. The Non Fund income of the Bank has contributed significantly with a growth of Rs. 0.64 billion (excluding capital gain) which is 13.5 per cent higher. Capital gains also increased by Rs. 0.20 billion over the past period. Correspondingly the post tax profit increased by 13% to Rs. 7.42 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 Unconsolidated Statement  
Statement of Financial Position  
AS AT JUNE 30, 2010**

		(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Note	(Rupees in '000)	
<b>ASSETS</b>			
Cash and balances with treasury banks		81,324,266	79,527,191
Balances with other banks		29,726,637	29,560,309
Lendings to financial institutions		21,329,803	5,352,873
Investments	6	224,372,416	209,421,147
Advances	7	424,774,932	432,283,588
Other assets		33,841,054	40,333,882
Operating fixed assets		16,037,507	16,475,939
Deferred tax asset		8,042,887	8,172,590
		839,449,502	821,127,519
<b>LIABILITIES</b>			
Bills payable		8,834,038	10,041,203
Borrowings from financial institutions	9	45,346,545	48,121,649
Deposits and other accounts	10	674,809,619	653,452,460
Sub-ordinated loans	11	4,275,455	4,212,080
Liabilities against assets subject to finance lease		-	-
Other liabilities		25,163,994	26,204,580
Deferred tax liability		-	-
		758,429,651	742,031,972
<b>NET ASSETS</b>		<b>81,019,851</b>	<b>79,095,547</b>
<b>REPRESENTED BY:</b>			
<b>Shareholders' equity</b>			
Share capital		10,018,800	9,108,000
Reserves		26,269,639	25,801,889
Unappropriated profit		36,690,547	36,325,458
		72,978,986	71,235,347
Surplus on revaluation of assets - net of deferred tax	12	8,040,865	7,860,200
		81,019,851	79,095,547
<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

**Condensed Interim Unconsolidated  
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	April 01 to June 30, 2010	April 01 to June 30, 2009
------(Rupees in '000)-----					
Mark-up / return / interest earned	14	39,035,849	36,704,645	19,878,894	18,467,416
Mark-up / return / interest expensed	15	17,016,986	15,863,592	8,465,568	8,046,039
Net mark-up / interest income		22,018,863	20,841,053	11,413,326	10,421,377
Provision against non-performing loans and advances - net	7.2 / 7.4	3,210,592	5,189,656	1,797,537	2,806,938
(Reversal) / charge against off-balance sheet obligations		(3,474)	(123,110)	(49,920)	155,284
(Reversal) / charge against diminution in value of investments	6.2	(105,516)	(864,348)	(21,836)	54,383
Bad debts written off directly		-	-	-	-
		3,101,602	4,202,198	1,725,781	3,016,605
Net mark-up / interest income after provisions		18,917,261	16,638,855	9,687,545	7,404,772
<b>Non mark-up / interest income</b>					
Fee, commission and brokerage income		2,507,612	2,319,647	1,308,391	1,221,660
Income / gain on investments	16	302,109	90,890	129,314	271,609
Income from dealing in foreign currencies		1,228,570	761,389	731,057	419,482
Other income		1,505,223	1,523,382	720,878	833,452
Total non-mark-up / interest income		5,543,514	4,695,308	2,889,640	2,746,203
		24,460,775	21,334,163	12,577,185	10,150,975
<b>Non mark-up / interest expense</b>					
Administrative expenses		11,794,030	10,729,446	6,180,019	5,200,954
Other provisions / write offs - net		129,515	(28,508)	117,207	(114,497)
Other charges		177,485	873	6,214	535
Workers welfare fund		247,195	212,647	125,475	101,280
Total non mark-up / interest expense		12,348,225	10,914,458	6,428,915	5,188,272
<b>Profit before taxation</b>		12,112,550	10,419,705	6,148,270	4,962,703
Taxation - current		4,198,177	3,921,625	1,870,398	1,587,961
- prior		490,000	388,502	490,000	208,502
- deferred		1,069	(444,590)	(32,830)	93,499
		4,689,246	3,865,537	2,327,568	1,889,962
<b>Profit after taxation</b>		7,423,304	6,554,168	3,820,702	3,072,741
------(Rupees)-----					
Basic and diluted earnings per share		7.41	6.54	3.81	3.07

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

President and Chief Executive Officer

Director

Director

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

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
	<b>(Rupees in '000)</b>	
<b>Profit for the period</b>	7,423,304	6,554,168
<b>Other comprehensive income</b>		
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	(274,580)	601,410
<b>Comprehensive income transferred to equity</b>	<u>7,148,724</u>	<u>7,155,578</u>
<b>Components of comprehensive income not reflected in equity</b>		
Surplus on revaluation of investments	368,747	3,891,319
Deferred tax on revaluation of investments	(128,367)	(1,308,607)
<b>Total comprehensive income</b>	<u><u>7,389,104</u></u>	<u><u>9,738,290</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**

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

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
	<b>(Rupees in '000)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	12,112,550	10,419,705
Dividend income	(173,253)	(166,256)
(Gain) / loss on sale of securities - net	(128,114)	75,366
	<u>(301,367)</u>	<u>(90,890)</u>
	11,811,183	10,328,815
<b>Adjustment for:</b>		
Depreciation / amortisation	817,630	752,354
Provision against diminution in value of investments	(105,516)	(864,348)
Provision against non-performing loans and advances - net	3,210,592	5,189,656
Unrealised gain in value of investments at fair value	(742)	-
Exchange loss on sub-ordinated loans	63,375	117,930
Gain on sale of property and equipment - net	(20,608)	(20,290)
Miscellaneous provisions	126,041	(151,618)
	<u>4,090,772</u>	<u>5,023,684</u>
	15,901,955	15,352,499
<b>(Increase) / decrease in operating assets</b>		
Lendings to financial institutions	(15,976,930)	(15,990,576)
Loans and advances	4,298,064	(5,177,235)
Other assets - net	6,615,354	(3,548,764)
	<u>(5,063,512)</u>	<u>(24,716,575)</u>
<b>Increase / (decrease) in operating liabilities</b>		
Deposits and other accounts	21,357,159	43,650,963
Borrowings from financial institutions	(2,775,104)	(2,586,228)
Bills payable	(1,207,165)	(1,694,742)
Other liabilities - net	(1,065,266)	(1,408,031)
	<u>16,309,624</u>	<u>37,961,962</u>
	27,148,067	28,597,886
Income tax paid - net	(4,933,525)	(6,581,060)
<b>Net cash flows from operating activities</b>	<u>22,214,542</u>	<u>22,016,826</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investments in securities, associates and joint venture company	(14,348,150)	(7,206,169)
Dividend income received	166,827	483,584
Fixed capital expenditure	(382,443)	(823,677)
Proceeds from sale of fixed assets	23,853	30,476
Exchange adjustment on translation of balances in foreign branches	(274,580)	601,410
<b>Net cash flows used in investing activities</b>	<u>(14,814,493)</u>	<u>(6,914,376)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(5,436,646)	(4,164,423)
<b>Net cash flows used in financing activities</b>	<u>(5,436,646)</u>	<u>(4,164,423)</u>
Increase in cash and cash equivalents during the period	1,963,403	10,938,027
Cash and cash equivalents at beginning of the period	109,847,421	86,921,541
Effects of exchange rate changes on cash and cash equivalents	(759,921)	2,158,217
	<u>109,087,500</u>	<u>89,079,758</u>
Cash and cash equivalents at end of the period	<u>111,050,903</u>	<u>100,017,785</u>

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

President and Chief Executive Officer

Director

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Director

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

	RESERVES				Total	
	Share capital	Exchange translation reserve	Statutory	General		Unappropriated profit
(Rupees in '000)						
Balance as at December 31, 2008	7,590,000	5,789,559	11,018,947	6,073,812	30,818,496	61,290,814
<b>Total comprehensive income for the period</b>						
Profit for the six months ended June 30, 2009	-	-	-	-	6,554,168	6,554,168
<b>- Other comprehensive income</b>						
Effect of translation of net investment in foreign branches	-	601,410	-	-	-	601,410
	-	601,410	-	-	6,554,168	7,155,578
<b>Transactions with owners, recorded directly in equity</b>						
Cash dividend at Rs. 5.50 per share	-	-	-	-	(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)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	25,795	25,795
Transferred to statutory reserve	-	-	655,417	-	(655,417)	-
Balance as at June 30, 2009	9,108,000	6,390,969	11,674,364	6,073,812	31,050,542	64,297,687
<b>Total comprehensive income for the period</b>						
Profit for the six months ended December 31, 2009	-	-	-	-	5,744,475	5,744,475
<b>- Other comprehensive income</b>						
Effect of translation of net investment in foreign branches	-	1,088,297	-	-	-	1,088,297
	-	1,088,297	-	-	5,744,475	6,832,772
Transferred from surplus on revaluation of fixed assets	-	-	-	-	104,888	104,888
Transferred to statutory reserve	-	-	574,447	-	(574,447)	-
Balance as at December 31, 2009	9,108,000	7,479,266	12,248,811	6,073,812	36,325,458	71,235,347
<b>Total comprehensive income for the period</b>						
Profit for the six months ended June 30, 2010	-	-	-	-	7,423,304	7,423,304
<b>- Other comprehensive income</b>						
Effect of translation of net investment in foreign branches	-	(274,580)	-	-	-	(274,580)
	-	(274,580)	-	-	7,423,304	7,148,724
<b>Transactions with owners, recorded directly in equity</b>						
Cash dividend at Rs. 6 per share	-	-	-	-	(5,464,800)	(5,464,800)
Issued as bonus shares	910,800	-	-	-	(910,800)	-
	910,800	-	-	-	(6,375,600)	(5,464,800)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	59,715	59,715
Transferred to statutory reserve	-	-	742,330	-	(742,330)	-
Balance as at June 30, 2010	10,018,800	7,204,686	12,991,141	6,073,812	36,690,547	72,978,986

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

President and Chief Executive Officer

Director

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Director

# Notes to the Condensed Interim Unconsolidated Financial Statements FOR THE SIX MONTHS ENDED JUNE 30, 2010

## 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, 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 Bank for the year ended December 31, 2009.

## 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, 2009.

## 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, 2009

## Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

### 6 INVESTMENTS

Note	June 30, 2010			December 31, 2009		
	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	1,128	-	1,128	9,652	-	9,652
- Market Treasury Bills	914,536	-	914,536	387,191	-	387,191
	915,664	-	915,664	396,843	-	396,843
<b>Held-to-maturity securities (HTM)</b>						
<b>Federal Government Securities</b>						
- Pakistan Investment Bonds	8,267,429	-	8,267,429	8,373,174	-	8,373,174
<b>Overseas Government Securities</b>	-	-	-	78,963	-	78,963
<b>Debentures and Corporate Debt Instruments</b>	134,658	-	134,658	48,182	-	48,182
	8,402,087	-	8,402,087	8,500,319	-	8,500,319
<b>Available-for-sale securities (AFS)</b>						
<b>Federal Government Securities</b>						
- 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)	2,764,617	-	2,764,617	5,888,232	-	5,888,232
<b>Overseas Government Securities</b>	14,154,498	-	14,154,498	14,601,416	-	14,601,416
<b>Fully paid-up ordinary shares</b>						
- Listed companies	1,174,811	-	1,174,811	1,082,503	-	1,082,503
- Unlisted companies	731,704	-	731,704	730,244	-	730,244
<b>Debentures and Corporate Debt Instruments</b>						
- Listed securities	4,601,096	-	4,601,096	4,482,005	-	4,482,005
- Unlisted securities	68,538,908	-	68,538,908	61,447,423	-	61,447,423
<b>NIT Units</b>	18,879	-	18,879	20,509	-	20,509
<b>Preference Shares</b>	126,000	-	126,000	170,000	-	170,000
<b>Other Investments</b>	1,561,421	-	1,561,421	1,523,642	-	1,523,642
	203,152,640	3,519,591	206,672,231	188,716,657	3,559,326	192,275,983
<b>Investment in Subsidiary Companies</b>	5,220,880	-	5,220,880	5,186,448	-	5,186,448
<b>Investment in associates and Joint Venture</b>	3,161,554	-	3,161,554	3,061,554	-	3,061,554
	220,852,825	3,519,591	224,372,416	205,861,821	3,559,326	209,421,147

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, 2010		December 31, 2009	
	Cost	Market value	Cost	Market value
	(Rupees in '000)			
- Investments classified as held-to-maturity	8,402,087	7,049,016	8,500,319	7,011,173
- Investment in listed associates and joint venture	5,087,252	6,266,214	5,087,252	6,737,033

### 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, 2010	December 31, 2009
	(Rupees in '000)	
Opening balance	3,747,037	2,409,942
Charge for the period / year - net	10,143	426,052
Impairment (reversal) / loss due to disposal of impaired shares or change in value of associates / subsidiary	(115,659)	961,302
Total charge - net	(105,516)	1,387,354
Other movement	(200,000)	27,529
Amount written off	(957)	(79,622)
Exchange adjustment	3,710	1,834
Closing balance	3,444,274	3,747,037



**Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)**

**7 ADVANCES**

**Note**

June 30, 2010	December 31, 2009
(Rupees in '000)	

Loans, cash credits, running finances, etc:			
In Pakistan		378,268,799	384,534,660
Outside Pakistan		48,055,053	47,295,017
		<u>426,323,852</u>	<u>431,829,677</u>
Net investment in finance lease - in Pakistan		3,018,205	3,003,049
Bills discounted and purchased (excluding Government treasury bills):			
Payable in Pakistan		9,279,339	8,319,107
Payable outside Pakistan		20,378,386	20,233,629
		<u>29,657,725</u>	<u>28,552,736</u>
Provision against non-performing advances	7.2	<u>(34,224,850)</u>	<u>(31,101,874)</u>
		<u><u>424,774,932</u></u>	<u><u>432,283,588</u></u>

**Fully provided non-performing advances classified as loss for more than five years**

In Pakistan		13,075,260	12,914,799
Provision	7.4	<u>(13,075,260)</u>	<u>(12,914,799)</u>
		<u>-</u>	<u>-</u>

7.1 Advances include Rs. 44,407.730 million (2009: Rs. 42,309.377 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, 2010								
	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	1,602,787	-	1,602,787	-	-	-	1,602,787	-	1,602,787
Substandard	5,138,574	1,061,462	6,200,036	1,236,534	404,296	1,640,830	3,902,040	657,166	4,559,206
Doubtful	5,734,523	2,177,949	7,912,472	3,067,789	1,232,648	4,300,437	2,666,734	945,301	3,612,035
Loss	22,546,286	6,146,149	28,692,435	21,643,610	6,064,569	27,708,179	902,676	81,580	984,256
	<u>35,022,170</u>	<u>9,385,560</u>	<u>44,407,730</u>	<u>25,947,933</u>	<u>7,701,513</u>	<u>33,649,446</u>	<u>9,074,237</u>	<u>1,684,047</u>	<u>10,758,284</u>
<b>General provision</b>									
	-	-	-	335,592	239,812	575,404	-	-	-
	<u>35,022,170</u>	<u>9,385,560</u>	<u>44,407,730</u>	<u>26,283,525</u>	<u>7,941,325</u>	<u>34,224,850</u>	<u>9,074,237</u>	<u>1,684,047</u>	<u>10,758,284</u>

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)								
<b>Specific provision</b>									
Other assets especially mentioned	1,760,738	-	1,760,738	-	-	-	1,760,738	-	1,760,738
Substandard	4,289,633	1,086,936	5,376,569	1,032,615	264,205	1,296,820	3,257,018	822,731	4,079,749
Doubtful	7,613,079	2,588,414	10,201,493	3,859,790	1,245,809	5,105,599	3,753,289	1,342,605	5,095,894
Loss	18,790,913	6,179,664	24,970,577	17,940,223	6,178,976	24,119,199	850,690	688	851,378
	<u>32,454,363</u>	<u>9,855,014</u>	<u>42,309,377</u>	<u>22,832,628</u>	<u>7,688,990</u>	<u>30,521,618</u>	<u>9,621,735</u>	<u>2,166,024</u>	<u>11,787,759</u>
<b>General provision</b>									
	-	-	-	345,341	234,915	580,256	-	-	-
	<u>32,454,363</u>	<u>9,855,014</u>	<u>42,309,377</u>	<u>23,177,969</u>	<u>7,923,905</u>	<u>31,101,874</u>	<u>9,621,735</u>	<u>2,166,024</u>	<u>11,787,759</u>

**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		30,521,618	580,256	31,101,874	23,791,096	744,916	24,536,012
Exchange adjustment / other movement		251,676	3,949	255,625	753,735	23,130	776,865
Charge for the period / year		3,728,305	13,338	3,741,643	9,513,138	26,750	9,539,888
Reversals		(104,210)	(22,139)	(126,349)	(577,625)	(214,540)	(792,165)
		<u>3,624,095</u>	<u>(8,801)</u>	<u>3,615,294</u>	<u>8,935,513</u>	<u>(187,790)</u>	<u>8,747,723</u>
Write offs		(119,094)	-	(119,094)	(1,312,944)	-	(1,312,944)
Transferred to over 5 years category	7.4	(628,849)	-	(628,849)	(1,645,782)	-	(1,645,782)
Closing balance		<u>33,649,446</u>	<u>575,404</u>	<u>34,224,850</u>	<u>30,521,618</u>	<u>580,256</u>	<u>31,101,874</u>

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.

## Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

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

	Note	June 30, 2010 (Rupees in '000)	December 31, 2009 (Rupees in '000)
Opening balance		12,914,798	11,976,479
Reversal		(404,702)	(471,543)
Transferred during the period / year	7.2	628,849	1,645,782
Write offs		(63,685)	(235,920)
		<u>13,075,260</u>	<u>12,914,798</u>

### 7.5 Particulars of loans and advances to directors, associated companies and 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 Bank 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	123,466
- in respect of key management personnel / Companies in which key management personnel or their spouse are interested	377,278	394,378	86,178	89,484	380,584	392,484	97,511	299,296

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

	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 Subsidiary company

	54,794	56,092	92,308	47,720	10,207	155,129	128,592	246,057
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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	418,491	341,064	462,098

The disclosure of the year-end balance, limit/ amount sanctioned, highest amount outstanding during the 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, 2010 (Rupees in '000)	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	78,918
Building including related machinery	121,821	155,454
Furniture, fixtures and office equipments	250,038	416,492
Vehicles	4,034	54,717
Intangible assets	1,674	12,085
Capital work-in-progress	2,608	106,011
	<u>382,443</u>	<u>823,677</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	-	4,096
Furniture, fixtures and office equipments	122,143	90,667
Vehicles	23,694	18,098
Intangible asset	3,182	75
	<u>149,019</u>	<u>114,677</u>

## Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

### 9 BORROWINGS FROM FINANCIAL INSTITUTIONS

#### Secured

Borrowings from State Bank of Pakistan under:

- Export refinance scheme
- Long term financing facility - locally manufactured and imported plant & machinery
- Long term finance - export oriented projects

Repurchase agreement borrowings

#### Unsecured

In Pakistan

- Interbank call money borrowing

#### Outside Pakistan

- Overdrawn nostro accounts
- Borrowings of overseas branches

	June 30, 2010	December 31, 2009
	(Rupees in '000)	
	19,055,951	22,267,455
	3,451,540	1,575,542
	4,132,040	5,196,466
	3,495,174	4,497,374
	<u>30,134,705</u>	<u>33,536,837</u>
	8,690,000	6,400,000
	87,567	501,341
	6,434,273	7,683,471
	6,521,840	8,184,812
	15,211,840	14,584,812
	<u>45,346,545</u>	<u>48,121,649</u>

### 10 DEPOSITS AND OTHER ACCOUNTS

#### Customers

Fixed deposits

Savings chequing account

Current accounts - remunerative

Current accounts - non-remunerative

#### Financial institutions

Remunerative deposits

Non-remunerative deposits

	162,045,463	190,593,620
	333,943,697	310,366,281
	1,928,603	1,811,833
	171,406,189	144,520,691
	<u>669,323,952</u>	<u>647,292,425</u>
	1,744,189	1,623,028
	3,741,478	4,537,007
	5,485,667	6,160,035
	<u>674,809,619</u>	<u>653,452,460</u>

### 11 SUB-ORDINATED LOANS

The Bank 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 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

Surplus arising on revaluation of:

- fixed assets
- investments

Surplus on revaluation of assets - net of deferred tax

Note	June 30, 2010	December 31, 2009
	(Rupees in '000)	
	8,488,937	8,548,652
	(448,072)	(688,452)
	<u>8,040,865</u>	<u>7,860,200</u>

#### 12.1 Surplus on revaluation of fixed assets

Surplus on revaluation of fixed assets as at January 1

Surplus on revaluation of bank's properties recognised during the period / year

Surplus realised on disposal of revalued properties during the period / year

Transferred to accumulated profit in respect of incremental depreciation charged during the period / year - net of deferred tax

Related deferred tax liability of incremental

depreciation charged during the period / year

Surplus on revaluation of fixed assets as at period / year end

	9,451,843	7,809,013
	-	1,818,705
	-	(46,754)
	(59,715)	(83,929)
	(32,155)	(45,192)
	<u>9,359,973</u>	<u>9,451,843</u>

Less: related deferred tax liability on:

- revaluation as at January 1
- revaluation of bank's properties recognised during the period / year
- surplus realised on disposal of revalued properties during the period / year
- incremental depreciation charged during the period / year transferred to profit and loss account

	903,191	593,067
	-	355,586
	-	(270)
	(32,155)	(45,192)
	<u>871,036</u>	<u>903,191</u>
	<u>8,488,937</u>	<u>8,548,652</u>

## Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

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

	June 30, 2010	December 31, 2009
	(Rupees in '000)	
Market Treasury Bills	(38,336)	94,837
Pakistan Investment Bonds	(690,182)	(701,073)
Sukuk and Euro Bonds	33,380	(532,377)
Listed Securities	(33,516)	16,482
NIT Units	7,767	9,397
Other Investments	30,931	54,031
	(689,956)	(1,058,703)
Add: related deferred tax asset	241,884	370,251
	<u>(448,072)</u>	<u>(688,452)</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>

#### 13.2 Transaction-related contingent liabilities

Guarantees in favour of:		
- Government	934,636	2,153,320
- Financial institutions	186,286	112,588
- Others	30,163,629	20,949,375
	<u>31,284,551</u>	<u>23,215,283</u>

#### 13.3 Trade-related commitments

Credit cash	102,495,974	97,492,487
Credit documentary acceptances	10,649,013	10,068,783
Credit acceptances	14,269,758	23,523,827
	<u>127,414,745</u>	<u>131,085,097</u>

#### 13.4 Other contingencies

Claims against the Bank not acknowledged as debts	<u>75,773,699</u>	<u>80,965,869</u>
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#### 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.

#### 13.6 Commitments in respect of forward foreign and local exchange contracts

	June 30, 2010	December 31, 2009
	(Rupees in '000)	
Purchase	42,314,443	28,826,751
Sale	42,179,300	28,837,326

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
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#### 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.

## Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

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	26,419,406	27,912,249
- Financial institutions	153,772	-
<i>On investments:</i>		
- Available-for-sale	11,051,638	6,951,634
- Held-for-trading	22,835	7,634
- Held-to-maturity	236,818	271,401
On deposits with financial institutions	315,000	693,852
On lendings to financial institutions	836,380	867,875
	<u>39,035,849</u>	<u>36,704,645</u>

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

Deposits	15,403,354	14,720,612
Securities sold under repurchase agreement borrowings	171,513	167,205
Other short term borrowings	1,197,274	750,986
Long term borrowings	244,845	224,789
	<u>17,016,986</u>	<u>15,863,592</u>

### 16 INCOME / GAIN ON INVESTMENTS

Dividend income	173,253	166,256
Gain on sale of securities - net	128,114	(75,366)
Unrealised gain in value of investments at fair value	742	-
	<u>302,109</u>	<u>90,890</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 schemes 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 schemes are made in accordance with the actuarial valuation / terms of the contribution plan.

## Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

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)	
<b>Balances outstanding as at the period / year end</b>		
<b>- Borrowings / Deposits from</b>		
- Joint venture and associates	1,290,901	1,059,454
- Subsidiary companies	291,287	697,748
- 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	366,783	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
- Receivable from associates, subsidiary companies & companies in which key management personnel are nominated by the Bank as directors	2,154,759	957,535
<b>- Payables to:</b>		
- Subsidiary companies	31	4,256
- 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
- Placements with subsidiary companies and associates	10,529,836	9,775,886
- Overdrawn nostro balances with subsidiaries, associates, joint venture company and in which directors are interested / AKFED Group Companies	10,875	383,809
- Acceptances	-	175,802
<b>For the six months ended</b>		
	June 30, 2010	June 30, 2009
	(Rupees in '000)	
<b>Profit / Expense for the period</b>		
<b>- Interest expense</b>		
- Joint venture and associates	36,414	115,143
- Subsidiary companies	7,614	23,334
- 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	148,834	152,353
<b>- Interest income</b>		
- Joint venture and associates	48	8,190
- Subsidiary companies	1,608,167	26,851
- 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 income - Subsidiaries, associates and joint ventures	280,148	151,725
- Other expenses	116,726	128,057
- Donations paid on behalf of HBL Foundation	26,000	-
- Charge during the period on account of HBL Foundation	230,000	-
<b>- Dividend income</b>		
- Subsidiary company	-	3,250
- Joint venture and associates	84,276	76,985
- 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)	397,768	362,636
Contribution to provident and benevolent fund	8,659	8,081
Medical	12,094	12,996
	<u>418,521</u>	<u>383,713</u>
Number of persons	136	136

Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

18. SEGMENT DETAIL 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	1,685	178	22,020
Inter segment revenue - net	22,643	(17,525)	(5,901)	-	783	-
Non-funded income	2,048	1,485	867	1,087	55	5,542
Net interest and non-markup income	17,020	5,518	1,236	2,772	1,016	27,562
Total expenses excluding provision against doubtful advances	5,234	530	(24)	1,739	4,759	12,238
Provision against doubtful advances	688	2,897	-	12	(386)	3,211
Inter segment administrative cost	3,245	649	94	357	(4,345)	-
Total expenses including provision	9,167	4,076	70	2,108	28	15,449
Net income before tax	7,853	1,442	1,166	664	988	12,113
Segment assets (gross)	97,896	401,254	171,127	126,028	81,256	877,561
Segment non-performing loans	8,937	25,890	-	9,386	195	44,408
Segment provision required including general provision	5,848	22,191	-	8,129	1,943	38,111
Segment liabilities including equity	530,895	100,132	16,832	119,424	72,167	839,450
Segment return on net liability / asset	11.54%	12.76%	9.49%	5.24%	1.71%	-
Segment cost of funds	4.82%	10.11%	7.98%	1.45%	0.07%	-

	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 income - External	(7,041)	20,286	5,320	1,995	281	20,841
Inter segment revenue - net	20,623	(15,577)	(4,890)	-	(156)	-
Non-funded income	1,866	1,354	442	1,211	(178)	4,695
Net interest and non-markup income	15,448	6,063	872	3,206	(53)	25,536
Total expenses excluding provision against doubtful advances	4,658	258	(466)	1,534	3,942	9,926
Provision against doubtful advances	990	3,848	-	670	(318)	5,190
Inter segment administrative cost	2,102	420	61	232	(2,815)	-
Total expenses including provision	7,750	4,526	(405)	2,436	809	15,116
Net income / (loss) before tax	7,698	1,537	1,277	770	(862)	10,420
Segment assets (gross)	89,320	336,948	153,203	95,037	116,581	791,089
Segment non-performing loans	7,589	22,052	-	7,508	2,281	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	60,437	113,574	760,833
Segment return on net liability / asset	12.42%	14.28%	8.92%	6.94%	3.07%	-
Segment cost of funds	5.43%	10.81%	7.64%	2.16%	0.02%	-

## Notes to the Condensed Interim Unconsolidated Financial Statements (Unaudited)

### 19. ISLAMIC BANKING BRANCH

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

	Note	June 30, 2010 (Rupees in '000)	December 31, 2009 (Rupees in '000)
<b>ASSETS</b>			
Cash and balances with treasury banks		29,323	8,743
Investment - net		184,659	48,182
Murabaha		71,515	434,455
Ijara		311,463	358,036
Musharaka	19.1	50,000	100,000
Other assets		44,522	27,941
		<u>691,482</u>	<u>977,357</u>
<b>LIABILITIES</b>			
Deposit and other accounts		401,286	60,320
Other liabilities		36,888	713,412
		<u>438,174</u>	<u>773,732</u>
<b>NET ASSETS</b>			
		<u>253,308</u>	<u>203,625</u>
<b>REPRESENTED BY:</b>			
Islamic banking fund		250,000	100,000
Unappropriated profit		3,308	103,625
		<u>253,308</u>	<u>203,625</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 unconsolidated condensed interim 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